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Change and Continuity: Hotel-Supplier Relationships in Japan

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## Change and Continuity: Hotel-Supplier Relationships in Japan

**Keywords:** hotel, supplier, relationship, business-to-business, Japanese culture

## **ABSTRACT**

Establishing supplier relationships is becoming more important than ever, but maintaining effective relationships is increasingly difficult due to the pressures on business-to-business relations. In Japan, business-to-business relationships have been quite stable and close in the hotel sector. Following the imperatives of global competition, however, the changing nature of hotel-supplier relationship is observed. This paper examines how hotel-supplier relations are established traditionally and how they are changing in the context of Japanese culture.

## **1. INTRODUCTION**

Traditionally, businesses were operated at the co-located level and depended on face-to-face interaction to establish and maintain relationships. At present, the channel system is changing, affecting the practice of hospitality and tourism marketing, and particularly raising the question: How can business relations, in the traditional and stable Japanese cultural context, cope with the competition – cooperation paradox (Go and Williams, 1993)? Currently, traditional Japanese business relationships are under pressure to change, and subsequently undergoing substantial reconfiguration. In turn, this requires redevelopment of relational capabilities in hotel and supplier relationships.

Organizations require increasingly ‘smart’ supply chain links for effective performance. This paper explores one aspect of how supply chain links may be changing as a consequence of the diffusion of information technologies and globalization. Information technologies facilitate both communication and social networking to some degree, but at the same time, they can make relationships more complex and remote. Our assumption is that organizations consist of webs or networks of relationships (Ford *et al.*, 2002). In the context of networking, such relations are both intra- and inter- organizational in nature and they tend to lead to changes in business marketing including cost pressures, time pressures, network complexity and pressures on relationship management (Ford *et al.*, 2002). The latter is caused by the dual forces of information technologies and globalization which enable people to establish and maintain geographically- remote relationships, accelerate information sharing and, thereby transforming human interaction with space’ (Go and Fenema, 2006) fundamentally.

These pressures on business-to-business relationships are also experienced by the Japanese hotel sector. Traditionally, Japanese hotels maintained stable and close relationships with their suppliers. However, due to the aforementioned shifts the traditional hotel-supplier relations are presently undergoing substantial reconfiguration. It evokes the main research question which will be explored in the present paper:

### **RQ1. How do the characteristics of traditional hotel-supplier relationships differ from the contemporary hotel-supplier relationships?**

It is noteworthy that for the part fifty years Japanese manufacturers have used a regime of standard specifications in order to ensure high product quality. However, while Japanese manufacturing contributed to a global paradigm through “Toyota-ism”, the service sector remained separate and distinctive into the 1990s (Larke, 1994). Similarly, such use of standards appears to be lacking in the hotel purchasing process. However, hotel service relies on the “just-in-time” continuous delivery of experience and central to user experience is quality, especially in the short-life materials used in catering. In the absence of any

standard specifications, do hotel managers believe that the quality of purchased ingredients and other materials can be guaranteed through the hotel-supplier relationship? If so, what might be the cultural foundations on which they base such belief?

The Japanese system described in the paper captures the deep knowledge of the suppliers in a traditionally volatile and uncertain part of the supply chain to deliver added value. In Japan there is a particular concern for the quality of catering and its ingredients which has allowed traditional forms of market and supply chain to survive. By establishing and maintaining relationships with suppliers, Japanese hotels are able to survive the complexity of supply chains. However, this traditional way of transaction is undergoing changes. If information technology alters the way they interact and the expectations around suppliers shift, how can we manage these changing relationships? What new capabilities should managers and workers acquire to respond consistently, to an uncertain environment? It raises our second question:

**RQ2. How can the hotels and suppliers, under prevailing conditions, maintain effective relationship so as to ensure profitable performance, for both the former and latter?**

As hotels are open systems that rely on the marketplace on access to resources and technology, we need to consider how hotels can collaborate with other organizations. Previous research on hotels focuses on links connected to customers, whereas less attention is paid to hotel-supplier links<sup>1</sup>. In this paper, we step back from the single disciplinary view of looking at hotels as “providers”. Instead this paper takes the perspective of the hotel as a “recipient” of goods and service that suppliers provide.

