

# Development process of networking between traditional SMEs and marketing agents: A case study from the Japanese blade and edged tools industry

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## **ABSTRACT**

Small and medium-sized enterprises (SMEs) with limited resources have a high requirement for marketing collaboration in networks. We examine the development process of traditional SMEs' marketing network comprising traditional SMEs and a marketing agent by using a longitudinal case study from the Japanese blade and edged tools industry. According to the case study, SMEs and a marketing agent develop network the following process; the Beginning stage, the Selection stage, and the Stable stage. In the Beginning stage, some “cues” of trust each member and SMEs’ cognitive legitimacy for the project enable them to interact under low trust condition. Finally, we discuss the contributions and limitations of this study.

**KEY WORDS:** network, small and medium-sized enterprises (SMEs), development process, interaction, trust, legitimacy

**Paper type:** Work-in-progress

## INTRODUCTION

Previous studies insist that networks are crucial for small and medium-sized enterprises (SMEs) to overcome resource constraints (Colombo et al., 2012; Agostini et al., 2015; Agostini, 2016; Bocconcelli et al., 2018). Regarding marketing activities, networking plays a key role in their marketing activities. SMEs with limited resources have a high requirement for marketing collaboration in networks (Bocconcelli et al., 2018). However, there is a lack of studies on the process of developing SMEs' networking (Gilmore et al., 2006; Agostini, 2016; Bocconcelli et al., 2018) and marketing networks, among SMEs and external actors (Agostini et al., 2015; Bocconcelli et al., 2018).

In this study, we focus on the development process of traditional SMEs' marketing networks, who have been manufacturing consumer products in a traditional manner for a long time. In Japan, there are several traditional cultural products, such as pottery, house furnishings, textiles, and food products. However, the demand for most products manufactured by traditional industries has been replaced by a plethora of modern manufactured goods. A gap has developed between the buyers and the manufactures or regional wholesalers, most of which are SMEs.

Additionally, traditional SMEs tend to face challenges in marketing. It is common to collaborate with other companies in the same business to complement internal resources and share risks. However, most SMEs do not have enough marketing capabilities. Consequently, SMEs' networks perform marketing in collaboration with marketing agents, such as a consultant or product designer, who have modern marketing knowledge or capability.

By using a longitudinal case study of SMEs' marketing networks in Japan, this study aims to explore the development process of a network comprising traditional SMEs and a marketing agent. Industrial networks have been defined as "sets of connected exchange relations among actors (Håkansson and Johanson, 1992; 40)." Actors interact with other actors while controlling their activities and resources (Håkansson and Snehota, 1995; Wells et al., 1999). Interaction with other actors is done through an exchange of information and resources. Some studies pointed out that "trust" facilitates interactions between actors, and high network capability makes it easier to construct relational resources (Walter et al., 2006; Mu et al., 2017). However, in the case of SMEs, it is not easy to acquire relational resources because their network capability is relatively low. This poses a crucial problem in the early stages of network development. Thus, our research question is as follows: how do traditional SMEs interact with marketing partners in relation to marketing activities? In this study, we focus on recognizing "legitimacy" in addition to trust.

The remainder of this paper is arranged as follows. We will begin with a literature review on trust and legitimacy, which are key to facilitating interaction among actors. Following this, we will discuss the research approach employed in the study. Subsequently, the marketing strategies of Japanese blade- and edged-tool industry are analyzed and discussed as the longitudinal case study. Finally, we discuss the contributions and limitations of this study.

## THEORETICAL REVIEW: TRUST, LEGITIMACY, AND INTERACTION

### Trust and Interaction

Trust is formed by proof to keep promises (Dwyer et al., 1987). Anderson and Narus (1990; 45) defined trust as “the firm's belief that another company will perform actions that will result in positive actions for the firm, as well as not take unexpected actions that would result in negative outcomes for the firm.”

Some studies classified trust into two different components: affective and cognitive (Morrow et al., 2004; Johnson and Grayson, 2005; Dowell et al., 2015). Affective trust is a result of personality cues and sensory connections, while cognitive trust is based on concrete connections such as shared experiences. Furthermore, based on the concept of affective and cognitive trust, Swift and Hwang (2013) proposed “initial” and “longitudinal” trust. Initial trust comprises the affective and cognitive “cues” in the early stage of a relationship. Longitudinal trust is based on actual experiences among actors over time. This study adopts initial and longitudinal trust concepts, considering the gradual development of networking and interactions among actors with time.

