

Changing positions in business relationships: a statistical result of Japanese innovative SMEs

Abstract

This paper is a part of another comprehensive study of the strategies for changing the position of Japanese SMEs in business relationships. In this paper, first, adopting Gadde & Mattsson's ideas, we will show average stability in business relationships in Japan by statistical data. Second, following Dubois, Gadde, & Mattsson's work, we will suggest strategies for changing positions for some SMEs. Combined with over 100 pieces of statistical data and a brief case study, there will be a suggestion of a persuasive escape strategy from the bottom position.

Keywords: position, business relation, statistical data, Japanese SMEs.

INTRODUCTION

Purpose of This Paper

The purpose of this paper is to suggest a strategy to allow Japanese small and medium-sized enterprises (hereafter SMEs) to change positions in business relationships. Especially by applying the framework developed by Gadde & Mattsson (1987), we are able to show results about the stability of business relationships from our statistical data.

Research Background

The reason why we decided to work on this theme was firstly directly stimulated by Gadde & Mattsson's work cited above. Their work brilliantly described the stability and change in business network relationships. Although they altered their term in their following work (e.g. Dubois et al., 2003), in our paper, we use the term 'stability' when we depict the characteristics of longevity in business relationships. We will explain the reason later.

Secondly, there is a more practical reason. There are few strategic management studies into SMEs in Japan. This is because even a university academician has been influenced in his/her thought and selection of research topics by the governmental industrial policy which was set by the Ministry of International Trade and Industry (MITI). Japanese policy makers in MITI, and many politicians, have regarded any policy on SMEs as guardianship for a long time.

In Japan, the first industrial policy for SMEs (hereafter the first policy) was instituted in 1963. The fundamental doctrine of the first policy was to correct several productive differences between SMEs and large enterprises. The first policy constituted two main constructs. They were the improvement of productivity and security of business opportunities. The former justified preferential interest rates and tax systems for SMEs. The latter allowed SMEs to avoid severe competition with large enterprises. The policy remained unchanged until 1999. This type of policy was characterized by paternalism. Under this policy, it was difficult to recognize SMEs as engines of innovation. SMEs were regarded as the way to protect against evil competition and even capitalism.

Against this kind of policy, Imai (1990) emphasized new markets, and new industrial structures, all of which were created by entrepreneurs in his paper. Although he did not specify that SMEs played these roles, he and his colleagues published several articles about the roles of SMEs as entrepreneurs (Baba & Imai 1992). Their understanding about relations between SMEs and entrepreneurs were as follows (Imai 2006).

1. Japan's economic system can be analyzed as a dynamic set of industrial networks. Entrepreneurship and innovation have played a key role in its transformation.

2. They started with Schumpeter's concept of the entrepreneur as a person who creates "new combinations." However, Schumpeter did not explicitly discuss the process of transformation. They viewed it as a process of entrepreneurial alertness with sequential actions to create new economic opportunities. They pointed out that the middle-ranks of large Japanese companies have many entrepreneurs that served as reserves for spin-off ventures.

Our study is in this stream, that is, some SMEs lead innovation. However because of many ideological reasons we have already written above, there are few studies on SMEs innovation strategies in Japan. In this paper, we will focus on the relation between innovation level and stability and change in business relationships.

Outline of the Paper

This paper is organized into four sections. In the first section, we will briefly review some important concepts and findings in previous studies. In the second section, we show our research methods. There will be two methods in our study. One of them is a statistical data collection. However this is not a rigorous empirical survey in scientific meanings. We are going to compile this data into the empirical article, but in the third section we show some interesting results which are concerned with relation stability and change. Finally, we arrive at some concluding remarks on research issues concerning strategic management for SMEs and future research direction.