The present paper examines everyday hotel-supplier transactions, particularly focusing on how the former and latter experience the impact of large-scale structural changes in business-to-business environment on the hotel purchasing process and, in turn, on hotel-supplier relationships.

The present paper is organized as follows. Section two presents the theoretical frameworks consisting of: *Changes in Business-to-Business Environment and Hotel-Supplier Relations* and *Japanese Culture and Relationships*. Section three, *Empirical Study* analyzes the transactions, which take place between hotels and suppliers in the Japanese cultural context and, subsequently, identifies the perceived relations by both the former and latter. Section four *Discussion* is followed by final section *Conclusion* which suggests how hotels and suppliers might conduct transactions to ensure a mutually sustainable relationship, including profitable performance.

## **2. THEORETICAL FRAMEWORK**

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<sup>1</sup> Some tourism studies emphasize the importance of building effective relationships with all directions of supply chains and provide a set of aspects to look at the sector as joint activities of both internal and external relations. Fyall, Callod and Edwards (2003) set out the difficulties in building relationships with the tourist and promoting the value of greater inter-organizational collaboration at the same time. Carey, Gountas and Gilbert (1997) argue that sustainable tourism is dependent on the effective cooperation of all the stakeholders in the industry including suppliers, intermediaries, public sector and consumers. Selin and Chaves (1995) describe the dynamic and complex nature of tourism partnerships. Lemmetyinen and Go (2008) analyze the tourism business network by applying the IMP (Industrial Marketing and Purchasing) Group approach.

## 2.1 Changes in Business-to-business Environment and Hotel-supplier Relations

Information technology and globalization fundamentally alter the way in which organizations are able to interact (Ford *et al.*, 2002). These changes in interaction open up some possibilities for organizations to establish new forms of relationships and optimize their operations. By using information technologies, organizations can easily locate maximum value and compare prices as well as communicate with larger group of potential partners. With greater amounts of information and a multitude of choices available elsewhere, they can be more effective in their transactions (Ford *et al.*, 2002).

Despite all these advantages, however, information technology can make the relationships more complex and difficult to establish and maintain. Gutek (1995) distinguishes “encounters” from “relationships” and predicts the future growth in “encounters”. In contrast to “relationships” which occur when a customer has repeated contact with a particular provider, “encounters” typically consist of a single interaction between a customer and provider. Although her study is about general interactions between service sectors and consumers, it has implications for supplier relations. According to Gutek, the very availability of providers in modern society will work against relationships. When we have only a few qualified providers in their immediate geographic location, it is not difficult to gather the information that allows us to make a choice. But when there are hundreds or thousands of potential providers, making a choice is not simple. Currently, as the number of relationship providers continues to grow in hotel purchasing, so will the difficulty for hotels in choosing one. With all those possibilities of finding suppliers which offer better quality or cheaper prices, investing in one specific relationship may become less common.

Moreover, with the remarkable increase in competition and the pressure to rationalize management particularly since the recession in 1990s, Japanese hotels are expected to accomplish more short-term goals. However, building a relationship is an investment that takes years to acquire and a certain amount of effort as well as tolerance. For hotels who are pressured to report desirable management outcomes periodically and do not have time for relationships, an “encounter” type of transaction appeals. Although relationships can be highly effective in the long-term, they are rarely designed to be efficient (Gutek, 1995). Thus hotels used to encounter transactions may perceive relationships to be a waste of time. Some relationships are possibly not worth while spending their time and effort, but there are also concerns that some successful relationships are damaged due to the reduced chances of face-to-face communication and ultimately the reduced degree of trust. Some research questions whether teams can function effectively in the absence of frequent face-to-face interaction (Handy, 1995) and trust experienced by those teams appears to be very fragile and temporal (Jarvenpaa and Leidner, 1999).

