

**Creating New Local Industry
Through Inter-Organizational Collaboration:
A Japanese Case**

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1. Introduction¹

1-1 Research questions

Inter-organizational networks are one way of dealing with ill-defined or complex social problems that individual subjects - individuals and organizations - cannot handle alone.² Such network arrangements have been given increasing attention by organization and socio-economic researchers.³

Regional development or regeneration issues fall into this category of problem, and efforts to obtain solutions have been made through spontaneous joint-actions to create new local business or industry by various individuals and organizations, mainly local entrepreneurs, firms and governments. Such attempts typically emerge when no single organization is able to deal with development due to high risk and lack of necessary resources. Especially in the situation that there are high economic or political pressures (where there is a decline of existing industry, depopulation and so on), such attempts are thought to emerge more frequently. Through inter-organizational collaboration, these projects aim to create a seed-bed for the possible emergence of sustainable new industrial accumulation as a way of regional development or regeneration. But the results are often less than satisfactory. How can such collaboration be managed? What are the critical factors for success? This paper explores these research questions.

Relatively few efforts have been made to describe and analyze the creation process of new local business or industry from the perspective of macro-organization theory. More broadly, the lack of attention given to organizational arrangements required to foster, support, and manage the economic development process has been noted.⁴ While the structures and processes used to manage the

development process clearly affect the outcome, relatively little attention has been paid to designing and building organizations that are appropriate for sustainable economic development.⁵

This paper is an attempt to theorize process-management of inter-organizational collaboration for business/industry creation. Several factors are induced from a single case study. These are considered to be critical in managing the process of inter-organizational collaboration. Then, a tentative model to describe the process of inter-organizational collaboration for business creation is generated based on case findings, and why such arrangements of inter-organizational relations emerged is discussed.

1-2 A theoretical gap

First, however, I must situate this research in the context of existing research, to identify its distinct contribution.⁶ There is vast literature on the accumulation of regional industry. In economics, Marshall (1920) explained why the localization of industry existed with his concept of external economies, and recent studies elaborate his theory.⁷ More detailed work on mechanisms of the accumulation of regional industries can be found in management studies, economics and sociology. And there have been insightful studies of industrial districts, for example industry networks originating in the apparel, tile and machine-tool industries in northern Italy⁸, automotive, electronic, machine-tool and other machinery industries in Baden-Wurttemberg⁹, the electronics industries in Silicon Valley and Route 128¹⁰, metal production and machine tool industries in Tokyo, Osaka and other areas in Japan¹¹, and in developing countries¹²

These studies have made a significant contribution to analyzing industrial districts and small- and medium-sized enterprises (SMEs) in them. Some of this research focuses on the flexible specialization of SMEs in the districts, and how and why these competitive districts gained regional advantages through it. Further, by comparing similarities and differences of industry localization in two or more

districts, some researchers have investigated how the parties (entrepreneurs, economic and other organizations) behave and network in the districts, how interaction is coordinated, how cooperation and competition emerges, and so on.¹³ Some researchers, too, have explored determinants of the growth¹⁴ and collapse¹⁵ of regional industries.

In common with such literature, this paper highlights attributes such as geographical proximity, predominance of SMEs, close inter-organizational collaboration, a socio-cultural identity which facilitates trust, active self-help organizations and supportive regional and municipal governments. However, the focus of this paper is rather different, and addresses what is in effect a theoretical gap. While much of the focus of existing industrial districts research is on the coordination and change process (development, evolution, diversification, decline and so on) emerging in the existing industries in industrial districts, this research looks at the creation of new business or industry which aims to foster new sustainable industrial accumulation through inter-organizational collaboration *before* the accumulation of a particular industry has taken place (**Exhibit 1**). Second the small-scale business cluster through which new local industry is created is *designed* by entrepreneurs, and did not emerge as the result of a natural accumulation of small firms. This research focuses on this design and the process of planned emergence. These differences are shown in **Exhibit 2**.

Many researchers have explored how and why inter-organizational relations emerge, but there is a gap as well. Oliver (1990) categorizes such research into 6 categories; necessity¹⁶, asymmetry¹⁷, reciprocity¹⁸, efficiency¹⁹, stability²⁰, and legitimacy²¹. Surprisingly, however, none of these deals directly with the creative side of inter-organizational relations, and therefore they do not provide a satisfactory explanation for the emergence of inter-organizational collaboration for new business creation.

Studies looking at joint ventures²² or public-private partnerships²³ are a partial exception, but the number of parties is much more limited than those involved here. Further, while joint-venture partnership is formed under clearly defined goals of joining parties, the content of inter-organizational collaboration studied here is not, or is vaguely, defined at the start of the collaboration, since the parties need to start from finding potential solutions for complex social problems regarding a derelict town centre, even though they share a common mission (i.e. regional regeneration).

Some researchers have looked at the process of the emergence and development of inter-organizational relations for social problem solving, and have developed process models of inter-organizational collaboration. Following McCann's (1983) framework focusing on the process of social problem solving by two or more social actors - individuals, groups, and organizations - Gray (1985) and Yamakura (1993) proposed a three-phase model of inter-organizational collaboration that describes the emergence and development of inter-organizational collaboration for social problem solving. These, however, are not directly concerned with new business creation.

Finally, researchers have also developed models of various cooperative inter-organizational relations. Ring and Van de Ven (1994) proposed a developmental model of cooperative inter-organizational relationships. Their model is based on relational exchange, assessed in terms of efficiency and equity of relationships by parties, and depicts a detailed process of the emergence, growth and dissolution of inter-organizational exchange relationships. Noteworthy, too, is Zajac and Olsen (1993)'s transactional value framework of inter-organizational relationships, which also develops a process model of inter-organizational relationships, but which aims to maximize joint value maximization rather than transaction cost minimization. In this perspective, joint value creation is not necessarily intended and designed from the beginning of the relationships, but it emerges after exchange relations have been

established. My focus is, however, on how organizations develop and implement these from the beginning.

Moreover, both of these models, like most studies of inter-organizational relations, are based on exchange relations. Obviously exchange is a necessary condition for all inter-organizational arrangements, including business or industry creation, but is it also a sufficient condition? If not, what other conditions are necessary? This question remains largely unresolved.

In brief, this article tries to fill a theoretical gap through theory generation based on evidence from an empirical study of a regional redevelopment project.

1-3 Research site and research method

A single case is studied, based on the grounded theory approach. This is appropriate since there is little technical literature in this area.²⁴ The case selection was carried out by theoretical sampling.²⁵ A case of new local business development project in Japan for town centre regeneration was chosen. It is a spontaneous attempt carried out by multiple local firms, a local government and other individual participants to generate a hand-made glass industry in the town centre, which had not existed before in the region. Data was collected through archive collection, interview and participant observation at various meetings in the collaboration.

2. Case: Kurokabe Project

Kurokabe Incorporated²⁶ was established for regional regeneration, and operates hand-made glass and other related business. Its mission is to preserve a historical building called 'Kurokabe Bank'²⁷ and to recover the 'liveliness' of the town centre in Nagahama City, Japan. Kurokabe, which was established and owned by local firms and the city council, has played the role of the core organization of this regeneration project. By creating and growing a new industry,

Kurokabe has succeeded in attracting more than 1.7 million visitors per year to the town-centre of Nagahama, that used to be derelict shopping streets. The following describes and analyzes how this project was planned and developed.

2-1 Background: Nagahama and its derelict town centre

Nagahama is a city located in the centre of main island of Japan and beside Lake Biwa, the largest lake in Japan. It is 60 miles from Osaka, and its population is about 57,000. Nagahama was a wealthy commercial town for more than four centuries. Historically it was able to utilize its geographical advantage in transportation²⁸, and it was guaranteed 'tax-free' privilege for merchants from the lords of its fief from the mid. 16th century to the mid. 19th century. Nagahama was the central shopping venue for the surrounding district and 11 towns, and enjoyed prosperity and wealth accumulation. There were more than 400 shops in the town centre, most of which were beautifully-built traditional architecture for merchants. It should be noted that, as a commercial town, Nagahama cultivated a distinctive local culture of merchants and artisans, emphasizing enterprise, autonomy²⁹, and relatively high investment flow from the private sector (mainly local elites) for public purposes³⁰. This culture no doubt influenced the emergence of the Kurokabe Project as a spontaneous development project by local entrepreneurs.