BRIEF REVIEW OF PREVIOUS STUDIES

In this paper, we are focusing on stability and change in business relations. Fortunately, there is some consensus in IMP tradition about the characteristics in industrial markets. Most of the IMP researchers agree with the stability of industrial market structures (Hakansson ed. 1982, p.1). In business markets, supplier and buyer often prefer to adapt with each other, for several reasons. This adaptation with each other was the main reason why business markets tended to be stable. We are interested in the relation between stability and change and innovation. So, we have to define and clarify these concepts. In this section, we will briefly review several important concepts and findings from previous studies. There are three important concepts; stability, position, and innovation.

Stability

Stability is one of the most fundamental empirical results from studying business markets (Easton et al. 1997, pp.275-276). According to IMP's standard model, suppliers and buyers try to learn about each other and invest and commit to their business relationships. As stability in the business relationship have positive advantages for each company. It can lead

to the establishment of standard operating procedures, norms of conduct and trust. This means that the uncertainty that each feels in its dealings with the other will be low and the companies will have low handling costs (Ford et al.1998, p.37).

Interestingly to this affluent consensus, stability was seldom defined. Dubois, Gadde & Mattsson (2003) slightly touched on the connotation of stability. It was longevity in relationships. This longevity is the time dimension of stability. Therefore, many researchers in IMP characterized business relationship as long-term and continuity between a buyer and supplier (Ganesan 1994, Gummensson 1987, Kalwani & Narayandas 1995, Koon & Low 1999, Spekman 1988).

Nonetheless even when the transaction is continuing between buyers and suppliers, relationship characteristics sometimes change. At those times, because the transaction is continuing, the relationships also seem stable at a glance. So, we will consider ‘change’ of business relationships in the next part.

Before entering into the next part, we should clarify our usage of the terminology. There is a small notion needed to use ‘stability’. As we wrote again and again, many IMP researchers agreed that one of the most important characteristics in business relationship was ‘stability’, and Gadde & Mattsson(1987) used ‘stability’. They, however, altered the term ‘stability’ to ‘continuity’ in Dubois, Gadde & Mattsson (2003). They explained the reason why they changed the term as follows. Their work in 1987 used ‘stability’ as the concept for analyzing long-term relations. However after that, they found that a relationship that continued for a long time might change many of its inherent characteristics. Further, the position of an individual vendor in the supplier base of a buying firm might change considerably even if the relationship is long-lasting (Dubois et al., 2003, p.414).

We use the term ‘stability’ to describe the characteristics of long-term business relationship rather than “continuity”, as we designed our research framework according to Gadde & Mattsson’s work, not Dubois, Gadde & Mattsson (2003). In that paper, they used ‘stability’. We believe that Gadde & Mattsson’s framework gives us a persuasive framework to explain this phenomenon. One of their brilliant insights was the position in business relations. They added a new characteristic to business relationship besides longevity, this was stability.

Position

As a trait of the academician, IMP tradition always criticized even orthodox explanations. IMP researchers sometimes insisted on paradoxes of industrial relationships, especially in business networks. There are several emergent characteristics when we broaden business

relationships to network context. Easton et al. (1997) indicated co-existence of stability and change in business networks.

Gadde & Mattsson (1987) first pointed out these characteristics. They revealed that even long-term transactions between buyers and suppliers could be unstable relationships. There is a higher possibility that a long-term relationship becomes unstable because of changes in position in the business relationship. When a new supplier appears, the buying company will re-evaluate the transaction relationships and adjust them rationally. By this rational adjustment the weight of each player in the transaction will change. This change will make the relationship unstable. To analyze this interesting phenomenon, they suggested position concept.

Mattsson (1985) defined position as the roles that the organization had for other organizations that it was related to, directly or indirectly (Mattsson, 1985, p.266). For a more operational definition we refer to Thorelli (1986). A position is a location of power to create and/or influence networks. The position a company occupies in a given network depends on at least three major factors: the domain of the company, the position of the company in other networks, and the power of the company relative to other participants in the focal network (Thorelli, 1986, p.40). In general definition, position means a company's portfolio of relationships and the rights and obligations that arise from them (Ford et al. 2006, p.37 and p.115).