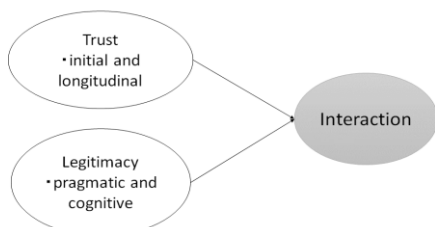
When trust among partners is high, the degree of interaction among partners increases, implying an increase in the quality of communication (Håkansson, 1982). Trust is a key factor that facilitates information transfer (Lewis and Weigert, 1985; Levin and Cross, 2004) and is positively related to knowledge sharing (Swift and Hwang, 2013).

### Legitimacy and Interaction

Suchman (1995) defined legitimacy as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995; 574)”. Suchman (1995) classified legitimacy into pragmatic, moral, and cognitive types. This study focuses on pragmatic and cognitive legitimacy. While pragmatic legitimacy occurs as a result of “the self-interested calculations of an organization's most immediate audiences, cognitive legitimacy occurs “mainly from the availability of cultural models that furnish plausible explanations for the organization and its endeavors (Suchman, 1995; 582).” According to Suchman's (1995) explanation, actors feel pragmatic legitimacy when they can have expectations to advance self-interest, such as profit or their success. However, cognitive legitimacy occurs within actors when organizations or their actions match their cultural values.

Firms in the network must be justified and attain a sense of legitimacy (Low and Johnston, 2008), which enables organizations to access other resources (Zimmerman and Zeitz, 2002). This study has a hypothesis that both trust and legitimacy affect interaction among actors especially in the early stage of relationship. Figure 1 shows the concept model of this study.

Figure1. Concept Model



## CASE STUDY

### Research Approach

The research question of this study is as follows: how do traditional SMEs interact with

marketing partners in relation to marketing activities? Yin (2008) stated that when "how" and "why" questions are being asked, it is appropriate to adopt a case-study approach.

The main data used in this research was derived from archived report data and semi-structured interviews, which were carried out from August in 2018 to March in 2019. We conducted seven interviews to the marketing agent (president, 2 times), the wholesale association (chairperson, vice-chairperson, 3 times), 2 scissors manufactures (2 times).

### Case Study

The *Banshu Hamono* (blade and edged tools) industry has a history of about 250 years; it originated in Katana (Japanese sword) factories. This industry makes a variety of blade and edged tools, such as scissors, hook, kitchen knife, and razors, among others. The industry consists of regional wholesalers and manufacturers (craftsmen). Wholesalers take orders from urban wholesalers and retailers and give out orders to manufacturers. Wholesalers and manufacturers each form associations.

The *Banshu Hamono* industry recorded decline for a long time because of an increase in imported products from eastern Asia, and changing lifestyles. They are always subject to pressure to cut prices from customers. About 10 years ago, Mr. Tanaka became a chairperson in the *Ono Kanamono* association, which consists of 27 wholesalers; he started deliberating on a new project with vice-chairperson, Mr. Okada. However, they failed to create a good project initially. In 2011, Mr. Kobayashi established a design office “Coelacanth Shokudo (Kitchen)” in the Ono city shortly after graduating from university. In 2012, Mr. Okada met Mr. Kobayashi at a local festival. He is Mr. Okada's daughter's old friend. Mr. Okada had known Mr. Kobayashi as a young product designer, and achieved a level of success in another local industry, *Soroban* industry (a Japanese old calculator).

Mr. Okada asked Mr. Kobayashi to redesign edged tools for the Ono Kanamono association. Mr. Kobayashi was not well-acquainted with *Banshu's* blade and edged tools. However, he was interested in these tools. When the association showed him a variety of products, he felt them incredibly appealing. There was no need to redesign products.