The turning point for Nagahama and its town centre came at the end of the 1960s. The geographical advantage of Nagahama had been gradually eroded because of motorization and the development of highways and the bullet train. In addition, Nagahama's traditional commercial areas faced severe competition with major super stores and large national chain stores in suburban areas as well as many other small and medium-sized cities. The decline of the town centre continued through the 1970s. Attempts to reverse the decline, through developing shopping arcades, building a five-floor department store, refurbishing streets and so on, failed. In 1979, a further blow was dealt with a plan to build a large shopping complex just mile away

from the town centre. Subsequently many shop owners abandoned the town centre, and fifty decided to move to the new shopping complex itself.

By the time the shopping complex opened in 1988, the town centre consisted of '*shutter streets*', and the number of visitors shopping in the 400 shops of the town centre was just 50,000 per year. Four hundred years of history and prosperity was destroyed in just two decades, leaving only deserted shopping streets.

2-2 A brief history of Kurokabe Project: Start up (Stage 1: 1987-1989)

At the end of 1987, a citizens' campaign to preserve a historic building in the town centre, earmarked for dismantling, was launched. The building was called 'Kurokabe Bank'³¹ ('black-walled bank'), a landmark of the town centre and much loved by local people. This campaign was initially led by a local businessman, Mr Moriaki Sasahara who was concerned about the decline of the town centre³² Needing 130 million yen (approximately 812,500 GBP in August 2000) to purchase and repair the building before demolition, he managed to get 40 million yen from Nagahama City Council, and attempted to raise the rest through donations from the private sector. By utilizing the investment from the City Council for a part of capital, he planned to establish a joint enterprise of public and private capital (called a 'third sector company' in Japan³³) to own and maintain the Kurokabe building.

Mr Sasahara spread the movement for preservation through his network³⁴ and sought potential investors. Seven others responded. They decided that in addition to owning and maintaining the building, they would explore the possibility of using it to revive the 'liveliness' of the town centre.

The Kurokabe Bank building was saved just before its demolition. The eight founders and Nagahama City took positions as executives

of the company. Mr Sadao Hase, owner of an office development company, was appointed president.³⁵ Mr Sasahara took the position of senior managing director, the only full-time position, and virtually led the company, while Mr Mitsuo Ito was designated managing director.

The group immediately started work, beginning with a business plan to utilize their only asset, Kurokabe building. They discussed why the town centre had collapsed, and concluded that merchants in the town centre were defeated by the power of huge capital of national chain stores. Kurokabe could not compete against these giants. They therefore sought business which 1) could not be easily imitated by large capital, and 2) should contribute to restoring the liveliness to the town centre. They decided to focus on hand-made glass business after a few months of discussion.³⁶ Although no executives had ever been involved in glass and glass-related business, the reasons they chose it were as follows:

-Low-risk

The new business needed to attract visitors primarily by itself, without depending on existing business in the derelict town centre. To avoid excessive risk in such a situation, Kurokabe focused on female consumers to create new customers for their business, since the executives believed that business with women as its primary customers tended to be low-risk. Thus development of hand-made glass seemed appropriate.

-A business in which the financial resource was not its vital factor

They sought possible business in which development could be carried out without great initial costs. Their business should have certain advantages which could not be gained by capital. Since hand-made glass business requires specialized expertise which cannot be purchased by money, it was suitable for this project.

-A business which did not threaten existing business in Nagahama

Kurokabe was established for the mission of local regeneration and was established through partial investment of public money.

Kurokabe was not able to operate a business which caused new competition that could further threaten existing local industry. There had never been any hand-made glass or related business in Nagahama. For this reason they abandoned alternative plans to deal with local products such as silk crepe, china, lacquer and so on, might also be expected to go well with the traditional building of Kurokabe.

-Adding a new attraction to the town centre

From the beginning of the project, Mr Sasahara emphasized that Kurokabe should not simply run just a souvenir shop of glassware. A normal souvenir shop for visitors would not be a sustainable business in a derelict town centre, and would not add any new attraction to it. Hand-made glass business was thought to have the potential to add a new attraction, since visitors would not only purchase products, but also experience making their own glass, browsing at displayed art glass from all over the world, and learning its history.³⁷

-Potential for growth

The executives noted that the market of hand-made glass in Japan was undeveloped. From the demand side, this was because Japanese lifestyle does not require so much glassware. From the supply side, there were a few large hand-made glass manufacturers shipping products for the upper class market, and small-sized glass workshops run by mainly local artists and subsidized by local governments. This left a niche for new entrants. They thought there was potential to create a hand-made glass market with new customers.

Thus Kurokabe's business was defined as:

1. Displaying and selling Japanese hand-made glass crafts;
2. Importing, displaying and selling foreign art glass, mainly from France, Italy, Austria, Czech Republic and Hungary;
3. Operating glass studios and manufacturing and selling original Kurokabe glass.

The building, Kurokabe, and a traditional warehouse attached to it were restored to their original form, and revived as a glass hall and a

restaurant. In addition, a glass studio was newly built on the same site. The glass hall and the studio were run by Kurokabe directly, with eight new employees. The restaurant was operated by a local hotel which was one of the eight private-sector investors. The business opened its doors as the 'Kurokabe Square' in July 1989 (**Exhibit 3-1**).

The restored old buildings and new glass studio evoked an unexpected response among visitors and received extensive publicity through television, newspapers, magazines and other mass media. For the first three months, Kurokabe had 20,000 visitors per month, five times more than the anticipated figure of 4,000. Consequently, the Kurokabe Square had more than 98,000 visitors and gained 123 million yen of revenue in its first nine months. By then, the three buildings had reached their capacity.

2-3 Expansion (Stage 2: 1990-1998)

The executives made a decision to expand because of 1) the satisfactory rise in the number of visitors and the financial performance; and 2) the need for more shops to draw more visitors to the town centre to make the business sustainable over the longer term.

The executives gradually understood the essence of their unexpected success. It was the pursuit of three key elements; history, culture and internationalness. Hand-made glass has a long history and is common all around the world, and it is a part of the respective cultures. This was also true of buildings of Kurokabe Square as well. The traditional buildings were vital resources, with their own history in which there was a cultural element as well. These elements were sources of their unique strength which could not be imitated by national chain stores. In expanding the business, therefore, the executives paid particular attention to the well preserved 18th and 19th century merchants' stores with attached residences around Kurokabe Square. Most were now either vacant or just used for residential purposes. Kurokabe was able to purchase or rent these stores at low cost, and refurbished them for further development of glass and related business. It was 'an

attempt to create new culture of glass embedded in the traditional merchants' culture of Nagahama, creating a new business by changing the town centre into 'Òa mecca of hand-made glass'.³⁸

Kurokabe tried to enhance the scope of its inter-organizational collaboration by seeking further participants in the project. This plan was accelerated when Kurokabe paid off accumulated initial losses, and went into the black for the first time at the end of the third accounting year in 1992. First, they invited more investors (from 9 shareholders in 1989 to 44 in 1999) by increasing the capital from 300 million yen to 430 million yen.³⁹ More importantly, they were able to gain the participation of enterprising shop-owners and entrepreneurs who were attracted by Kurokabe's initial success.⁴⁰ These new participants can be categorized into three types; 1) tenants who rented stores from Kurokabe and newly started their business in the town centre; 2) franchisees who ran their own business in Nagahama and collaborated as members of the alliance; 3) joint owners with Kurokabe of new businesses. These new shareholders and participants enabled Kurokabe to expand the project quickly to attract enough visitors to make the business stable and to regenerate the town centre.