Hakansson & Snehota (1989) emphasized that no business is an island. Every firm and business can employ the resources of networks. This fact means that availability of resources and information is depended upon the positions. A small company which is on the edge of the network does not have any power and authority to use resources freely.

Innovation

In this paper, we will use innovation as by Schumpeter's meaning, that is, a new combination (Schumpeter, 1934; 2008, pp.65-67). Our concern in this paper is the relation between position and innovation. We assumed that when a company changed position, the company had done innovations. According to the position definition, a company shall get another or new resource when it changes position.

Some Important Findings from Previous Studies

As for the relation between position and innovation, two important works exist. Gadde & Mattson (1987) and Dubois, Gadde & Mattsson (2003). The former looked at position stability and change. The latter looked at purchasing strategy which influenced stability and

changes in business relationships.

In Gadde & Mattsson's work, position change is strongly related with our interest. They explored stability and change in three buying firms. These companies had 44, 16, and 82 suppliers, respectively. They examined the pattern of supplier positions. For example, Figure 2 shows one of the results from their work.

In Figure 2, there are four suppliers (in their Fig.2 nine suppliers, actually). These suppliers had a certain position for some years. Abbreviations of the position are described as follows.

S = single source,

M₁ = main supplier. There is also one complementary supplier. The main supplier's share of total volume is at least 2/3,

M₂ = main supplier accompanied by two or more complements. The main supplier's share of total volume twice as big as the second,

E₁ = one of two equal-sized suppliers. No one qualifies as the main source,

E₂ = one of three or more equal-sized suppliers,

C₁ = single complementary supplier to a main source classified according to M₁,

C₂ = one of two or more complementary suppliers.

Numbers in circles indicate the number of consecutive years in that position. For instance, supplier A first occupied S position for six years. Then it got down to E₂ supplier. Next, it moved further down to a C₁ supplier. Finally it got out of the business relation.

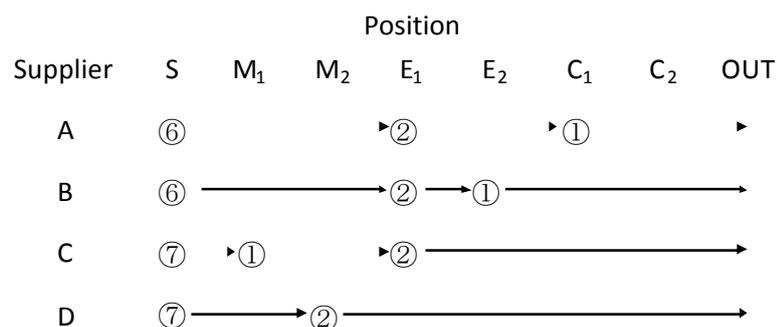


Figure 1. Example of Position Changes(Exit Pattern)

Source: Gadde & Mattsson(1987),Fig.2, p.36, modified by authors.

Indeed they did not clarify a specific successful pattern for entry, and did not show a typical pattern to exit either. However there is much to learn from their methods.

The second important piece of work is Dubois, Gadde & Mattsson's. They produced very

important findings. Their paper was a case study on purchasing strategy. They traced the strategy for about 40 years, from 1964 to 2002. The company they focused on developed and assembled electrical forklift trucks and procured about 3000 different components. They investigated how this company dealt with its procurement strategy.

Mainly Dubois, Gadde & Mattsson (2003) found supplier and buyer relationships were very stable. They found there were a total number of potential changes. Potential change means an opportunity whether the company changes the suppliers or not. For 39 years, there were 38 possibilities of making some kind of change of suppliers. Since their study comprised 10 purchasing components, there were 380 opportunities. Though some data was missing, in total 375 times potential changes have been recognized.

They were surprised at the results. 61 transactions of 375 in total were changes of suppliers, only 16%. The average length of the 51 supplier relationships was 11.4 years. Furthermore, the relationships with suppliers of standardized components were more long lasting compared to customized component suppliers'. They concluded that the company's purchasing strategy was characterized by a high degree of stability (continuity in their word).

