In this work-in-progress-paper, we will develop a framework to explain some characteristics of Japanese relationship marketing. Our purpose is to evaluate Japanese relationship marketing. Traditional relationship marketing theory told us its several superior characteristics. They are included competitive advantages, turnover profit ratio, customer satisfaction, and so on. In this reason, companies, no matter in which country, are eager to build good relationships with their partners. However, from some of Japanese business management researches, we found that the profit ratio of Japanese companies were lower than the ratio of U.S. companies. Further, there were several explanations to these phenomena from an axiomatic point of view in management studies.

Here, we would critically review these works and try to develop a conceptual framework to explain the reason why Japanese performances often were low in average. Using the frameworks from sociology and IMP group, we argued there are two strategies to build a stable business relationship. Namely, they are “trust-based strategy” and “assurance-oriented strategy”. In the former, the business relationship is based on trust. That means the relationship is kept stably but the position is also changeable. This characteristic makes the business running more efficient and rational. On the contrary, in the latter, relationship is retained by a sanction system, that both the relationship and the position are fixed in a stable condition by a higher cost.

Checking Japanese business practices, it won’t be difficult to find Japanese companies are tended to use the “assurance-oriented strategy” to build their business relationships. As our implication to the B2B marketing, we may reveal that the condition in which the traditional relationship marketing worked. A company was able to improve its performance by shifting the transaction from market to relationship situation by trust. On the contrary, the situation in which sanction system worked it was not guaranteed to improve its performance. And then we will suggest a few problems when we will do empirical research in the future.

Keywords: relationship marketing, trust, assurance, return on sales
Introduction
The purpose of this working-in-progress paper is to develop a conceptual framework to explain the reason why the return on sales of Japanese companies is averagely lower than those in other countries. By doing this, we expect to make our contributions to the field of marketing research and of relationship marketing (RM). Our framework focuses on the condition where business runs on a tight relationship.

From the relationship marketing point of view, building and keeping a good relationship with your sincere partner is an important factor for running business successfully. There are several studies that indicated the relationship between companies is an important factor when doing business in Japan as well (Newsweek, 1978; Kraar, 1981; Krisher, 1982). And also, the importance of a good relationship had been widely accepted by marketing researchers. Both in the business practice and the academic research, RM had “experienced explosive growth” in the past decade (Srinivasan and Moorman 2005). Morgan and Hunt (1994) had defined RM as “all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges” (Morgan and Hunt 1994, p. 22).

However, for most of Japan companies, businesses are running well by their successful relationship building, but the results of performance (e.g. return on sales) seems are not good enough. In our consideration, the reason why the results for most of Japanese companies are not good is, relationships that Japanese companies used to build and keep are not based on trust, but on assurance. What is the difference between trust and assurance? We will have a further discussion later. Here, what we want to stress is, if the business relationship build upon trust, then both of the companies can make their business decisions more rational. For example, they may keep their connection with their original supplier but have a transaction with the other one within their business network temporarily. This is the idea that Mattsson and Johanson (2006) had argued. But actually in Japanese business practices, this change did not occur so often. Genestre et al. (1995) had pointed out many common senses in Japan society. And almost all of these common senses make the business relationships steady and uneasy to change, even the change can reduce more cost.

According to RM theoretically, good relationships will bring high performance. And Japanese companies care about their business relationships much more. But in the recent, several studies had shown us the fact that the ratio of return on sales (hereafter, profitability) of Japanese companies are low by comparing with other companies worldwide (Ishii 2006; Itami (ed.) 2006; Mishina 2004, 2006). About this result, is there another causal relation between the business relationships and the profitability, against RM theory? Or is there any other requirement needed to keep the causal relation between relationship management and profitability? To find out the reason is the main purpose of this paper.

In order to achieve our purposes, we constructed this paper as followings. In the next section, we will have a brief review on the previous researches to see how different the profitability between U.S. and Japanese companies are. And what is the reason that previous researches indicated. From this review, we will point out the new question that worth to discuss. Then, we will show our theoretical hypothesis. In short, our hypothesis is that the Japanese companies spend more costs to build and maintain their business relationships than U.S. companies do. Furthermore, as our theoretical contribution, we may claim that the premise that Japanese relationships based on is different to the one that U.S. companies used to presume. Namely, the Japanese relationships are based on “assurance” but the U.S. relationships are on “trust”

Previous Researches
Table1 shows the difference of profitability between the top 10% companies in Japan and U.S. Data is showing in a descending order included eleven industries. The indicator of profitability
(i.e. ratio of return on sales) was calculated by the following functions.