According to Kurokabe's mission and the participants' own business ideas, the participants developed their own business, based on the elements of culture, history, and internationalness. A local antique shop owner, for example, joined the project as a franchisee and sold some hand-made glass beside antiques in his shop. A local Japanese traditional restaurant, also a franchisee, served meals with Kurokabe's glassware. And a bottle and wine shop jointly owned and run by a local wine shop and Kurokabe, sold local rice wine bottled in Kurokabe bottles, and in the bar, served rice-wine with Kurokabe glass. Even though most do not deal in glass as their major product, they created an attractive new living scene with hand-made glass, adding depth and breadth to the glass business of the Kurokabe Project.

In addition, Kurokabe added new venues of its own, based on its accumulating experience. The following were added to the three initial activities:

4. Operation of a cafeteria and restaurants
5. Operation of a glass museum
6. Research and development in glass manufacturing
7. Collection and dissemination of information and materials relating to cultural town planning
8. Operations relating to international relations

Now Kurokabe attracts about 1.7 million visitors annually, and its revenue has increased to 880 million yen. The development process of the Kurokabe Square between 1989-1998 is shown in **Exhibit 3**, and details of shops and other functions are shown in **Exhibit 4**.

2-4 Diversification (Stage 3: 1996-)

Since 1996, there has been a process of diversification. Kurokabe and its major investors established a property agency, 'Shin-Nagahama Development' (SND), in 1996. SND aims to stop the dereliction of the town centre by encouraging town regeneration activities of other organizations through purchasing, renting and redeveloping unused properties, and providing its clients with consulting activities on commercial development. Through SND, Kurokabe, and particularly Mr Sasahara and Mr Ito (both managing directors of SND), have become involved in town centre regeneration in a broader context. Kurokabe and SND also support a cooperative association (Platinum Plaza), which is an attempt to organize elderly people's efforts for town regeneration. In 1998, Kurokabe, in collaboration with the local merchants' union, supported the establishment of a private organization; 'Town Creation Office' (*Machidukuri Yakuba*; TCO) to publicize town regeneration activities in Nagahama by providing visitors with local information and information on Kurokabe's activities. Kurokabe also began to organize a weekend flea market featuring environment-friendly products in 1999. Even though these activities are not related to Kurokabe's main-stream business of hand-

made glass, they have common features of contributing to town regeneration and enabling co-existence with nation-wide chain stores.

Kurokabe also provides consulting for local governments, and shop-owners' unions of small and medium sized towns from all over Japan.⁴¹ In 1997, Kurokabe invested in a local development company in another part of Japan⁴² to provide the company with advice and glass products. In 1998, it also established an operational tie-up with a corporation for town regeneration,⁴³ again to provide necessary management advice and glass products.

Whether this trend of diversification will continue or not was uncertain at the end of 1999. Reflecting the recent slow down of revenue growth, there has been a debate in the company as to whether Kurokabe should commit itself to these diversified activities, or should split these functions off and concentrate on the core business of hand-made glass. The development of inter-organizational relations of the Kurokabe Project from 1989 to 1999 is shown in **Exhibit 5**.

2-5 Kurokabe's performance and contribution to the town centre

After a decade of operation, Kurokabe has firmly established its business domain of hand-made glass. We may reasonably conclude that it has contributed to the recovery of the liveliness of the town centre, for the following reasons. First, as shown in **Exhibit 6**, the numbers of visitors to the Kurokabe Square, most of whom now also visit other shops in the town centre, has been steadily increasing, from about 100,000 in 1989 to 1.7 million in 1998. In parallel with the increase in the number of visitors to Kurokabe, the number of tourists coming to Nagahama City has increased, from about 2 million in 1990 to 3.9 million in 1997. Second, Kurokabe and other project participants newly developed or redeveloped some 30 shops, introducing hand-made glass and other related business. Further, these shops encouraged traditional merchants and new entrants to the town; some 60 shops have been newly developed or redeveloped in the town

centre. Consequently 95% of shops unused in 1990 are now in operation.

3. Organizational Features of Kurokabe Project

This section explores the organizational features of the Kurokabe Project to understand which factors have enabled effective inter-organizational collaboration. The subsections explain key organizations in the project, normative bases shared by the participants, and coordination mechanisms respectively.

3-1 The roles and functions of key players

There are three types of participants in this project; Kurokabe as the core organization, its shareholders, and the shop owners in the Kurokabe Square. Here the roles of participants are briefly outlined.

3-1-1 Kurokabe: the core organization of the project

As the creator of a new hand-made glass industry, Kurokabe owns and operates 10 shops in Kurokabe Square (see **Exhibit 4**). Kurokabe has played the role of core company since its start in 1989. It is a joint venture in which Nagahama City Council and 44 firms and individuals from the private sector, who invested 430 million yen in total (see **Exhibit 7**). Kurokabe's board of directors and auditors are from its major investors. As the core organization of the project, Kurokabe has two major functions; 1) internal accumulation of necessary resources for survival and for taking leadership of the project; and 2) collaboration management.

Kurokabe has been able to absorb and accumulate the necessary expertise to manage start-up and fast growth (1989-1998). As neither investors, executives nor employees had ever been involved in glass before, acquisition and accumulation of the necessary resources and expertise to run the business was a critical problem. A number of factors helped Kurokabe to survive and prosper in the initial periods.

First, hand-made glass market was chosen as the domain. It is a niche market, and there has never been severe competition. This allowed the time to accumulate necessary expertise. Second, Kurokabe's human resources and its intensive investment in employee training should be noted. Since its establishment, Kurokabe has been able to recruit highly motivated employees.⁴⁴ Most are well-educated single females, who following local norms, have been forced to stay in Nagahama, where few jobs can be found which satisfy them, to live with their parents until their marriage. They have grown into a highly skilled work force in conjunction with Kurokabe's training scheme.

Third, in contrast to most other hand-made glass studios and shops, for the acquisition of necessary expertise, Kurokabe systematically sent its buyers and craftsmen to distinguished hand-made glass industries in European countries for training. Especially since 1991, when Kurokabe was able to eliminate its accumulated initial losses, it has continuously spent more than 40 million yen per year, that is about 13.3% of annual revenue, on training.⁴⁵

Finally, and most importantly from the aspect of inter-organizational relations, Kurokabe has established a network of groups and organizations which gives its employees opportunities to learn and to accelerate the acquisition of necessary expertise. For example, it has organized a series of seminars called 'Dejima School'⁴⁶ for Kurokabe employers, other Kurokabe members (tenants, franchisees, joint-owners), entrepreneurs and staff of Nagahama City. Kurokabe Group Committee, meetings are held once a month for managers for all 30 Kurokabe-branded shops. It also functions as a training venue for Kurokabe employees. Further when Mr Sasahara visits many cities and towns to advise on regional regeneration, he establishes a human network through which he gains useful information and ideas for utilization in Kurokabe's business.

As the core organization of the project, Kurokabe performs various functions. First, it is the mission and business concept setter of the project. Second, it is the project leader which manages relationships

with other participants - Kurokabe Square shop members, shareholders, and support organizations. Third, it provides project participants with various services.

Fourth, it offers various opportunities for communication and training which benefits the project. This arrangement aims at 1) quick business development, 2) finding business opportunities, 3) learning for town regeneration and business development. As mentioned, the Kurokabe Group Committee is a place for the 30 Kurokabe shops to communicate among themselves and to discuss management. Dejima School offers a place to communicate with entrepreneurial Kurokabe shop members, town merchants and staff of Nagahama City, and to study planning, marketing, and management. Shin-Nagahama Development, Town Creation Office and Platinum Plaza also fall into this category. Further, Kurokabe has established relationships with academics and consultants to get necessary advice on management.

These services are a source of Kurokabe's centripetal force on participants in the project. It assists new shop members in developing a feasible business plan, it provides them with consulting facilities by Kurokabe-hired external consultants through the Kurokabe Group Committee, and it organizes joint promotion and another activities for the benefit of all Kurokabe shops. Further Kurokabe manages site development for new Kurokabe Square shop members, purchasing or renting old merchant shops from their owners, refurbishing them to keep a unified image of Kurokabe, and facilitating smooth start up. The basic external role of Kurokabe is to provide a seed bed to create new business. This is carried out well under Kurokabe's leadership, since its mission is public and Kurokabe, or Mr Sasahara, is believed by its participants not to monopolize the fruit of collaboration through the project.