When changes occurred in the relationship Dubois, Gadde & Mattsson (2003) distinguished three main reasons. These were changes of purchasing policy, relationship driven changes, and technical modification driven changes. Their findings are listed in Table 1. The numbers placed in the left cells are total of frequency in the right cells (e.g. 20+3+3=26).

Table 1. The Drives of Changes in Supplier Base

Change reasons		Frequency
Purchasing policy(26)	Price reduction	20
	Avoiding dependency	3
	Consolidation	3
Relationship driven changes(24)	Supplier performance down	12
	Supplier initiatives	7
	Customer requirement	5
Technical modifications(11)	Design and manufacturing	6
	New models and variants	5

Source: Dubois, Gadde, & Mattson(2003), Table 3., p.419, modified by authors.

We focused on supplier initiative changes, because as they appropriately said the findings might seem surprising given that no changes were observed for even the standardized components procurement. Moreover, changes even happened for reasons that were not

positive. For example, look at the reason for supplier change that is price reduction. In this case, buying firms asked the supplier to get down component price. If the supplier accepted this request, relations continued. So, rather the relationships sometimes changed because of the supplier side.

So we are going to focus on supplier side change strategy. In next part, we will show our statistical survey design.

RESEARCH METHOD

In this paper, we will mainly use case studies as our method. When we say case study in this paper, it means an orthodox and traditional one as in IMP's dominant studies (Piekkari, Plakoyiannaki, & Welch 2010, Yin 1984; 2003). Due to the complex, evolving, and entwined phenomena in our research, a qualitative case study is best suited to our study (Halinen & Tornroos, 2005). As case studies may be exploratory, descriptive or explanatory (Yin, 1984; 2003), our case sources mainly consist of semi-structured interviews with top management of innovative SMEs and archival data, including industrial reports and internal documents.

However, we use the cases not only to describe strategies to change position, but also our statistical data to know, somewhat, the statistical status quo in Japan. We will show results from our statistical data collection. Combining statistical data and several interviews, it is expected that we are going to achieve our purpose above. In this paper, we will mainly use the former method.

First, we designed a statistical data collection method. We made a questionnaire sheet about position change. In the sheet, we asked people to fill the position where the company was for the last decade. We then had a company fill in the survey. Our questionnaire (actual questionnaire was written in Japanese) is listed in Appendix 1.

This data collection began on 1st August till 1st December in 2010. The sampling process was as follows. First, we obtained an innovative SMEs database which was published by the Small and Medium Enterprise Agency, from 2006 to 2009. This database collected 300 innovative SMEs in every year. So we got 1200 companies profiles. Then, we selected companies which placed in three metropolitan areas in Japan, Tokyo, Osaka, and Nagoya. In total 611 companies were in final database. We called these companies and asked them to fill in our questionnaire. At last 407 companies positively replies to do so. However some of them found this task difficult and in the end 134 finished the survey. The response rate was around 33%.

RESEARCH FINDINGS

Our aim of this paper was to show the statistical result how many SMEs changed their positions in their business relationships. Since our result became huge table, it was not appropriate to be listed in the body of this paper. We listed it as an appendix, but we can summarize mainly three findings as follows. There are several findings from our statistical study, but according to the concern of this paper, we will show the result of position change to upward direction.

Result of statistical survey

First, the distribution position of Japanese SMEs tended to concentrate around $C_1(1 \rightarrow 1)$ or $C_2(2 \rightarrow 2)$ suppliers. For instance, in 2000 C_1 and C_2 suppliers shared close to 50% for a decade. This was an unexpected result. Owing our database, innovative SMEs, less than 10% of the companies were placed in these cells. Even so called innovative SMEs, are subcontractors from a large enterprise view. Second, the relationship between suppliers and buyers seemed stable. Look at the shaded cells in Appendix 2. They are companies which cannot change their position. For example in 2009, 94.4% of companies kept their positions. This result was unexpected as well. Finally, changing position in an upward direction is extremely difficult in Japan as shown in Table 2.