Hotels apparently need to promote customer loyalty and need to consider how they can create value to their end customers. Rodriguez-Diaz and Espino-Rodriguez (2006) assure the need to develop relational capabilities because the level of cohesion and collaboration with other organizations with whom the hotel maintains relations determines the competitiveness of hotels and their ability to deliver values to their customers (Rodriguez-Diaz and Espino-Rodriguez, 2006). In spite of the growing importance of relational capabilities, the environment surrounding relationships became more complex and difficult to manage than ever. In other words, co-ordinating all of the interactions in a

network becomes the major challenge (Ford *et al.*, 2002), and the changes require organization to display ‘the capability of the simultaneous inclusion in multiple worlds or spaces’ (Go and Fenema, 2003).

## 2.2 Context: Japanese Culture and Relationships

It is important to understand culture when we study business-to-business relationships, because societal-level cultural values affect and determine the prevailing business norms (Sako, 1998). Granovetter (1985) also emphasizes that culture is one of the most relevant set of attributes in which a bilateral relationship may be embedded. Culture and relationships of any kinds are closely related, and their relevance should not be ignored. But it is never possible to understand completely other cultures (even our own culture) as much as human beings relations (Hall, 1976). The complexity of both culture and human relations are too great.

Thus the study of culture and relationship may be inaccurate to some extent, but there are some thought-provoking works on the impact of culture on business-to-business relationships. For example, Hofstede (1991) gives insights into practical applications of cultural dimensions into business organizations. Fletcher (2003) focuses on the impact of culture on relationship creation and examines the reliance on informal relationships and the maintenance of harmony in Asian countries<sup>2</sup>. Some researchers concentrate on Japanese culture and the cultural impact on relationship. Japanese culture is often characterized as long-term commitment into the future, and without detailed contracts trading partners cooperate with each other and promises are kept between them through this strong commitment (Axelrod, 1984, Heide and John, 1990). The existence of “trust” in the Japanese supplier relationships, based on long-term, strong commitments has been a popular theme among researchers<sup>3</sup>.

Additionally, some research focuses on the way Japanese suppliers do their business, particularly leveraging relationship building. Takemura, Wang and Hosoi (2006) identify the significance of “Japanese customer oriented adaption” as practiced by Japanese suppliers, who take great care in adjusting their conduct to customers’ requests<sup>4</sup>. Furthermore, they argue that Japanese industrial suppliers recognize that their customers prefer the former’s support in the form of high level of technology<sup>5</sup>. Moreover, Tamura (1986) confirms that Japanese salespersons contribute to the building of personal buyer- seller relationships.

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<sup>2</sup> Fletcher R. 2003. The impact of Culture on Relationship Creation and Network Formation in Developing Countries. (A paper submitted for 19<sup>th</sup> IMP Conference.)

<sup>3</sup> Currently, the creation of trust in business relationships has become crucial for most all firms (Batt & Purchase, 2004; Ford *et al.*, 2003). And it is recognized that trust is the most influential in inter-organizational relationships (Li, 2005). Sako (1998) states that suppliers in Japan tend to have a higher level of trust towards their customer than do suppliers in the U.S. Smitka(1991) argues that ‘governance by trust’ is more prevalent in the Japanese than in the U.S. automobile industry. Dore (1983) and Sako (1992) provide evidence that Japanese companies are more predisposed to trusting their trading partners than are British companies. However, the issue of “trust” is controversial because of the ambiguous definition of “trust”. Some research concludes that “assurance” or sanction system dominates the Japanese supplier relations instead of “trust” (Wang Y, Hosoi K, Takemura M. 2007. What is Trust to Japanese Companies?: Assurance versus Trust. 23<sup>rd</sup> IMP-conference).

<sup>4</sup> Takemura M, Wang Y, Hosoi K. 2006. Sales Network in Japanese Industrial Distributors. (A paper submitted for 22<sup>nd</sup> IMP-conference.)

<sup>5</sup> Takemura M, Wang Y, Hosoi K, Ohnishi K. 2005. Japanese Sales Management? No, It’s “eigyo”. (A paper submitted for 21<sup>st</sup> IMP-conference.)