3-1-2 Shareholders

When the Kurokabe Project started, Mr Sasahara chose its investors very carefully. He tried to find investors who recognized the crisis of

the town centre, sympathized with the mission of the project, and could invest at least 10 million yen⁴⁷ in such an uncertain project. Eight local businessmen⁴⁸ including Mr Sasahara made the investment. Even though they did not belong to the traditional merchants' community in the town centre, which had failed to stem the decline⁴⁹, they shared a similar concern over its fate.

Later the minimum investment was decreased to 5 million yen, and the number of shareholders rose to 44, including Nagahama City, 39 firms and 3 individuals and the Kurokabe Employee Shareholding Association. Some of the investors own shops are described in **3-1-3**.

Since the establishment of Kurokabe, shareholders have behaved quite generously and cooperatively. They have never claimed a dividend, and this has enabled Kurokabe to invest its profits in employee training, accumulating specialized expertise for the core firm. It has also enabled Kurokabe to develop its business flexibly following its mission. This is partially because all investors are from Nagahama or neighboring areas, in which economic redevelopment is crucial for the continuation of their own businesses. It is also partially because the local culture encourages private investment for public purposes. The motives for investment, therefore, are not short-term profit from dividends or a rising share price, but long-term economic regeneration of the town centre in Nagahama.

Shareholders also provided Kurokabe with crucial resources; human resources and general management expertise. Some have taken positions on the board of directors and led the company as experts of management, especially Mr Sasahara as senior managing director, and Mr Ito, as managing director.

3-1-3 Kurokabe Square member shops

Fifteen franchisees, three tenants and two joint-shop-owners (with Kurokabe) are included in this category (see **Exhibit 4**). They operate their own business independently or jointly with Kurokabe, and with

the 10 shops which are directly owned and operated by Kurokabe, are also members of Kurokabe Group Committee. Most have participated in the project since the second period of development (from 1991), when the initial success of Kurokabe's hand-made business had become clear. Although management of most of these shops is completely independent from Kurokabe, they act very closely for the whole group's benefit (such as joint promotion, joint marketing etc.), and their commitment to the goals of the project is quite high.

Selection of new entrants has been carried out carefully. Candidates are screened by Kurokabe at the point of entry, checked as to whether they share the mission of Kurokabe project (recovery of the liveliness of the town centre), whether they accept the development strategy of the project (creating hand-made glass and related business), and whether they can contribute to the project not merely by running shops, but by adding a new attraction for Kurokabe project and ultimately for the regeneration of the town centre. They must submit business plans which introduce glass from the aspect of their own business. Restaurants serve meals with Kurokabe glass, for instance, the wine shop sells wine in Kurokabe bottles, and other shops use Kurokabe stained glass for their interiors. These shops give Kurokabe Square a deeper and wider presence in the hand-made glass business which could not be realized by 10 Kurokabe-owning shops alone.

These shops also enabled the quick development of Kurokabe Square, as the owners contributed to the project with their own business experience and expertise. Some in particular had continued their own business in competition with large scale chain-stores, and therefore had accumulated expertise to coexist with them. In return for their crucial contribution, they receive various benefits. First, they can develop their new business under the umbrella of the well established Kurokabe brand. Second, they gain access to more than million potential customers who visit Nagahama with Kurokabe in mind.

3-2 Factors that determine collaborative relations of the project

Two main factors help to coordinate participants' behavior and their interaction; the normative basis of collaboration, and organizations and individuals which connect the participants and coordinate their activities.

3-2-1 Normative basis of collaboration: Nishida's philosophy and merchants' culture

Two factors appear to function as the normative basis of collaboration; Nishida's philosophy, and the traditional merchants' culture. They affect the coordination of collaboration by creating distinctive a mode of relationship among project participants which is quite different from the mode of transaction as discussed in section 4-2.

Since the establishment of Kurokabe, Mr Sasahara has managed the project following Tenko Nishida's philosophy, which he deeply respects.⁵⁰ Since Nishida's philosophy, which emphasizes altruistic attitudes of merchants (see **Exhibit 8**), was been already widely shared by local businessmen, it diffused throughout the Kurokabe project quickly and works as a normative base.⁵¹ For example, even though board members of Kurokabe worked hard, they did not receive any salary or bonus for the first eight years of operation.⁵²

The other factor, as seen in section 2-1, is the traditional Nagahama merchants' culture, which encourages entrepreneurial activities and spontaneous involvement in public projects. In such a culture, project participants can gain a positive reputation among local businessmen by involving themselves in the project. These factors encourage participants to contribute to the common goal of collaboration and serve to inhibit opportunistic free riding behaviors and the emergence of goal conflicts, in conjunction with Kurokabe's business design to provide enough business opportunities for participants to survive.

3-2-2 Mechanisms for coordination and interaction of participants

Kurokabe collaborates with other organizations and support groups by building cooperative inter-organizational relations. The main participants are the Kurokabe Group Committee (KGC), Shin-Nagahama Development (SND), Town Creation Office (TCO), Dejima School, and consultants and academics. These organizations and individuals help Kurokabe by:

1. accelerating business development by substituting or externalizing functions formerly executed by Kurokabe (quick and efficient business development);
2. encouraging Kurokabe and other project participants to interact with other organizations and individuals who benefit from the project, creating opportunities for learning (networking for communication and learning);
3. carrying out activities which are not directly related to the glass business but necessary for the regeneration of the town centre (diversification).

Some of the core members of these organizations (leaders, shareholders, etc.) are from Kurokabe and its shareholders, so they are closely related to the Kurokabe Project and share its mission. These organizations support or substitute functions that Kurokabe used to do, and in return for this contribution to the project, they obtain business opportunities and revenues.

Kurokabe Group Committee (KGC), established in 1991, consists of the managers or owners of 30 shops in Kurokabe Square. KGC organizes monthly formal management meetings, and offers opportunities for informal communication among members. KGC is a place for joint decision-making and joint problem-solving. In its meetings, problems that need to be jointly solved are discussed, and joint activities for marketing and promotion are planned. These joint activities, promotion campaigns and so on, are financed by the members.⁵³ A consultant hired by Kurokabe analyzes the joint

activities and advises on improvement. He also advises members on management problems which member shops confront individually.

Shin-Nagahama Development (SND) helps Kurokabe in site and architecture development. Kurokabe itself cannot commit to this important function for regeneration directly, since as a third sector company it is restricted in brokering estate and properties. Established in 1996 and owned by Kurokabe and Kurokabe's major shareholders, SND is a developer which focuses on supporting regeneration and redevelopment of the town centre. It is managed by Mr Ito, managing director of Kurokabe and owner of a family construction company. SND took over Kurokabe's shop arrangement function for new shop tenants and franchisees, and substituted and strengthened it. By externalizing this function, Kurokabe can concentrate its financial resources on its main stream business, and SND can enhance that function further by supporting the renewal and reopening of other shops outside the project.

Town Creation Office (TCO) is a financially independent and private organization which aims to encourage communication on regional regeneration between Kurokabe, local merchants in the town centre, central and local governments, other public organizations, private-sector organizations, academics and so on. It was founded in 1997 after a local exhibition held in 1996. It has three full-time staff, and its part-time representatives are the president and vice-president of the local merchants' union and Mr Sasahara. The main function of TCO is publicity activities and networking. First, it fully or partially functions as a 'publicity department' for Kurokabe, local merchants, Nagahama and 11 neighboring towns. It is the liaison office for visitors who wish to inspect the regional regeneration activities of Kurokabe, local merchants, Nagahama Chamber of Commerce and Industry, and Nagahama City Council.⁵⁴ Further, it works as the secretariat of various organizations; Kurokabe Group Committee, Platinum Plaza, Dejima School, Environment Flea Market Garden and so on. Even though TCO was not founded specially for the Kurokabe Project, TCO and Kurokabe have established symbiotic

relations. Kurokabe supplies opportunities for TCO to gain income, since TCO's main revenue is commission from visitors who wish to inspect Kurokabe. And Mr Sasahara and Mr Ito give presentations to the visitors as a voluntary activity. In return, Kurokabe can externalize its public relations function and gain benefit from TCO's broader networking activities which provide opportunities for Kurokabe and other project participants to obtain useful information from visitors' business and town centre regeneration activities.