Operating profit = gross profit – selling, general and administrative expenses
Gross profit = total sales amount – total manufacturing or purchasing cost

Return on sales = \[
\frac{\text{Operating profit} \ (10 \text{ years average})}{\text{Sales} \ (10 \text{ years average})}
\]

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>USA</th>
<th>Differences(U-J)</th>
<th>Japan</th>
<th>USA</th>
<th>Differences(U-J)</th>
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<tr>
<td>Average all industries</td>
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<td>18.5</td>
<td>6.7</td>
<td>12.7</td>
<td>15.6</td>
<td>2.9</td>
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<td>11.9</td>
<td>18.1</td>
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<td>13.0</td>
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<tr>
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<td>7.2</td>
<td>11.4</td>
<td>4.2</td>
<td>8.7</td>
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<tr>
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<td>7.8</td>
<td>11.2</td>
<td>3.4</td>
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<tr>
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<td>21.7</td>
<td>8.1</td>
<td>19.9</td>
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<td>Electronics Components</td>
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Table 1: Difference on Return of Sales of Top 10% Companies
(Source: Itami (ed.)(2006), p.135, Table 4-3)

From the data, we may say that the profitability of Japanese companies were definitely lower than U.S. companies’ for 20 years. The difference is 6.7% on the average. In the last five years, the differences between them are getting closer in several industries. Especially, a Japanese house holding goods company achieved a higher ratio than U.S. company’s, but in the other industries the differences remains.

The reasons for the difference of profitability
There are two dominant reasons pointed by previous researches. One is the difference of value-added to sales ratio. Another is the difference of managers’ employment view. First of all, we will explore the former reason. Kishimoto (2006) used the data from 1975 to 1994 to compare the value-added to sales ratio of Japanese company to those of U.S. company (see figure 1). The calculation for this ratio is as follows.

\[
\text{value - added to sales ratio} = \frac{\text{value - added}}{\text{sales}} \times 100
\]

According to Kishimoto’s result, the ratio of U.S. company kept 10% higher than the ratio of Japanese company during all of the period. This ratio is an index to measure the efficiency of creating added value to sales. And Kishimoto suggested that U.S. companies had an efficient business process that produced high value-added products.
Second we will review examine the employment view of management. In Japan, it is a popular idea that a company is owned by the employees, and the employees belong to the company, as if it is their community. This idea formed the life-time employment system. By this unique employment system, employees committed to their company deeply. This deep commitment became a source of employee loyalty. Because of this employment view, a lot of Japanese regarded that retrenchment of personnel expenses (e.g. salary) might ruin this community; even the retrenchment was a strategic decision. In fact, in order to return to economic prosperity, there were several large-scale retrenchments during the big recession in the late 1990s. All of these retrenchments were not executed to raise stock price. Rather, they were undertaken to maintain the communities. Tanaka (2006) suggested that this employment view fixed the labor cost high, and this cost reduced the profitability of Japanese company.

Some problem in previous researches
These previous researches did not only tell us the reasons why Japanese return on sales was low, but also tried to justify these facts. In their claims the logics are as following. On one hand, actually this employment view to Japanese manager might fix the labor cost high and reduce the profit rate. But on the other hand, they emphasized the merits of this view. For example, it might increase the commitment and expedite the knowledge sharing in the organization. However, even the profitability of Japanese companies is lower than the ratio in U.S., Japanese managers think it is acceptable, because they usually do not put their goal on the profitability only (e.g. Tanaka 2006). For Japanese managers, the profitability is merely one of the indices to measure their performances. In Japan, there is a unique common sense for managers. That is, even the leading company is not allowed to take all as a winner. The winner is considered to have the noblesse oblige to direct or guide the industry development and prosperity.

Through these previous researches, we may say that they concluded the reason as the differences of management priority. Namely, it is because of a cultural difference. However, a cultural difference is an axiomatically reason, there is no room to accept the contradiction on this explanation. Furthermore, sometimes it might mislead the management implications. For instance, strategy based on long-term employment system was easy to accumulate long-term knowledge, then that knowledge would contribute to long-term competitiveness.

How these axiomatical points of view had been formed? We attempt to make an insight on this issue and construct a conceptual framework for it. “Managers or Japanese companies always pay more cost on their business than those of U.S. do” is our assumption for this issue. And we expect to build a conceptual framework to explain, “why Japanese managers or companies are willing to endure it”.