Three decades ago, Hall (1976) described Japanese culture as “high context”. According to Hall, a “high context” culture tends to be rooted in the past, tends to be highly stable and time is typically devoted to the programming and developing of relationship. People who live within high context culture are generally comfortable with a familiar background and preprogrammed responses of the recipient. Also, Hall points out the action chains of high-context culture people are built around human relations. Another important point is that high context culture societies, which characterise Japan, are vulnerable when confronted by conditions that force them to adapt their established pattern of behavior. Because of their highly interactive, inter-reticular, cohesive nature, high context culture societies tend toward high commitment to complete action chains, and are generally cautious and often reluctant to begin something, particularly in fields or relationships that are unfamiliar. Hall cites history of nations and institutions that failed to adapt by holding on to high context modes for too long, and questions the possibility to develop strategies for balancing two apparently contradictory needs: the need to adapt and change, and the need for stability.

Hall (1976) assures us that as things become more complex, as they inevitably must with fast-evolving, low-context systems it becomes necessary to turn life and institutions around and move toward the greater stability of the high-context end of the scale as a way of dealing with information overload. Currently, the change and continuity paradox compels Japanese hotels and suppliers to search for balance that will enable them to ensure a mutually sustainable relationship, in future.

### **3. EMPIRICAL STUDY**

#### **3.1 Method**

In this section, transactions between hotels and suppliers are described. It is based on a one-day period of observation of the interaction between a vegetable supplier and three hotels in Tokyo. The vegetable supplier (X<sup>6</sup>) was selected following the advice of a hotel purchasing manager as perishable food selection and procurement requires voluminous knowledge and its transaction with hotels are frequent (almost daily). Deep interviews with purchasing managers were also conducted in order to gain a multiple perspective<sup>7</sup>.

Single-day observation is not enough and further research is planned. But considering the importance of micro-level experiences of many hoteliers and relevant suppliers involved we start with observation and detailed interviews. Macro structural changes, namely the changes in Business-to-business environment, have great influence on the experience of those related to hotel purchasing.

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<sup>6</sup> X and all other individuals and organizations mentioned in the observation are identified by pseudonyms. X is a vegetable salesperson of a small family-operated enterprise. He drives his small wagon average 50 kilometres everyday to deliver vegetables to his three customer hotels.

<sup>7</sup> The interview was conducted twice with a purchasing manager, who has been working for purchasing in one of Japanese high-end hotels in Tokyo. The interview lasted for about three hours. Another one-hour interview with a person who once was a purchasing agent in Japanese operated hotels was conducted.



### 3.2 Findings 1: How Hotels Feel about the Relationship<sup>8</sup>

Hotels and suppliers work very closely. Suppliers are working like “*Goyoukik*”, which is a form of commercial selling started in *edo*-period (1603-1867) Japan. *Goyoukiki* suppliers pay frequent visits to customers and offer attentive service to their long-term customers. Suppliers seem to make a great effort to keep their customer hotels, but in fact hotels are more dependent on their suppliers than suppliers are on hotels. What particular conditions explain why suppliers are of such great importance to hotels?

First of all, suppliers’ connections to the local market and the supply chain are indispensable to hotels. The whole distribution channel for food is often compared to “black box”. Hotels generally do not know what happens upstream of supply chains (e.g., how the ingredients are grown, how they are processed, etc.). Ambiguity and instability of supply chain is represented in the words of a purchasing manager: “The only way for us to reduce the uncertainty of supply chain is to have relationships with reliable suppliers”.

Secondly, suppliers’ maneuverability is attractive to hotels. Suppliers like X are usually flexible enough to go down narrow streets and shop around to find requested items. As a stable supply of wide variety is a priority for hotels, the suppliers’ high mobility and their ability to source whatever the situation is the most important of all. Suppliers are highly responsive to hotels frequent and immediate requests (e.g., shortage of ingredients). A purchasing manager says: “Our suppliers have reliable channels of supply to find items of good quality and know who to go to get the answers to our requests. When we are in trouble, we do nothing but ask suppliers for help. We cannot function well without these suppliers”.

