**Annex 9.1 Seven Innovations Undertaken by Eastern European and Russian Think Tanks**

## Overview of Initiatives

How many and what types of initiatives did these think tanks undertake? Why did they do it? How important are such initiatives to the institutions? Table A9.1.1 and Box A.9.1.1 provide summary information; the box includes a short description of each initiative.[[1]](#footnote-1)

Of the four study firms, three were clearly in Stage 2, meaning that they had more than five full-time researchers, had stable funding, and were well established in their markets. All three were all large by regional standards. The fourth, the Center for Democracy and Free Enterprise (CDFE), was nearly there.

Each firm cited one or two initiatives that had progressed enough to be reported upon. Initiatives were wide-ranging and included setting up a market survey operation, a credit rating agency, customized corporate training programs, and an in-house consulting center for working in other transition countries.

Most initiatives had been undertaken after the think tank had been in operation for two or three years, but there are exceptions to this rule. One is the radio station established by the Center for the Study of Democracy (CSD); founding the station was one of the center’s first activities, and was meant to break the government’s monopoly on local news broadcasts by rebroadcasting Voice of America programs. Over the years the programming format has changed in line with evolving consumer preferences. Another example is the Center for Social and Economic Research (CASE), which began advising other transitional countries very early in its life, when a foundation invited one of CASE’s senior staff to work with Russian reformers on macroeconomic policies.

The Institute for Urban Economics (IUE) was also a fast starter because it believed it could survive only if it aggressively diversified its activities and client base from the initial project—a large housing and real estate reform project supported by the U.S. Agency for International Development.

Motivation for the initiatives varied. CDFE was facing very tough times financially and diversified out of necessity. CASE’s “corporate sponsors” initiative was also a straightforward attempt to diversify funding sources. On the other hand, CSD set up its marketing research operation primarily because it offered the chance to become engaged in new topic areas. Similarly, CASE’s technical assistance to transitional economies resulted from its desire to share its staff expertise. IUE was motivated by wanting both to reduce dependency on its primary sponsor and to enter new fields.

One key element in determining the nature of the initiative was the institution’s initial activity base. CSD built its marketing survey operation on its existing survey capacity, and IUE created its credit rating agency for local government bonds around a team already doing related municipal-finance projects. Similarly, CDFE was able to exploit its established reputation for conducting training projects in preparing its custom training packages for corporate clients. CASE’s international consulting operation built squarely on the group’s work on similar topics in Poland.

In short, the firms generally built on the positive reputation they had established for related activities and exploited the capabilities of existing staff in selecting an initiative. Building on strength is a common business strategy. However, the modest capital available to underwrite the start-up costs of an initiative also prevented these institutions from launching any initiative further afield from their core activities.

## Identifying and Launching Initiatives

The most common pattern for the launch of an initiative was for the basic idea to come from the president of the organization or from a staff member (table A.9.1.2). The idea was then discussed among the staff and a few people outside the organization and usually with the Board. If it was agreed upon as probably feasible, then the new line of work was marketed by word of mouth and participation in seminars, where this specific expertise could be demonstrated and promotional material distributed. In short, these were low-tech, often rather informal processes. Instinct played at least as large a role as analysis in making the decision to proceed.

Preparation of a formal business plan to test the feasibility of an initiative was relatively rare, with plans prepared for only two initiatives—CSD’s marketing survey initiative and IUE’s credit rating facility. IUE was the only group surveyed that contracted for assistance in analyzing its initiative. It hired an international management consulting firm to help prepare the business plan. IUE believes this was a good investment, because the strong business plan was instrumental in inducing Standard & Poor’s (S&P) to sign a strategic affiliation agreement with the credit rating agency less than a year after it began operations.

Similarly, formal promotional efforts beyond seminar participation to launch a new initiative were exceptional. IUE has been more aggressive than most think tanks in explicitly marketing an initiative. For its credit rating initiative, for example, it sponsored presentations by the key researcher at numerous seminars within Russia, gave the activity prominence on its home page, produced a slick three-fold marketing brochure and distributed it widely at conferences, and sponsored a session at a major international conference in London on credit ratings in the Commonwealth of Independent States. The affiliation with Standard & Poor’s was announced at a splashy press conference in a five-star Moscow hotel. CASE launched its “corporate patrons” program with a customized sophisticated mailing to 70 of the largest corporations and banks in Poland, with telephone follow-up to recruit patrons.