Table 2. The Number Changing Position (Upward direction)

Year	Number of Companies
2000 --> 2001	4
2001 --> 2002	6
2002 --> 2003	2
2003 --> 2004	4
2004 --> 2005	4
2005 --> 2006	8
2006 --> 2007	7
2007 --> 2008	5
2008 --> 2009	4

A company which can move its position

We are going to explore the reason why positions of SMEs are seldom changed. Now we will try to develop some hypothesis for that research. Gadde & Mattsson(1987) and Dubois, Gadde, & Mattsson(2003) insist that the change of the purchasing strategy of firms changes their positions. Although we agree to them, our interest is rather in how action of SMEs as suppliers influences their position changes. Therefore, we pay attention to the strategy of suppliers. Among 134 companies in our survey, an average of 4.4 companies a year

succeeded in changing their positions to the upper. The way of the position change is considered to be new business development and product innovation according to the answers of the companies. Here is a case treated with one of the companies which can move its position upward direction.

Iguchi Issei Co. Ltd., in Chiyoda-ku, Tokyo is a plastic processing company that was established with a capital of 10 million yen and only three employees in April, 2001, by succeeding facilities and seven business partners from the metal press working company that his father founded.

Although the company had involved in subcontract processing at first, it introduced highly precise general-purpose machines soon after the establishment and realized special sheet metal processing without molds that enabled investment cost of molds to be reduced. President Iguchi says, “there is no point in having molds but in using them. It is difficult to abolish them timely. They are sometimes transaction-specific and risk factors in our business.” He also says, “Even general-purpose machines without molds could realize same degree of accuracy as machines with specific molds are used. The defectiveness rate accounts for no more than eight in a million.” The high degree of precision is a competitive advantage of the company. The company’s knowledge is taken advantage of in sheet metal processing with general-purpose machines. President Iguchi says, “The machine operation is so simplified that anyone comes to be able to operate the machine in half a day.” He is proud of holding more data of the machine operation than any manufacturers.

This operation skill supported by the data attracts the personnel in product development department of manufacturers who struggle for constraining product development cost. The company exaggerates maintenance and improvement of the degree of processing precision as well as the data collection, and invests 200 million yen in the maintenance every year. As a result, the company has changed its position.

DISCUSSIONS AND FUTURE RESEARCH

Our research is the first look at how Japanese SMEs behave strategically from a position view. This is a very small area indeed, but other researchers have never investigated it. In sum, Japanese SMEs seldom changed their positions. Our future research aims to gather further cases of SMEs’ position change strategies.

From this result we will suggest several research topics for our next step. First of all, theoretical modeling must be one orthodox way. That is, why this skewed distribution happened. One approach is, of course, to follow Dubois, Gadde, & Mattsson’s purchasing

strategy view. To say, there may be purchasing strategy patterns, which make suppliers position change strategy stable. In Japan, a buyer always has more power than a supplier does.

Secondly we have a plan to conduct interviews to the above successful companies. This is an understanding from supplier's view, so called strategic position change strategy. From one of questionnaires, we can find some company which improved its position to upward direction successfully. At our first contact with the company, we asked what happened when the position changed. It was product innovations. Product innovations are a key factor for success to position changes. Our comprehensive study in terms of stability and change in business relationships shall be completed by these case studies in next time.

As for managerial contribution, it will be extensive. We may suggest to SMEs an escape strategy from the bottom position. For politicians and bureaucrats establishing SMEs' economic policy, our findings about escape strategy may improve SMEs financial performance.

APPENDICES

Appendix 1. Position questionnaire example

Year	Positions						
	S (7)	C ₁ (6)	C ₂ (5)	E ₁ (4)	E ₂ (3)	C ₁ (2)	C ₂ (1)
2000					○		
2001					○		
2002				○			
2003				○			
2004			○				
2005			○				
2006			○				
2007		○					
2008		○					
2009		○					

Notion: A circle means the position the company occupied. The number in parenthesis means the position written in the questionnaire.