Thirdly, the suppliers’ great knowledge regarding the commodities they specialize in is quite appealing to hotels. For example, several hundred varieties of vegetables and fruits are regularly available at any given time from various producers and intermediaries (Feinstein and Stefanelli, 2005). Without the suppliers’ knowledge and advice, it is difficult for hotels to decide which variety to use for a particular purpose. In fact, supplier X often goes to popular restaurants and hotels to study rival companies (e.g., what ingredients they use, how they cook, etc.) on behalf of hotels and bring information back to them. .

### 3.3 Findings 2: Suppliers’ Affection for Their Customer Hotel Relationships

Suppliers’ motivation to cooperate with their customer hotels is not simple. They are often calculative and careful in order to protect their assets of knowledge. From the observation, it appeared that suppliers are quite selective in how much they contribute depending on the relationship they have with their customer hotels. For the customers of good relationships, suppliers are likely to do extras for them.

Suppliers are expecting their transaction to be reciprocal and mutually cooperative. Thus they are discouraged to cooperate when hotels switch suppliers in an uncaring manner. For

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<sup>8</sup> Hotels (A, B and C) observed in our research are categorized as high-end full-service hotels and their relationships with supplier X have lasted for more than five years. A and B is traditionally owned, managed and operated by Japanese enterprises. C is a complete foreign enterprise and their business is appeared to be conducted in a “foreign way”. Purchasing activities, however, are exceptional because local market is quite important and they cannot accomplish tasks without following the “local way”, according to a purchasing manager.

example, when a chef asked supplier X to bring the latest newsletter, which is prepared by X every month with important information of market, vegetables, etc., he confessed after the chef left: "To be honest, I don't want to work too hard for this hotel. It was a let down when I found out that the hotel B purchases the vegetables I recommended from different suppliers. Hotel B often behaves that way. Get valuable information from me, but purchase from other suppliers".

His feeling is shared by many other suppliers working for hotels. Here are some excerpts featuring suppliers' opinion about the transactions with hotels (Mizuno, 2006):

What troubles us is the hotel just saying "reduce the cost!" or "discount!" I am unwilling to bring the best quality to those hotels only talking about price. (meat supplier V)

I want to establish a win-win situation with hotels. For example, hotels purchase by dozens and reduce our delivery frequency, and we suppliers can make a discount. In fact, some hotels just pressure us to discount. No one wants to keep the transaction with these hotels sacrificing our business. (food processing supplier Y)

If the hotel is counting on me, I will try my best to satisfy them. When they ask for my advice for the new product development, I am always happy to help. Although the number is limited, there are inexpensive and high quality meats in the market. I will bring such good quality to the hotel which I think I have a trust-based relationship. (meat supplier Z)

Under the pressure to reduce operation costs, hotels are now expanding the space for guests and shrinking the storage space, instead. As a result, hotels tend to order as small a volume as possible per delivery, and the lead time between placing orders and receiving items became very tight. Hence, the supplier's delivery style takes the shape of an extreme just-in-time (JIT) delivery format. This caused supplier X to comment that client hotels are placing increasingly greater demands on his organization. However, even if the request is difficult to satisfy, suppliers are making best efforts. Therefore, some degree of "customer oriented adaption" can be observed in hotel-supplier relations.

A proportion of hotels' transactions are already being handled by information technology. One of supplier X's customer hotels has its own auction website and offers more bidding opportunities for the potential suppliers. Transaction via internet is convenient allowing hotels to purchase a whole lot of different items in just one connection to internet, but supplier X is skeptical about its effectiveness, as long as perishable food is concerned. According to him, the perishable food purchased without face-to-face communication tends to be unreliable and he adds: "The real pleasure of this job is the direct communication with customers".

#### **4. DISCUSSION**

Tell (2004) argues that an organization's identity is seen as a stabilizing resource, whereas network identity is an activity that may lead to increased variety. Variety is important for organizations to develop dynamically and differentiate from rival organizations particularly in the competitive environment. Japanese hotels have been traditionally reluctant to extend

networks and introduce variety. Rather, they have repeated transactions with the same suppliers to secure stable supply. Thus they avoid change due to its potential uncertain outcomes and, instead, prefer the path of continuity as a risk avoiding strategy. From this point of view, Japanese hotels may open up for new opportunities by introducing new suppliers and new bodies of knowledge. However, it is currently motivated by cost reduction pressure and the constant pressures to reduce costs have resulted in a consequent decline in existing supplier cooperation. Overall, suppliers seem to have been frustrated in relationships that have failed to get off the ground.