Common, if modest, promotional efforts included devoting space in the institute’s newsletter and on its web site to the initiative, where these vehicles were available. Since most projects resulted in reports, these, too, were available to show to new potential clients.[[2]](#footnote-2)

Of those interviewed, only CASE cited an example of an initiative that had not worked. CASE attempted to obtain contracts from the Polish government for carrying out research and policy analysis; while government offices used the Center’s work, they resisted paying for it. This initiative was handled very informally. The practice of Polish ministries in contracting out has changed dramatically since 2000, so by 2005 ministries were major research clients. (See the next chapter for more on government procurement of policy research and evaluation services.)

## Rewards and Challenges

How did the pluses and minuses of introducing innovations balance for these think tanks? Table A9.1.3 provides an overview using the same factors listed above.

### Rewards

Financially, the revenues generated by the initiatives have generally been moderately important, representing 10 to 30 percent of total revenues (table A9.1.1). But CASE’s assistance to transition economies was uniquely successful, with revenues from this activity accounting for 40 to 55 percent of total revenues in the two years before the interview.

The directors of the think tanks rated the initiatives as financially successful. This is, however, a fairly imprecise term. While each initiative is generating significant revenue, as seen above, the rating of financial success is *not* based on revenues net of start-up costs. For many initiatives these costs were quite modest, so the needed adjustment would be small. But in a few cases, such as IUE’s substantial promotional efforts and paid assistance in business-plan development, the rating of financial success could be affected. Unfortunately, these think tanks do not keep records in a way that permits all relevant costs to be readily identified.

Some respondents emphasized that the form in which the funds were received made them especially valuable. Both CDFE and CSD reported that the use of profits from corporate training and the radio station, respectively, had no restrictions and could be used very flexibly. For example, they could serve as matching funds for foundation grants or be used for computer purchases or other institution-building tasks. On the other hand, if the activity increases total operations but leaves profits unchanged, then funds in the overhead accounts increase—but these are all dedicated to specific purposes.

All four think tanks believed their initiatives improved their reputation and/or visibility with certain local communities, especially the business community. IUE’s credit ratings made the young institute visible to financial circles. CASE’s corporate patrons program helped establish a firmer relationship with the business community. CDFE’s customized training courses were more important in giving the Center access to other projects than for its reputation per se. Finally, CSD saw its market survey work for major multinational firms as a recognition of its capabilities—recognition that it could use to woo future clients.

Three of the sample think tanks also saw various aspects of their initiatives as broadening their experience base for policy development. Working in these new areas expanded the perspective of the researchers involved, and in some instances informed other policy analyses. IUE’s ratings of municipal bonds gave analysts new insights into the actual financial condition of local governments and the structure of intergovernmental fiscal relations.

Interestingly, certain unanticipated benefits were cited important to the overall success of the new ventures. First, CSD thought its market survey operation helped the group retain staff, by giving analysts a change from the typical research and writing assignments. CASE also thought the change of pace provided by foreign travel and somewhat different assignments made the center a generally more attractive place to work for some staff members.

IUE and CASE cited a second unexpected benefit: the new activities generated important staff training. For IUE, the training in the credit rating initiative came from the classroom training provided by Standard & Poor’s and by IUE staff working directly with the S&P staff on benchmarking and other tasks. The leadership at CASE stated that young staff members were challenged by working largely on their own in other countries of the region, helping them mature quickly as researchers and policy analysts. The training and adjustments to management (described below) can be counted as indicating improved operational efficiency.

None of the think tanks spoke about the benefits of expanded overhead revenues, although this may have been implied in the positive statements on financial success.

### Challenges

Think tank leaders reported remarkably little in the way of problems accompanying the new, more commercially oriented initiatives. The interview included explicit questions about the half-dozen different types of problems the institution might have encountered (listed above), so the respondents were thoroughly prompted to recall any problems.

Neither IUE nor CDFE could identify any. The IUE director said she thought this was due in part to the orientation of the organization, which from the beginning had worked on multiple demonstration projects that involved close relationships with local government officials and banks. CDFE stated that the financial pressures were so severe that the staff understood the organization had to change direction if it was to survive.