Dejima School was established in 1997 and named after its 'principal', who is a marketing planner. It was designed to nurture human resources for town regeneration. It organizes seminars on planning, marketing and management issues for those who are involved in the Kurokabe Project (shareholders, employees, Kurokabe Square member shops and so on), entrepreneurial merchants in the town centre and other local people who are interested in regional regeneration. Its three courses are held monthly and provide opportunities for study and communication. *Dejima School* plays the role of spreading the Kurokabe Project as a citizens' movement among local citizens, and raising the standard of knowledge of people involved in the town regeneration. For Kurokabe it is also a beneficial networking organization which encourages interaction of people involve in the town regeneration. Further, *Dejima School* functions as a place of learning and planning new business. For example, the Environment Flea Market Garden plan, which was originally conceived by Kurokabe staff to create a fair, was refined in this place.

To sum up, KGC, SND, TCO and *Dejima School* function as catalysts to encourage people involved in the project to network with each other, collaborate together, learn and solve problems jointly.

Kurokabe has also succeeded in attracting and involving *consultants and academics* as strong supporters. They function as consultants and advisers, and facilitate the linking of people and organizations for learning and problem solving. In the beginning the relationship was one of client and customers. Subsequently, more 'intimate' relations

developed in which the consultants involved themselves like voluntary supporters. They include experienced consultants on management and regional development, who now regularly visit Nagahama and support the project through advice and useful information. Academics specializing in urban planning or commerce research the project for academic purposes, and in return also offer various kinds of advice and information.

4. Essence of Inter-organizational Collaboration for Business Creation

In this section, a tentative organizational perspective to explain new business creation through inter-organizational collaboration is induced from the evidence of the case research.

4-1 Crucial factors for inter-organizational collaboration for business creation

Several factors which facilitate collaboration among organizations can be induced from the case study. The core organization of the project, Kurokabe, managed the following factors.

4-1-1 Entrepreneurial people as project leaders

The first factor is entrepreneurial leaders. From the aspect of entrepreneurship, inter-organizational collaboration for business creation can probably be defined as a series of activities taken by entrepreneurs who act beyond the organizations they belong to and organize joint-efforts for business creation. Kurokabe was started by entrepreneurial local people who were concerned about the decline of the town centre of Nagahama. Their competence as entrepreneurs and leaders of the collaboration, and their spontaneous efforts to achieve the goals of the project, were necessary conditions for the emergence of this kind of project. What Mr Sasahara and his colleagues did was to propose and implement the joint-solution, Kurokabe Project. For regeneration of the town centre, they needed to collaborate to develop

a new business concept, to gain necessary resources and to implement their strategy.

In this process, the key management issues can be induced as;

1. Setting the goals of collaboration and formulating and implementing strategies to achieve the goals;
2. Mobilizing and acquiring the necessary resources through inter-organizational collaboration to start, continue and develop the new business;
3. Creating and accumulating the necessary resources through inter-organizational collaboration to start, continue and develop the new business.

The core organization managed the collaborative framework to resolve these issues.

4-1-2 Field of collaboration

Coordination of participants was an important aspect of the project. Shareholders placed priority on town centre regeneration, and they provided Kurokabe with financial and human resources without claiming any financial compensation in return. Shop owners worked hard to contribute to the goal of collaboration as well as their own business. One of the findings of this study is that the collaboration can be distinguished from inter-organizational relations based on transaction or exchange among firms to satisfy their own interests.

Here there is a 'field' of collaboration, in which participants' relationships are managed principally to achieve the goal of collaboration. The principles of coordination, or the 'collaboration mode', in the field of collaboration can be compared with that of exchange coordination, or the 'exchange mode', in 'ordinary' inter-organizational relations as shown in **Exhibit 9**.⁵⁵

We find in this case that the collaboration mode played a crucial role in inter-organizational relations which aimed to achieve long-term goals such as business creation for regional development, since in

such a field participants were encouraged to behave not egocentrically or to pursue their own interests only, but to satisfy their interests through contributing to the goal of collaboration.

How is a field of collaboration created and managed? From the case analysis, several points can be generalized.

Design of the framework of collaboration The framework of collaboration functions to regulate the behavior of participants. In particular, the incentive system and the core organization's support for participants are important. In the case of Kurokabe, a well-designed framework of collaboration encouraged participants to contribute to the achievement of common goals, and through this, every participant could profit and secure a sustainable business environment. The framework was designed to boost the number of visitors to the town centre sufficiently to sustain the participants' own business. Further, Kurokabe's various types of support for new participants enabled participants to function as a part of the project, and to achieve the goal of collaboration.

Entry management The field of collaboration is also maintained through entry management by the core organization. Unlike players in the market who can enter and exit freely, participants of collaboration are required to satisfy conditions set by the core organization. Through screening potential participants, the emergence of goal conflicts among participants and free riding that could damage the collaboration are limited.

Would-be participants in the Kurokabe Project were required to satisfy certain conditions. They needed to share the recognition of the problems to be solved and the goals of the project. Shareholders were required to meet a certain level of investment and to give up their dividends (the potential benefits were to be derived from successful regeneration), and franchisees or tenants were required to submit a business plan and be interviewed about their entrepreneurial mind.

Norms for collaboration Participants of the Kurokabe Project behaved according to certain norms that were shared by the participants. Such norms were derived from Nishida's philosophy and the local merchants' culture. The existence of such norms encouraged collaboration, and prevented opportunistic or free-riding behavior that could have damaged the collaboration.

4-1-3 Centripetal force

Local entrepreneurs established Kurokabe as the subject and core organization of the project. Kurokabe drew up the vision of the project, set the goals of collaboration and formulated the strategy to create and develop hand-made glass business. It involved participants in the project, managed the relationships among them, and sustained the project. The reason why Kurokabe could lead and manage the project is that it could create and maintain a centripetal force to keep participants in the collaboration and contributing to the goals of project. The following factors appeared to be the source of this centripetal force:

- accumulated unique knowledge, expertise and human network for the core business
- ability to combine resources of participants for business development
- designing and securing domains of participants through collaboration.

4-1-4 Collaborative network for business creation

Even though a field of collaboration seems to be a necessary condition for this type of business creation, such a field itself does not create new business. The subjects of business creation were the participants of the collaboration. How they are organized affects the efficiency and effectiveness of the project. KGC, SND, TCO and Dejima School, which were established by Kurokabe in conjunction with other organizations and individuals, facilitated Kurokabe's development of hand-made glass business. These organizations

played specialized functions in the project, and provided project participants with opportunities for networking and communication.

Mechanisms to organize participants to function in the project effectively and efficiently are required to create and develop new business. Here both existing local business networks and newly established networks encouraged the following:

- obtaining new ideas, resources, participants
- quick business development and securing its domain
- sharing information/knowledge through communication among participants
- encouraging interaction and stimulating joint action
- providing participants with opportunities for learning and gaining expertise

These points should be considered in designing a framework of collaboration.

4-2 A process model of inter-organizational collaboration for business creation

Finally, a process model of inter-organizational collaboration for business creation is induced by summarizing the findings from the case. This process model is shown in **Exhibit 10**. This model has three phases; preparing for the collaboration, starting the collaboration, and continuing the collaboration. In the first phase, entrepreneurs generate business concepts and set the goals of collaboration following their vision and mission. Then they form a core organization and select participants considering resources they possess and their intention to contribute to the achievement of the goals of collaboration.

In the starting phase, creating the field of collaboration and building the framework, especially a collaborative network to manage participants, is carried out. The continuing phase focuses on how to maintain the centripetal force, and how to accumulate the necessary expertise and resources to sustain, to enhance and evolve the business.