In 2012, Mr. Kobayashi began examining the blade and edged tool industry, and, about half a year later, he made a formal presentation on the project to the Ono Kanamono association. He presented a brand logo and an ad visual design. He also proposed the association to select exquisite products, brand them as “*Banshu Hamono*,” and mark a much higher price (two to five times higher than the normal price) and sell them in the overseas markets. Mr. Kobayashi also proposed to attend the international interior exhibition in Tokyo as a first step in this project, and focus on training manufacturing successors, which was crucial to the sustainability of the blade and edged tool industry in the region.

Subsequently, the Ono Kanamono association participated in the international interior exhibition in Tokyo, even though it was expensive for the Ono Kanamono association. *Banshu Hamono* gained a good reputation in the exhibition, and the association was invited to participate in the exhibitions in Paris. The association started operating overseas businesses and gets opportunities to sell *Banshu Hamono* products in overseas markets since then. In 2015, “*Banshu Hamono*” was awarded the “Good Design Award of Small and Medium

Enterprises” Banshu Hamono project is expanding favorably until now.

## DISCUSSION

### Process of Networking

Figure 2: Process of Networking

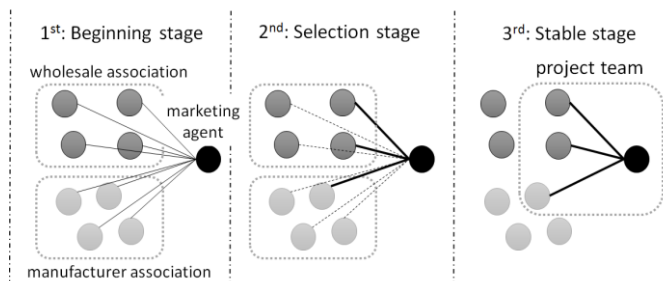


Figure 2 shows the development process of networking in the Banshu Hamono project. The process consists of 3 stages. The project started when vice-president of the Ono Kanamono association invited Mr. Kobayashi in Coelacanth Shokudo (Kitchen) to work together and Mr. Kobayashi

accepted the offer. After half a year, Mr. Kobayashi proposed the association the marketing plan based on careful field research. The proposed plan included labelling fine products produced in Ono area as “Banshu Hamono”, setting much higher price (two to five times higher than before), and attending the international interior exhibition in Tokyo. Project members were prepared for the project in this stage and interactions among members were not so active. Mr. Kobayashi and other project members had certain relationships, but they did not share strong ties. This was the “Beginning stage” in the networking process.

The biggest event in this stage was that project members, especially, the representatives of the wholesaler association, had to decide whether to participate in the international interior exhibition. It takes more than half a day to travel from Ono city to the exhibition venue in Tokyo and it costs more than a million yen. It would place a large burden on the members of association if they attended it. The association members had a heated discussion regarding their participation. In the end, they decided to attend it. The project moved forward.

After starting the project, the members of the association and Mr. Kobayashi had strong interactions, attended overseas exhibitions, and claimed subsidies, among others. Active interactions in relation to information and resource had already taken place. The ties among Mr. Kobayashi, certain members of the association, and manufactures were reinforced, whereas some members did not make a commitment to the project. The stabilization of active members gradually progressed. We call this stage as the “Selection stage.”

After a period of active interaction, the members of the project and their relationship were almost fixed, and they collaborated like a team. The initial aim of the project was almost achieved, and interactions among members gradually declined. New projects were planned by the main members in this stage. This is referred to as the “Stable stage” in the process.

### Trust and Legitimacy in the Banshu Hamono Project

In the Beginning stage of the *Banshu Hamono* Project, the big decision regarding exhibiting *Banshu Hamono* products in Tokyo was made. Additionally, Mr. Kobayashi and members of the association and manufactures continued with their interactions. As mentioned in the review section, it was not easy for SMEs to win the trust of a partner, and SMEs do not trust their partners at an early stage of the networking process. Why did members of the

association and Mr. Kobayashi continued to interact under low trust situation? We examine this question from the perspective of trust and legitimacy in this study.

Table 1 shows trust between and legitimacy of the two main members of the *Banshu Hamono* project. One is the chairperson of the Ono Kanamono association, Mr. Tanaka, and the other is Mr. Kobayashi, the marketing agent.