CSD reported no philosophical problems with the staff, the Board, or foundation clients. Rather, the problem was in changing employees’ task orientation; staff shied away from doing the necessary marketing. At CASE, the only problems encountered were managerial. There was a certain conflict between the demands of short-term consulting jobs in other transition countries and keeping the larger home-based projects on schedule: the major projects fell behind as staff dashed off on short-term assignments. This conflict was finally resolved by expanding the size of the permanent and associate staff. Both these difficulties can be classified as management challenges.

It is important to note that none of the four institutions reported problems with dilution of the focus of their work, perceived independence in the policy process, or cultural conflicts within the organization. This happy record may result from the fact that the new lines of work were all closely aligned with each institution’s main activities and that these were young organizations whose identities were not yet carved in stone and hence were still able to be quite flexible in creating or responding to opportunities.

**Status in 2013**

An important question is whether the seven innovations described above proved to be successful. At a minimum, success is indicated by the program undertaken still being part of the think tank’s program. I was able to determine the status as of December 2013 of five of the seven innovations reviewed.[[3]](#footnote-3) The results for the five are listed in Table A9.1.4. Four of the five were clear successes. Of these four, three are still operational within the think tank and one was sold profitably as an investment to an international firm.

The one unsuccessful innovation was establishment of a radio station in Sofia by the Center for the Study of Democracy. Over time, competition increased and its market share decreased. The station was sold. CSD’s executive director draws the conclusion that major new undertakings should be closely related to a think tank’s core competencies.[[4]](#footnote-4)

Box A9.1.1 Summary of Initiatives

|  |  |
| --- | --- |
| **Firm** | **Initiative title and summary** |
| CSD | *Radio station.* Began in April 1991, rebroadcasting Voice of America programs. Received early U.S. government and other support for equipment and otherwise establishing the station. Once the transition began, the station tried a strong news format but soon discovered that this was not appealing. In response to lost market share, in 1993 the station shifted to a music format with news briefs, and expanded to three stations. Under this format, the station is profitable. |
|  | *Marketing surveys.* Although CSD’s first survey was conducted in 1990, Vitosha Research (VR), which conducts marketing surveys and analysis for commercial clients, was not created until 1994. VR has a number of international clients and specializes in more demanding survey research tasks. |
| IUE | *Credit rating agency.* IUE created the first Russian credit agency in 1997; initially the activity focused on rating bonds issued by municipalities and subjects of the Federation. In summer 1998, it was spun off as a wholly owned subsidiary (E-A Ratings Service) and signed a strategic affiliation agreement with Standard & Poor’s. In 2001, S&P purchased a 70 percent interest in E-A Ratings. |
|  | *Municipal economic development.* Established in fall 1997, a team within IUE provides consultancy services to mid-sized cities in the creation of their economic development plans. |
| CDFE | *Corporate training.* The program provides development and management of customized education programs for senior staff of banks and enterprises. |
| CASE | *Technical assistance to transitional countries.* In 1992, a foundation invited CASE staff to provide technical assistance to Russia on its evolving macroeconomic policy. Further requests from donor organizations followed and activity expanded. In 1994–95, CASE more actively sought support for such work. |
|  | *Corporate sponsors.* CASE recruited “corporate patrons” from among Poland’s 70 largest and most respected corporations and banks. Patrons make a fixed contribution and receive CASE’s publications, invitations to open seminars, and invitations to occasional “patrons only” events. |

Table A9.1.1 Number, Timing, and Importance of Initiatives

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Item | CSD | IUE | CDFE | CASE |
| Timing |  |  |  |  |
| Year institute founded | 1989 | 1995 | 1991 | 1991 |
| Year institute began thinking seriously about diversification | 1994 | 1996 | 1996 | 1992 |
| Motivation |  |  |  |  |
| Reduce dependence on primary funding source | No | Yes | Yes | Yes |
| Necessary to engage in new type of work | Yes | Yes | No | Yes |
| Number of initiatives |  |  |  |  |
| Number allied to principal activity | 1 | 2 | 1 | 2 |
| Number separate from principal activity | 1 | 0 | 0 | 2 |
| **Importance** of all initiatives to revenue of the main company | 30% | 10% | 20 to –30% | 40 to 55% |
| Size |  |  |  |  |
| Number of professional staff (full-time equivalent) | 28 | 36 | 6a | 40 |

CSD = Center for the Study of Democracy

IUE = Institute for Urban Economics

CDFE = Center for Democracy and Free Enterprise

CASE = Center for Social and Economic Research

a Excludes parliamentary interns.