The observed process of enhancement of the project is described in **Exhibit 11**.

5. Discussion: Managing inter-organizational collaboration for new business creation

I have explored the coordination of inter-organizational collaboration for new business creation in a particular case, and proposed a process model based on this. It seems reasonable to conclude that the coordination and process are different from frequently-studied inter-organizational relations among a small number of firms in strategic alliances, industrial districts or regions like Silicon Valley not only in respect to the number of subjects involved but also the nature of the relationship, since coordination is based on collaboration designed and managed by the core organization rather than transaction. Finally I shall discuss why such coordination and the process emerged in the Kurokabe Project. To regenerate the town centre by attracting new customers and tourists, Mr Sasahara and his colleagues were forced to implement a difficult solution, the Kurokabe Project, which required a unique arrangement of inter-organizational relations.

To explain why this arrangement emerged, we need to introduce the concept of 'technical core'. As explained by Thompson (1968), a technical core transforms inputs into outputs in the organization. This concept has been used to explain how organizations manage task environments, especially for acquiring stability, predictability and dispensability.⁵⁶ A very basic assumption of Thompson's perspective is that organizations establish their inter-organizational relationships to enable their technical cores to function properly for their survival. In this perspective, each organization has its own technical core and inter-organizational relationships with other organizations are determined by strategy on how to nurture its technical core to achieve their own goals.

In this study, however, the technical core is conceived as a determinant in designing the relationship of collaboration to create

new industry. Kurokabe's strategy assumed a serious joint-commitment by multiple participants as resource providers, customers, suppliers and collaborators, without whom, it would have been impossible to carry out the project.

The project environment forced the founders to design and create a technical core which was so large that no existing organization could encompass it within itself (see **Exhibit 12**). In Kurokabe's case, the technical core, newly created through collaboration, is a system to attract people to the town centre to regenerate its liveliness; namely the production and provision of goods and services related to hand-made glass. Such a technical core is encompassed not only by Kurokabe but also other participants - shareholders, Kurokabe member shops, and other related organizations. Such a technical core, moreover, cannot be divided into sub-cores, as these could not sustain themselves in the environment of a derelict town centre.

Kurokabe is a case of a project which inevitably required the design of a large technical core which assumed the participation of multiple organizations. Such a large technical core needs to be protected by multiple organizations also and therefore requires close inter-organizational collaboration. Factors mentioned above - field of collaboration, normative bases for collaboration, mechanisms for coordination, and interaction of participants - all emerged to protect and function the technical core.

6. Conclusion

In this paper, the process of new business creation through inter-organizational collaboration has been described and analyzed by focusing on the coordination of inter-organizational relations to create new business. The case suggested that under certain coordination and management conditions, it was possible to plan and create a new business that fosters further industry accumulation in the region. Crucial factors in managing this collaboration were induced and a process model of collaboration was proposed. To create new local

business through inter-organizational collaboration, mobilization of existing resources, creating and accumulating new resources, and strategies to combine them are crucial. To achieve this, the core organization led by entrepreneurs needs to manage the field of collaboration, creating a network of participants, and creating and maintaining a centripetal force for the goal of collaboration.

The reason why these arrangements emerged can be explained by the relative sizes of the technical core and organizations. A collaborative project like Kurokabe emerged when the entrepreneurial leaders designed a large technical core which required joint-creation, maintenance and management by multiple organizations.

Finally, this analysis is based on a single case study, and further research is clearly needed to elaborate the theory and to increase its internal validity. Further cases selected by theoretical sampling will be investigated until theoretical saturation is reached for this purpose.

Notes

- 1 This paper represents one of a series of case studies designed to theorize the process of management of inter-organizational collaboration for new business creation in the context of regional development. The key concepts actually emerge from all the case studies, but are demonstrated well in the particular case study reported here.
- 2 McCann, 1983; Gray, 1985.
- 3 E.g. Alter and Hage, 1993; Ferlie and Pettigrew, 1996; Chisholm, 1998.
- 4 Chisholm, 1997.
- 5 Ibid.
- 6 Cf. Inaba (1998) for more detail.
- 7 E.g. Krugman, 1991.
- 8 E.g. Brusco, 1982; Lazoerson, 1988; 1993; Piore and Sable, 1984; Pyke et al., 1990.
- 9 E.g. Cooke and Morgan, 1998; Herrigel, 1993.
- 10 E.g. Saxenian, 1994.
- 11 E.g. Friedman, 1988; Itami et al. 1998, Whittaker, 1997.
- 12 See, for example, Schmitz's (1995) investigation on emerging small-scale local industry in development countries.
- 13 E.g. Cooke and Morgan, 1998; Itami et al., 1998; Keeble, 1998; Pyke et al., 1990; Saxenian, 1994.

- 14 E.g. Schumitz, 1995.
- 15 E.g. Yamashita, 1998.
- 16 E.g. Raelin, 1980; Whetten, 1981.
- 17 E.g. Pfeffer and Salancik, 1978.
- 18 E.g. Astley, 1984; Levine and White, 1961.
- 19 E.g. Williamson, 1975; 1985.
- 20 E.g. Aldrich, 1979; Cook, 1977; Thompson, 1967.
- 21 E.g. DiMaggio and Powell, 1983; Scott, 1987; Zucker, 1977.
- 22 E.g. Hurrigan, 1986.
- 23 E.g. Miyaki, 1995.
- 24 As for theory development methods through case study, see Eisenhardt (1989), for example. As for the grounded theory approach, see, for example, Glaser and Strauss (1967), and Strauss and Corbin (1991). On the selection of an appropriate research strategy, see Yin (1994).
- 25 This case was chosen as one of four theoretically-sampled case studies for my PhD dissertation. As for theoretical sampling, see Glaser and Straus (1967) and Strauss and Corbin (1991).
- 26 <<http://www.kurokabe.co.jp/>> (in Japanese).
- 27 Kurokabe means 'black-wall' in reference to the black plastered exterior of the building.

- 28 Nagahama is located on the node of major highways and a port of Lake Biwa.
- 29 Nagahama was also guaranteed the privilege of town autonomy for three centuries as well as 'tax-free' privilege.
- 30 An example is the *Hikiyama Matsuri* festival, organized in the late 16th century and designated an important national folk asset. The festival, which features gorgeously decorated floats called *Hikiyama*, costs about 40 million yen (about 250 thousand pounds) per year, which is fully raised from donations. Another example is various investments in the *Meiji* era (1868-1912), in which prominent local citizens took leadership for modernization, establishing the first primary school and bank in the prefecture, and the third oldest railway in Japan through private investment.
- 31 The Kurokabe Bank building was originally built for the Nagahama branch of the '130th Bank' in 1900. It has a western design, influenced by Japanese storehouse (*dozo-dukuri*) style, and its walls are covered with black plaster. After the branch moved out, the building was used by a catholic church (which painted the walls white, but the citizens continued to call it Kurokabe). When the church moved in 1987, the building was sold to a property agent with a plan to construct a new building on the site.
- 32 Mr Sasahara is the owner of a local warehouse company, the third largest company in the industry in Shiga Prefecture, to which Nagahama City belongs. He was the Chairman of Nagahama Junior Chamber of Commerce, and had been involved in unsuccessful attempts to revitalize the town centre by organizing morning fairs to attract visitors.