Table 1: Trust and Legitimacy of Project Members

Core members in association to Marketing agent (Mr. Kobayashi)				Marketing agent (Mr. Kobayashi) to Core members in association			
	1 <sup>st</sup> stage: Beginning stage	2 <sup>nd</sup> stage: Selection stage	3 <sup>rd</sup> stage: Stable stage		1 <sup>st</sup> stage: Beginning stage	2 <sup>nd</sup> stage: Selection stage	3 <sup>rd</sup> stage: Stable stage
Trust	Initial trust: Middle	Longitudinal trust: High	Longitudinal trust: High	Trust	Initial trust: Middle	Longitudinal trust: High	Longitudinal trust: High
Pragmatic legitimacy	Low	High	High	Pragmatic legitimacy	Middle	High	High
Cognitive legitimacy	High	High	High	Cognitive legitimacy	High	High	High

Trust in the Table 1 are initial trust and longitudinal trust, as mentioned in the literature review section. In the Beginning stage, the initial trust, which is based on “cues” of affective and cognitive trust, is the focal point. According to the interview, both actors have cues of trust to partners. However, the degree of trust is not so high.

Regarding his early impressions about Mr. Kobayashi, Mr. Tanaka said, “Honestly speaking, I wondered whether Mr. Kobayashi could do the task. He is young....However, I was able to understand his fervent attitude to the project. Hence, I thought that it would be appropriate to delegate the task to him.”

Additionally, on his early impression about the association, Mr. Kobayashi said, “I was not sure whether I could do what I wanted while collaborating with members. One of my first impressions was that the association was also dependent on me. I could feel that the association is irresponsible, based on my view. However, since we live in same area, and they are my neighbors, we have a fundamental trust on each other.”

These quotes reveal the middle level of trust. Despite this level of trust in the initial stages, interaction between the members continued. Legitimacy is another factor that affects interaction.

As mentioned above, pragmatic and cognitive legitimacies are examined here. The following quote of the chairperson of the association, Mr. Tanaka., shows pragmatic legitimacy to the project in the Beginning stage.

“I wondered whether we can sell products at such a high price. It was my honest response (to the marketing plan presented by Mr. Kobayashi). I also wondered whether customers can accept such higher price, which was two or three times higher than that before.”

Pragmatic legitimacy occurs when actors express self-interest. In the case study, pragmatic legitimacy of Mr. Tanaka and association would have occurred if the marketing agent or the marketing plan had led to an expectation of profit or success. However, Mr. Tanaka and the association gave a negative response to the marketing plan, especially its price policy. Their pragmatic legitimacy is interpreted as relatively low level.

However, their cognitive legitimacy was high, according to the following response of Mr. Tanaka. “Blade and edged tool industry would have collapsed if we did nothing. The history

of our industry would have vanished. It was unacceptable.... I want to leave behind the area of industry even if only slightly.”

Cognitive legitimacy occurs when organizations or their actions match their cultural values. Mr. Tanaka and the association’s purpose of collaboration with the marketing agent was to revitalize the blade and edged tool industry in the Ono district, and Mr. Tanaka was worried about the fading history of the blade and edged tool industry. He had cognitive legitimacy toward the project.

According to the interview, the middle degree of trust and high recognition of cognitive legitimacy enabled the members to make a big decision and interact continuously since the Beginning stage. Furthermore, it is remarkable that the association’s pragmatic legitimacy for the marketing plan was at a low level in this stage. These findings imply that some cues of trust from each member and high recognition of cognitive legitimacy for the projects are critical for facilitating active interaction among SMEs and marketing agents in the early stage.

## CONCLUSION

According to the longitudinal case study, SMEs and a marketing agent develop network the following process; the Beginning stage, the Selection stage, and the Stable stage. In the Beginning stage, some cues of trust provided by SMEs and a marketing agent and SMEs’ cognitive legitimacy for the project enable them to interact under low trust condition. Previous studies do not so emphasized importance of cognitive legitimacy for interactions. These findings give some implications for practitioners (traditional SMEs and marketing agents) and theory for interaction and SMEs marketing.

On the other hand, the discussion in this study is based on only one case study in Japan. Results in this study require further investigations. It is worth conducting additional case studies including SMEs in other industries or countries.

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