Figure 1: Value-added to sales ratio (Source: Itami (ed.) (2006), p.84, Figure 2-2)
Our hypothesis to this problem is that Japanese companies did not manage their business relationships efficiently and rationally. Of course, we do agree there is some companies run their business very well. The macro data we indicated above, however, might proof this for our hypothesis. Therefore, we will develop our theoretical framework referring some other theoretical studies briefly. Especially, we refer the researches on the relationship marketing studies.

**Our theoretical framework**

Our hypothesis would like to state that Japanese firms did not necessarily manage their business relationship efficiently and rationally. These inefficiency and irrationality tended to increase their operational costs. To develop our hypothesis, we will briefly survey some previous studies on the relationship marketing.

Many antecedents had taught us the practice in business marketing is characterized by stable and long-term relationship. To understand this long-term relationship, researchers of business networks, in particular the Industrial Marketing and Purchasing Group (e.g. Gadde and Mattsson, 1987; Ford, 1990), had applied the social exchange perspective on social networks (e.g. Emerson, 1972; Cook and Emerson, 1978) to the business networks.

In these studies, we especially paid an attention on the work of Gadde and Mattsson (1987). They claimed, “within a long-term relation, dramatic changes can occur regarding the position of a specific supplier (p.30)”. This concept was developed in the network theory. The position was defined as social distance between two actors in a certain network (Burt, 1976). In other words, position is the role of a company in a business relationship.

Compared with traditional understandings of long-term relationship, Gadde and Mattsson (1987) characterized a buyer-seller long-term relationship by two concepts; stability and changes of position in the network. We apply these two concepts to the dimensions; stability of structure and changeability of position, in Figure 2. The stability of structure means the regularity in over time. If a company purchased regularly from the same supplier for a long time, we defined this as a stable relationship. Although, in the fact, Gadde and Mattsson (1987) did not define the change as the changeability of position, but according to the context, we may depict this as the following schema. (See Figure.2) This schema means that any business relationship can be characterized by one of these types. Long-term relationship is located on right side both upper and lower cells in this schema.

Gadde and Mattsson (1987) identified that even a certain company had a long-term relationship, but put it in a business network context, the long-term relationship might be changed. We called it as the changeability of position in the network. Gadde and Mattsson indicated that the position of company was sometimes changed from the first tier to merely one of the suppliers with empirical evidences. We distinguished this position changing as another dimension for analyzing the business relationships. This dimension was not necessarily related to the long-term business relationships. If some company needed a product from its supplier very much, we may say, this company depended on this supplier; therefore the supplier had a power over the company. In this case, the company was difficult to change the position of the supplier. To say, the dimension of changeability referred to a functional importance in a certain transaction.

At a glance, it seems contradictory to coexist with change and stability simultaneously. Unfortunately, Gadde and Mattsson (1987) did not explain clearly and sufficiently why it was so. We suppose that trust is required to approve this contradicted proposition. We will describe it in detail later. Here, our emphasis is that it is possible to change the position of company in the network, if it was under the trust condition. On the contrary, Japanese
business relationships tend to keep assurance structure. The cost for keeping this assurance structure is getting higher.

In Figure 2, there are four cells. First, the upper-left cell are characterized by that the position of a company is changeable, and business relationship does not last for long. We may categorize this type of business transaction as a “single market transaction”. Second, Gadde and Mattsson’s study identified the cell on the upper-right, where the business relations are stable but the position of a company is changeable. In this cell there are some characteristics. We will treat the details later. Third, the cell on the lower-left has a contradictory characters as well as second one. It may be, however, possible to understand most of our ordinary shopping is into this cell. Our shopping as consumers often switches from one brand to another brand. So it is unstable transaction. But consumers can merely change their position in their networks. In the B2B context, when a manufacturer purchases standardized parts continuously, there is no guarantee from the same company. Thus, we call this cell as “occasionally repetitive buying”. In this cell, the business relationships are not stable, but the positions of all players (i.e. roles) are fixed by interdependence. Therefore, some company tried to shift this cell from left to right. Fourth, we might plot the ideal relationship marketing on this lower-right cell, where both the business relationship and position are fixed. We call this cell as “assurance structure”.

For our purpose of this article, we have to develop a hypothetical framework to explain why the profits of Japanese company tended to be lower. We suppose that this problem must be related to the strategies that Japanese companies had used to shift their business transactions from the left side to the right side. In order to develop this framework, we have to explain the following three points. First, we supposed that there are two types of trust, namely they are trust and assurance. Later, we will explain what these two strategies are. Second, we also supposed that there are two strategies to stabilize the business relationships, namely the “trust-based” strategy and “assurance-oriented” strategy. Third, at last we will state some reason why profitability of Japanese companies are often lower that U.S. companies’. We will explain how strategy is related to cost.