Appendix 2. Result: Number of the Companies Changed Positions

	1→1	1→2	1→3	1→4	1→5	1→6	1→7	2→1	2→2	2→3	2→4	2→5	2→6	2→7
2000⇒2001	26	2	0	0	0	0	0	0	28	1	0	0	0	0
2001⇒2002	24	2	0	0	0	0	0	0	31	2	0	0	0	0
2002⇒2003	25	0	0	0	0	0	0	0	32	1	0	0	0	0
2003⇒2004	26	0	0	0	0	0	0	0	30	1	1	0	0	0
2004⇒2005	26	0	1	0	0	0	0	1	30	2	0	0	0	0
2005⇒2006	26	2	0	0	0	0	0	3	27	1	0	1	0	0
2006⇒2007	26	2	1	0	0	0	0	0	31	1	0	0	0	0
2007⇒2008	28	0	0	0	0	0	0	2	32	1	1	0	0	0
2008⇒2009	30	0	1	0	0	0	0	0	33	1	0	0	0	0

	3→1	3→2	3→3	3→4	3→5	3→6	3→7	4→1	4→2	4→3	4→4	4→5	4→6	4→7
2000⇒2001	0	0	17	0	0	0	0	0	0	0	4	1	0	0
2001⇒2002	0	0	16	1	1	0	0	0	0	2	3	0	0	0
2002⇒2003	1	0	19	0	0	0	0	0	0	0	5	1	0	0
2003⇒2004	0	2	18	1	0	0	0	0	0	2	3	0	1	0
2004⇒2005	0	0	20	1	0	0	0	0	1	1	3	0	0	0
2005⇒2006	0	3	21	0	0	0	0	0	0	1	3	1	0	0
2006⇒2007	0	3	18	1	1	0	0	0	0	0	4	0	0	0
2007⇒2008	0	2	17	1	1	0	0	0	0	0	5	0	0	0
2008⇒2009	0	0	17	0	1	0	0	1	0	0	4	2	0	0

	5→1	5→2	5→3	5→4	5→5	5→6	5→7	6→1	6→2	6→3	6→4	6→5	6→6	6→7
2000⇒2001	0	0	0	1	12	0	0	0	1	0	0	1	6	0
2001⇒2002	0	0	0	2	12	0	0	0	0	0	0	2	4	0
2002⇒2003	0	0	1	1	14	0	0	0	0	0	0	0	5	0
2003⇒2004	0	0	0	0	15	0	0	0	0	0	0	0	5	0
2004⇒2005	0	0	0	1	14	0	0	0	0	0	0	0	6	0
2005⇒2006	0	0	0	1	11	1	1	0	0	0	0	1	4	1
2006⇒2007	0	0	1	0	13	0	0	1	0	0	0	0	3	1
2007⇒2008	0	0	0	0	13	0	1	0	0	0	0	0	4	0
2008⇒2009	0	0	0	0	15	0	0	0	0	0	0	0	4	0

	7→1	7→2	7→3	7→4	7→5	7→6	7→7	N.A.	Sum
2000⇒2001	0	1	0	0	0	0	16	17	134
2001⇒2002	0	0	0	0	1	1	14	16	134
2002⇒2003	0	0	0	0	0	0	14	15	134
2003⇒2004	0	1	0	0	0	0	13	15	134
2004⇒2005	0	0	0	0	0	0	13	14	134
2005⇒2006	0	0	0	0	0	0	15	10	134
2006⇒2007	0	0	0	0	0	1	16	10	134
2007⇒2008	1	0	0	0	1	0	15	9	134
2008⇒2009	0	0	0	0	0	1	15	9	134

Appendix 2 shows the result of the survey and is a page from it. Vertically, time dimension is shown by year. Horizontally, position changes are noted. Each cell has a number which shows the share of how many companies filled in that position change.

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