Table A9.1.2 Origin, Development, and Rating of Each Initiative

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Firm and initiative | Source of idea | Type of analysis undertakena | Promotion effortb (yes/no) | Annual number of orders | Financial success (yes/no) |
| CSD: radio station | USG rep.; CSD president | 2 | No | NA | Yes |
| CSD: marketing surveys | Staff | 2, 4 | No | 25 to 30 | Yes |
| IUE: credit rating | Staff | 1, 3, 4 | y2 | 3 to 5c | Yes |
| IUE: municipal economic development | Staff | 1 | y2 | 2 | Too early to tell |
| CDFE: corporate training | CDFE president | 1 | No | varies | Yes |
| CASE: tech assist to transition economy | Staff | 1 | y1 | 5 to 6 countries, 3 to 4 sponsorsd | Yes |
| CASE: corporate sponsors | Staff | 1 | y2 | 8 sponsors | Yes |

a 1 = discussed among staff; 2 = sought outside advice from knowledgeable people (volunteers); 3 = paid for outside expert advice; 4 = prepared professional-standard business plan.

b y1 = Promotion consisted of actively seeking opportunities to make presentations at seminars and conferences; preparing and distributing reports; and mentioning the activity on the organization’s web site.

 y2 = Formal marketing activities undertaken beyond those listed in y1, such as holding a press conference, organizing seminars, or publishing and distributing special promotional brochures. Also, in rare cases, pilot projects were carried out to provide a “product” to demonstrate (e.g., IUE’s economic development team worked on a nonfee basis with a mid-sized Russian city to develop an economic development strategy that the institute could then show other cities).

c A single “order” can involve ratings for a number of cities (e.g., a multilateral donor requesting information on debt-carrying capacity of several cities).

d A sponsor sometimes supports work in more than one country.

Table A9.1.3 Summary of Responses on Challenges and Rewards

|  |  |
| --- | --- |
| Reward/Challenge | Number of firms citing reward/challenge |
| Rewards |  |
| Broader base of experience for policy development | 3 |
| Improved efficiency | 2 |
| Support for overhead functions | 0 |
| Improved visibility and marketing possibilities | 4 |
| Challenges |  |
| Agenda-setting and lack of focus | 0 |
| Restricted use of data and publications | 0 |
| Perceived lack of independence | 0 |
| Conflict of cultures within the think tank | 0 |
| Restive clients or sponsors | 0 |
| Management challenges | 2 |

**Table A9.1.4 Summary Status of Innovations as of December 2013a**

|  |  |  |
| --- | --- | --- |
| **Organization** | **Innovation** | **Status** |
| **Abbrev** | **Name** |
| CSD | Center for Study of Democracy | Radio station | Limited success. Station sold when competition reduced performance level |
|  |  | Marketing surveys | Success. Vitosha Research evolved into substantial research and survey firm, doing mucy its work for the EU. |
| IUE | Institute for Urban Economics | Credit rating agency | Success. After the agency established itself, it was purchase by S&P which provided a basis for an IUE endowment. |
|  |  | Municipal economic development | Success. The work program in this sphere has been a significant part of the IUE research-policy program. |
| CASE | Center for Social and Economic Research | Technical assistance to transitional countries | Success. CASE is still active in former Soviet Union countries, primarily through sister think tanks it helped establish in them. Staff is also active in the Middle East and Africa/ |
|  |  |  |  |

1. Only innovations for which current information could be obtained are listed.
1. Note that not all actions cited as entrepreneurial by the respondents have been included. Some had begun too recently at the time of the interview to be of interest, and others were simply a somewhat different approach to marketing to prior clients. [↑](#footnote-ref-1)
2. CDFE was not anxious to advertise its special corporate training activities, because some viewed the training as not fully consistent with its primary mission, so it used none of these tools. [↑](#footnote-ref-2)
3. It appears that the Center for Democracy and Free Enterprise in Prague no longer exists. An inquiry to CASE to clarify the status of the corporate sponsors program was not answered. A review of the CASE 2012 annual report shows that private giving is significant but it is unclear if this is associated with the program. [↑](#footnote-ref-3)
4. Private communication from Ognian Shentov, December 9, 2013. [↑](#footnote-ref-4)