First, to explain these three points, we have to comprehend how trust and assurance retain the relationships long. In RM tradition, some researcher indicated that trust positively affects
commitment. And, commitment becomes the reason to maintain long-term relationships. However, the mechanism how trust retains long-term relationships was not explained well.

There are a lot of studies of trust. In these studies, we paid an attention to the studies of Barber’s (1987) and Luhmann (1979). In Barber’s study, he suggested that there were two forms of trust. One sense of trust refers to an expectation or prediction that an assigned or accepted task will be competently performed. We trust, in this sense, that a person who is acting in a particular role or has a particular capacity to do so at a reasonably expected level of proficiency. The other meaning of trust is the reposing of fiduciary obligations and responsibilities in an individual or on an individual. As a trusted person in this sense, observing his fiduciary obligations, it is in his own moral interest to put his other interests second. As for the functional aspect, Luhmann (1979) gave his unique definition to trust, that is, trust is defined as a mechanism that reduces complexity and enables people to cope with the high level of uncertainty and complexity of contemporary life.

Unfortunately, these definitions of trust did not give us complete understandings why trust contributed to long-term relationships. There is another approach to analysis trust in the relationship that based on a prisoners' dilemma situation (Swinth, 1967). By this approach, payoffs are the incentive for trust. The payoffs are getting higher when prisoners cooperate in this situation, as a result, the relationship keeps going on. However, the relationship might be dissolved, when the payoffs could not satisfy each of them. In this meaning, this might not be a sufficient explanation how trust maintained the relationships. On the contrary, in a repeating game, relationship might be maintained long, if one prisoner had an intention to keep its relationship, even he/she lost his/her payoff (Kreps, 1990, pp.505-506). In other words, this intension forces him/her to tolerate the current loss.

Yet there is another retaining mechanism. That is assurance. The concept of assurance is related to the latter definition in Barber’s study. Assurance is defined as an expectation to a role or capacity as well. Yamagishi and Yamagishi (1994) had argued the difference between trust and assurance as following. That is, trust is based on the inference of the interaction partner's personal traits and intentions, whereas assurance is based on the knowledge of the incentive and sanctionable structure surrounding the relationship (Yamagishi and Yamagishi 1994, p.134). These surrounding structures are consisted with role clarity. Role clarity gave a member not only memberships, but also reducing uncertainty. To sum up, a distinction between trust and assurance is proposed as following. Trust is a cognitive bias in the evaluation of incomplete information about the (potential) interaction partner. And assurance is a perception of the incentive structure that leads the interaction partner to act cooperatively.

Second, we will show there are two strategies to achieve each long-term relationship. Consider Figure 2 again, long-term relationship will be achieved by any strategy to move a company from the left side to the right side. Neither to the upper-right cell or the lower-right cell, the strategy reducing uncertainties must be contributed to do so. As we have explained above, trust must be appropriate to this strategy. We call this type of strategy as “trust-based strategy”.

To move the lower-right cell, trust is also important, but that is not enough. There need role fixing strategy. According to Yamagishi (1995), he pointed out that the traditional Japanese society was built upon an assurance structure but not necessarily on a trust structure. In assurance structure, no one has an incentive to betray. Because threat of collective and multilateral punishment supported the beliefs that the short-term gain from cheating today was less than the long-term benefit of being honest (Greif, 2006). Referring this statement, we can find many distinguished characters in the traditional Japanese business practices. For example, the permanent employment, the seniority personnel system, or the affiliated
business relationship that called as “Keiretsu”. We may conclude that some Japanese relationship management adapts to assurance business structure that fix roles in business relationships. We call this type of strategy as “assurance-oriented strategy”.

To sum up, a distinction between trust and assurance is proposed as following. Trust is a cognitive bias in the evaluation of incomplete information about the (potential) interaction partner. And assurance is a perception of the incentive structure that leads the interaction partner to act cooperatively.

According to Luhmann (1979), trust can reduce some uncertainty. Put this into the buyer-seller relationships, we can say, reducing uncertainties may reduce the transaction costs. That is, trust helps a company to change its relationship to others easier. (Notice, the mechanism is different to fix the relationship.) If the relationship can change easily, then a company would be easier to keep itself on a relative better position. An advantageous position will make the business runs more efficient and rational. Conversely, assurance is used to use the sanction system to keep the business relationships stable. This will not only raise the operating costs but also constrain the business relationship. Both of these reduce the efficiency and rationality.