- 33 A third sector business is a joint venture between private companies (at most 75% equity) and public sectors (at least 25% equity, as defined by Japanese law, the Minkatsu Ho); first sector refers to the public sector, and second sector refers to the private sector.
- 34 Mr Sasahara has a broad personal network in Nagahama, partly because of his position in organizations such as the Nagahama Junior Chamber of Commerce. He also personally organized a seminar group of local businessmen (Nagahama Tenko Club) to study the philosophy of Tenko Nishida, a philosopher and a man of religion from Nagahama.
- 35 Mr Hase was asked to take this position as he had won public confidence by making a substantial donation to establish Nagahama Castle Museum in 1983. He was the most senior of the directors. He himself, however, relies on Mr Sasahara's leadership.
- 36 Mr Hase, the president of Kurokabe, first proposed the idea to deal with hand-made glass products according to his coincidental experience in Europe. He explained that: 'In cities and towns in Europe I visited, studios of hand-made glass always gained a large audience. At the windows of premium glassware shops, women were eagerly watching beautiful glassware. I thought such business, which appeals women's hearts, must be more feasible to develop' (Yahagi, 1997; p. 98).
- 37 'What we thought in the first year of the project was that it would only be possible to survive the first decade if we aimed to create new loyal customers of glass who would revisit Kurokabe frequently. To create new customers of glass which had not existed in Japan, we needed to have three core facilities, - to sell, to make and to show glass. We thought we should show good scenes of glass. By collecting high quality glass products

and displaying them in a sophisticated way, we believed that customers would revisit and purchase our products' (interview with Mr Sasahara, 6/9/1999.)

38 Interview with Mr Sasahara on 6/9/1999.

39 The minimum amount of investment was halved to 5 million yen, hence more traditional merchants in the city centre could invest.

40 Most of these participants also acquired equity.

41 The success story of Kurokabe has drawn interest from many organizations and people confronting similar problems. More than 400 groups a year, including central and local governments' staff, shop owners, staff of chambers of commerce and industry, and academics, visit Nagahama to study Kurokabe. Some local governments loan their staff to Kurokabe to learn their methods of town regeneration.

42 A local development company 'Kurofune' ('black-ship') in Esashi City, Iwate Prefecture.

43 'Tor Road Town Creation Corporation' in Kobe City.

44 Kurokabe employs 27 full-time employees, 12 short-term-contract employees, and 59 part-time workers (Kurokabe, 1999). The mean age of full-time employees is 27.5 years, and the mean length of service is 4.1 years. Most employees are from Nagahama or its suburban area, and 95% of employees are women.

45 These well trained employees have played core roles in Kurokabe, and have been promoted within the company. Two have already joined in the board of directors.

- 46 'Dejima Juku' is named after its 'principal' Mr Jiro Dejima, who is a marketing planner. It has three courses (planning, marketing and management) and each course has a seminar once a month.
- 47 There are two major reasons why the minimum investment was set at 10 million yen; to recruit serious and committed investors, and to reduce the possibility of conflict by reducing the number of stakeholders.
- 48 They are local elites in Nagahama; - the owner of a warehouse company, and a construction company (15 million yen each owner), an office developer, metal works company, hotel operator, textile wholesaler, shoe wholesaler and wine store (10 million yen each). See also **Exhibit 7**.
- 49 Yabe, 1999, from the perspective of urban sociology.
- 50 Nishida's philosophy emphasizes that wealth and assets are not possessed by merchants for themselves, but for heaven (*Mushoyu*).
- 51 One means of diffusion is a seminar group called Nagahama Tenko Club, which is chaired by Mr Sasahara. It has been active for twenty years, and some 100 members organize seminars to learn the philosophy of Tenko Nishida. Through this means his philosophy was widely spread when the Kurokabe Project started.
- 52 Since 1997, Mr Sasahara, who is the only full-time executive of the board, has received a salary from Kurokabe. This arrangement was made to stop criticism of unfair competition by traditional local merchants of the town centre.

- 53 Every member pays a 500,000 yen entry fee and 240,000 yen annual membership fee.
- 54 TCO met about 400 groups (6,000 people) in 1999.
- 55 It is also quite different from a simple 'ecology' of industry accumulation, as in Saxenian's (1994) study of Silicon Valley.
- 56 For example, Oliver (1990).

EXHIBITS

Exhibit 1. Focus of this research in the time series of the industry development

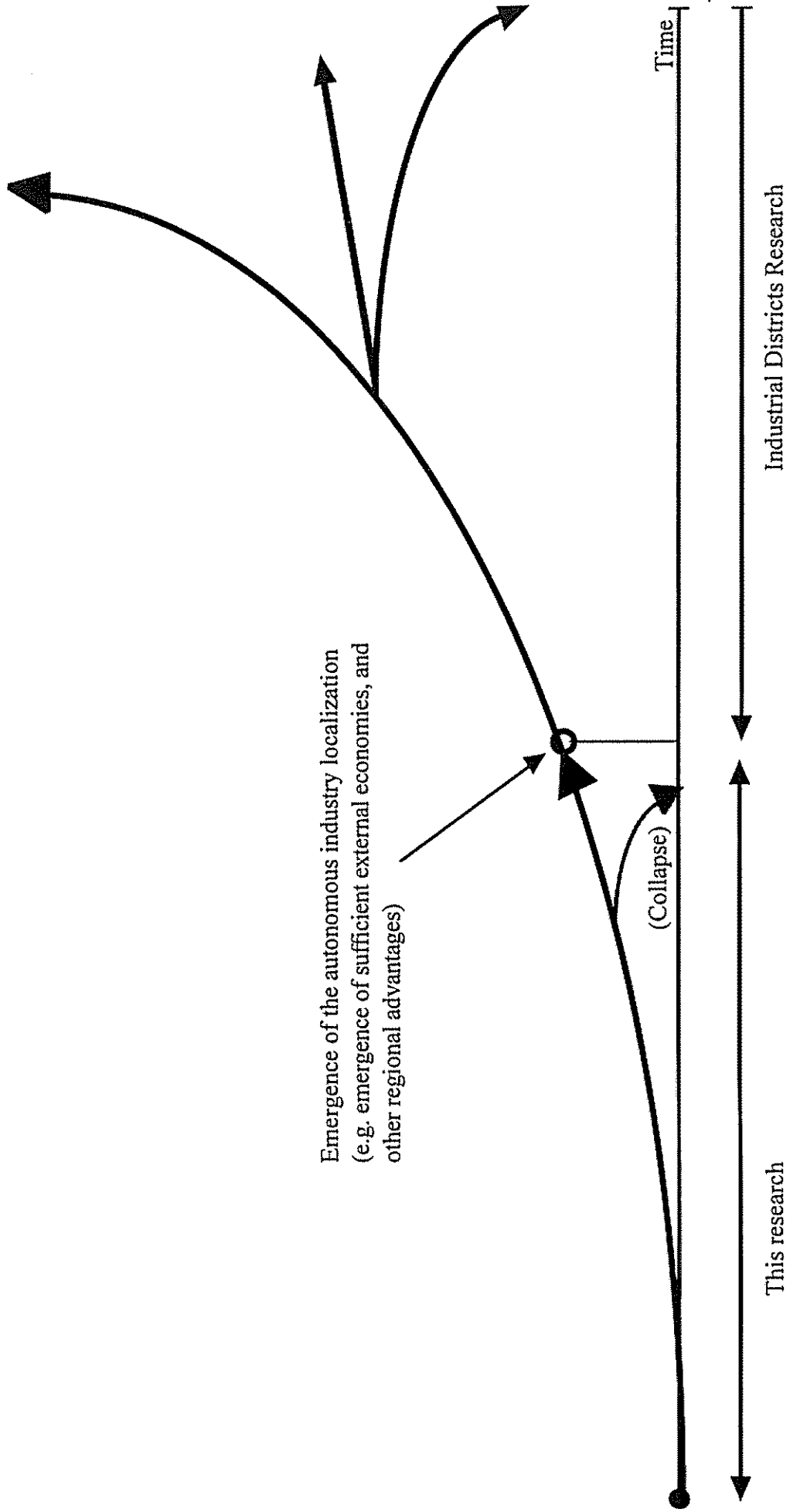
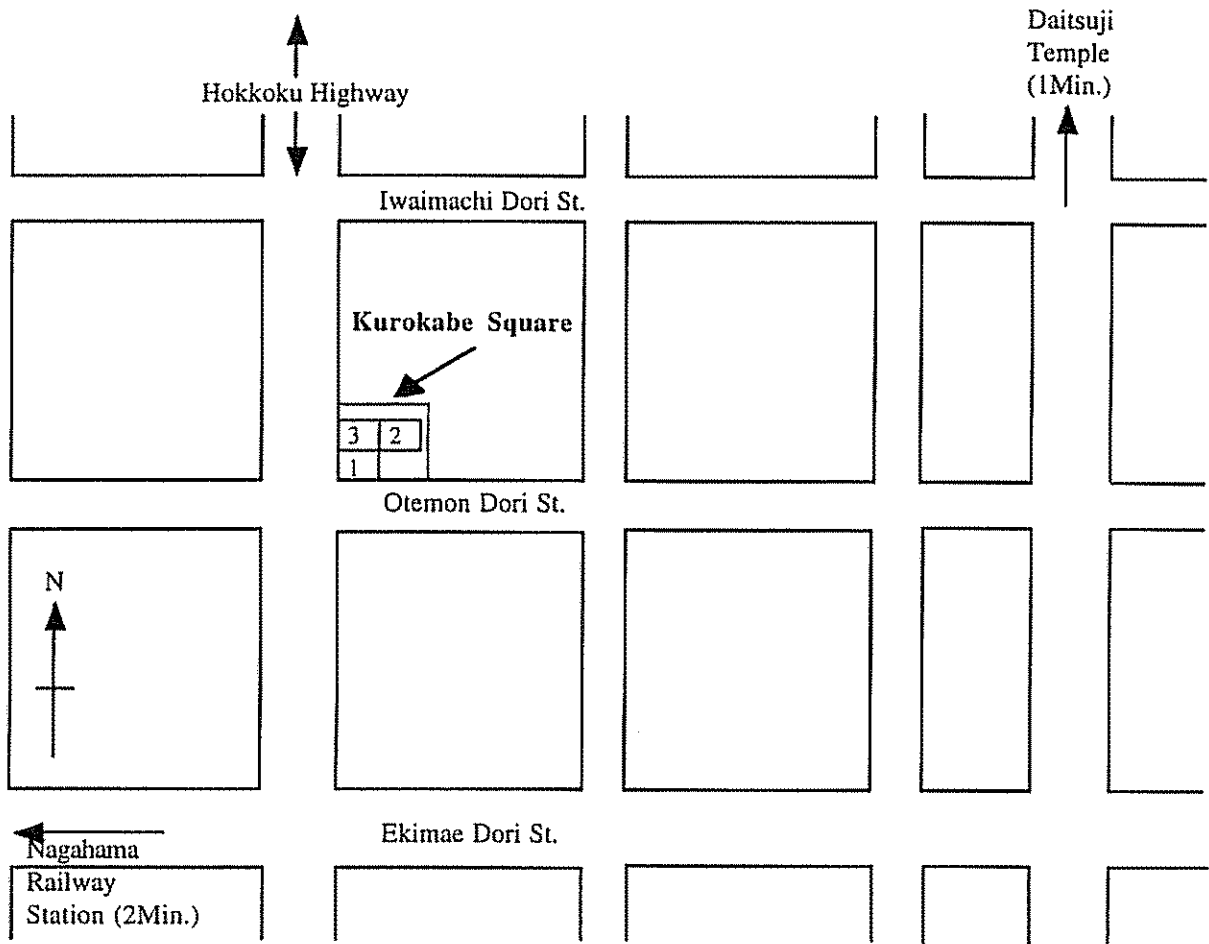