Guttek (1995) emphasizes a number of important features of relationships. First, by their nature relationships increase in efficiency over time, due primarily to the history of shared interaction that gradually builds. Second, relationships, especially long-term ones, are likely to be characterized by a good deal of satisfaction on the part of both parties. In a relationship, the provider and the customer may be “special” to each other and over time interacting may become enjoyable and may enrich the lives of both. “Encounter” or the temporal transactions, on the other hand, have little attachment to the job and may have little empathy for the customer.

Relationships take time and they are labor-intensive. Therefore it may be a difficult decision to invest in long-term relationships with particular suppliers in the increasingly competitive business environment. But the point is that supplier relationship is one of human relationships. Thus suppliers’ motivation to cooperate is dependent on how they feel about their transactions with their customers.

Relationships are, of course, not almighty. Relationships and encounter type of transactions each have both positive and negative aspects. The important thing is that hotels have choices between two types of transactions. One distinctive nature of hotel purchasing is that they purchase a variety of items, namely “from soup to soap”. A good mix of two transaction depending on the situations may be required for hotels.

## **5. CONCLUSION**

Our findings suggest that hotels and suppliers still work very closely in the procurement of perishable items and the knowledge of the suppliers supports cost and quality management. However, these relationships are gradually changing because of both cost reduction pressures and the diffusion of information technologies. In the fast-evolving world, it may not be effective being restricted in high-context system. Balancing two contradictory needs, change and stability, may become crucial.

However, it is likely that the way Japanese hotels and suppliers transact is based on its culture. As Hall (1976) points out, culture patterns determine person’s behaviour. If so, how Japanese relationships including those between hotels and suppliers escape the “hidden constraints of covert culture” (Hall, 1976)?

Moreover, Japanese distribution channel for perishable food is highly fragmented and the market represents “excess intermediaries”. Actor bonds are carefully maintained and

developed, long-term commitment is accordingly therefore of importance in these business relationships (Engelseth and Abrahamsen, 2007)<sup>9</sup>.

Some European countries are beginning to reconsider the advantages of building relationships. For instance, they introduce a “co-op model”, which is a highly participative governance model. It advocates people-based and long-term relations in business and is expected to bring about network collaboration (Lotti, Mensing and Valenti, 2007). As Fukuyama (1995) emphasizes, certain societies can save substantially on transaction costs because economic agents trust one another in their interactions and therefore can be more efficient than low-trust societies, which require detailed contracts and enforcement mechanisms. The same can be applied to the business settings such as supplier relationships. How much culture influences the business-to-business relations, looking at the situation from the supplier’s point of view (Entel, 2008), and steady and strong ‘communication’ (Gecker, 2008) will help integrating network members in a value creation process.

These research findings illustrate some important aspects of hotel and supplier relationships. However, the supplier relation observed in this paper forms only one part of the complex relationships that hotels must maintain. Nevertheless, this exploratory study into the impact of business-to-business relational changes in a specific cultural setting raises important issues for the management of a broader range of relationships and of the balance between cost and efficiency and the effectiveness that can be achieved through harnessing the knowledge of suppliers.

The Japanese manufacturing sector has changed considerably its historical practice and contributed, importantly to re-defining practice for example through the use of robotics in car-manufacturing, thereby setting a global standard, which has been copied by U.S. car manufacturers. In contrast, the Japanese service sectors, including hospitality, have continued on a distinctively traditional evolutionary path. This justifies comparison of the Japanese hotel-supplier relationship with experience and developments in other countries.

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<sup>9</sup> Morten A, Engelseth P. 2007. The Demise of Traditional Fish Distribution Structures in Japan? A case study of fish supply chains from Norway to Japan. (A paper submitted for 23<sup>rd</sup> IMP Conference.)

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