Based on these considerations, we can say, “trust-based” strategy is by increasing one’s confidence to others to keep the relationship stable. Therefore, we may place it as a driver to change single market transaction to continuing transaction (e.g. from upper-left cell to upper-right cell). And “assurance-oriented” strategy is a company uses a sanction system as means to keep the relationship stable. About the “assurance-oriented” strategy, it might be useful to refer Hagen and Choe (1998)’s work about Japanese sanction system. They pointed out a sanction system that kept the transaction structure in Japanese business practices. However, these two strategies are seldom considered separately, when mentioning the importance of relationship management. That is the reason why the result in this research field developed slowly.

Third, at last we will state some reason why profitability of Japanese companies are often lower that U.S. companies’. In a business relationship, when the position of a company is changeable, why the relationship still can keep stable? The reason is this change of position has been accepted by the other company intended. This clear intention to tolerate the position changing of one’s partner is “trust”. According to Luhmann (1979), trust can reduce some uncertainty. Put this into the buyer-seller relationships, we can say, reducing uncertainties may reduce the transaction costs. That is, trust helps a company to change its position to others unsuspectedly. If the position can change easily, then a company would be easier to keep itself on a relative better position. An advantageous position will make the business runs more efficient and rational. Conversely, assurance is used to use the sanction system to keep the business relationships stable. This will not only raise the operating costs but also constrain the business relationship. Both of these reduce the efficiency and rationality.

Actually, most of Japanese companies try to build an assurance structure. The vertical integration by manufacturers (so-called “Keiretsu”) is the typical example (Sako, 1991). In Keiretsu, Japanese manufacturers often employ the rebates and/or penalty system as the incentives to prevent their partners (e.g. subcontractors and distributors) from betraying. This system may be coincided with a sanction system which Hagen and Choe (1998) indicated. Of course, some Japanese companies choose “trust-based strategy”. But this did not mean that Japanese companies stop choosing “assurance-oriented strategy”. For example, Seven-Eleven Japan requires its suppliers to do some transaction specific investments (e.g. plants and distribution center for Seven-Eleven Japan only). Once these suppliers invested something specialized to Seven-Eleven Japan, they have to keep relationship with
Seven-Eleven Japan as the transaction economics predicted (e.g. Williamson, 1975). On the contrary, no matter how confident the trustworthiness of the partner is, if Seven-Eleven Japan cannot keep the relationship under a controllable situation, then Seven-Eleven Japan dissolve it.

Needless to say, some Japanese company recognizes that the “trust-based strategy” often become more efficient than the “assurance-oriented strategy”. That is because they can add (or omit) the other suppliers easily under the trust condition. And under the trust condition, the company’s position will not be fixed, this changeability makes the company can establish efficient activity structures and dynamic resource structure.

However, in Japan, not only the business relationship but also the position (the role) is not easy to change. Because these changes are unusual business customs in Japan. Change means destroying the assurance relationship. When this kind of destroys happen, in order to keep the vested rights, doubtlessly, the counterattack comes from the establishments. Instead of changing position, under an assurance-oriented business relationship, in some cases, the leader company will help its partners who are relatively weaker or smaller, to foster their capabilities (Fujimoto, 1999). In general, capability increases one’s trustworthiness. And trustworthiness contributes to keep the business relationship stable. This is the typical way to gain credible business resources in the assurance society.

**Conclusion and Future Research Directions**

Finally, we want to stress three points as our conclusion. The first is the meaning of stables business relationships for U.S. and Japanese managers are different. For U.S. managers, a loose business relationship is a means to run business efficiently, but for Japanese managers, to keep business relationship stable is their goals. Because of this difference, business relationships in Japan seem more constrained than those in U.S. The second, most of the business relationships in Japan are based on assurance that forced them to bear more cost and reduced their profit. Because assurance needs a sanction system. Even many Japanese managers or researchers knew these facts, but they considered them are axiomatic. The third, the business practices in Japan are different to the consideration that RM supposed to tell us. For example, outsourcing will increase the business efficiency, but it needs a kind of trust relationships. However, Japanese business relationships are based on assurance, that they often require an exclusive supply. All these are the reasons make the profitability of Japanese companies lower.

For future researches, we will try to have an opportunity to explore this conceptual framework empirically. To achieve this aim, we have to develop some index to measure the cost spent to keep a business relationship stable. Now, we cannot state these measurements clearly. We would like to indicate some notice. We may say that information redundancy among the personnel between organizations is one of the most important indicators that suggest the existence of assurance cost. This research direction coincides to a concept of structural constrain as Burt (1995) indicated. The higher the information redundancy, the relationship may tend to assurance. Checking the structure of Japanese business relationships by concrete factors might bring more implications, both theoretical and practical, to the Japanese relationship marketing research.
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