Exhibit 2. Comparison between this research and (most) industrial district research

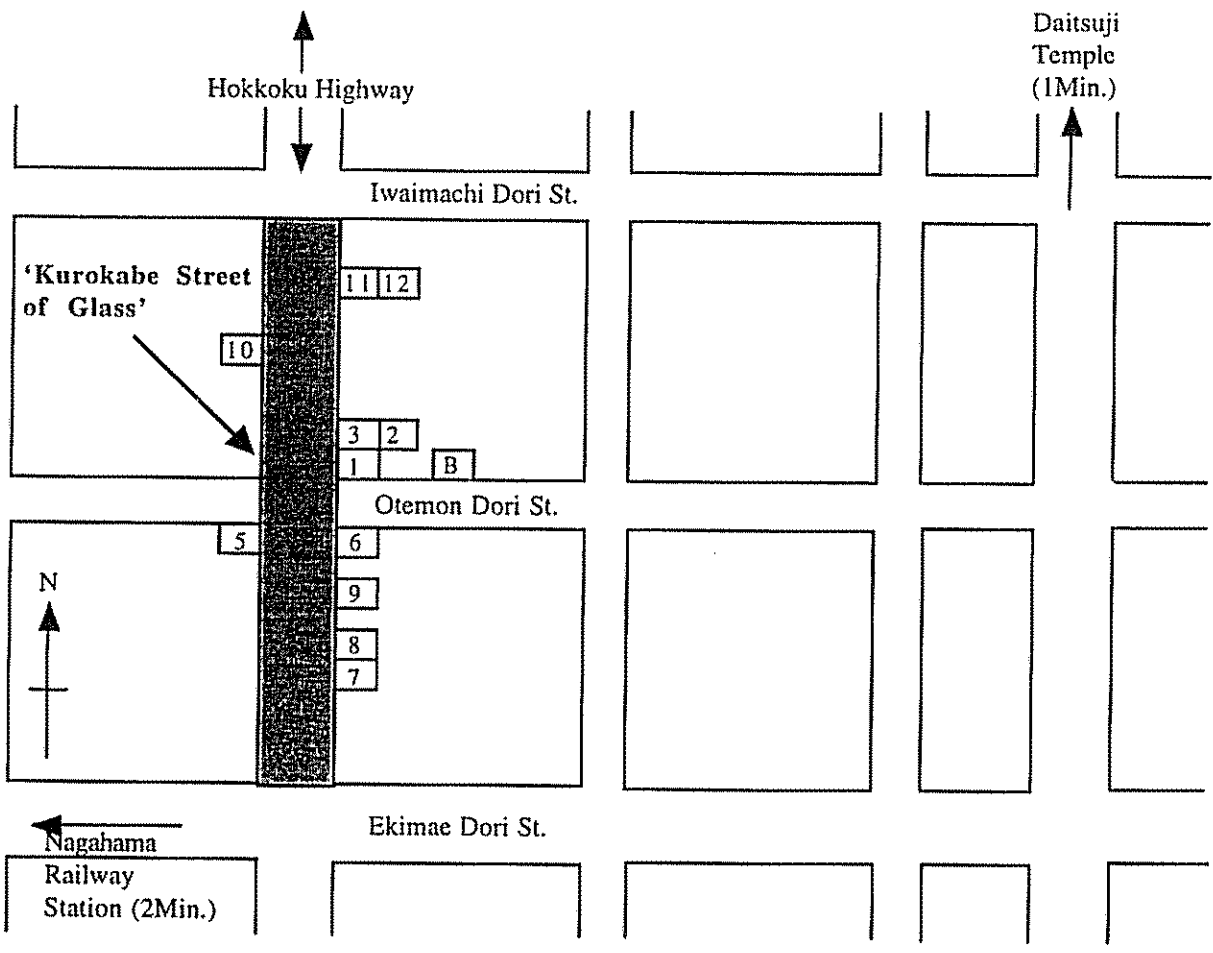
Major Features	Existing researches on industrial districts	This research
Primary focus	Development, diversification, derivation, evolution and/or upgrading of an industry	Creation of a new local industry aiming at regional industry accumulation
Assumption	Existence of established or related industries	No existence of any related industries
Emergence of the initial industrial concentration	Dealt with as an exogenous variable (given as a primary condition)	Focus of the research
Nature of core organizations as a subject for development (if any)	Normally does not exist. Some specialized organizations (local governments and so on) offer services but does not create mainstream business	Planning, starting and operating a new business for establishing a new industry
Types of entrepreneurs	Ordinary entrepreneurs: doing their own business within organizations they belong to	<ol style="list-style-type: none"> 1. Project leader(s): leads projects together with other entrepreneurs acting beyond organizations they belong to to create new industry 2. Ordinary entrepreneurs: doing their own business within organizations they belong to

Exhibit 3: Development of Kurokabe Square (1987-1999)

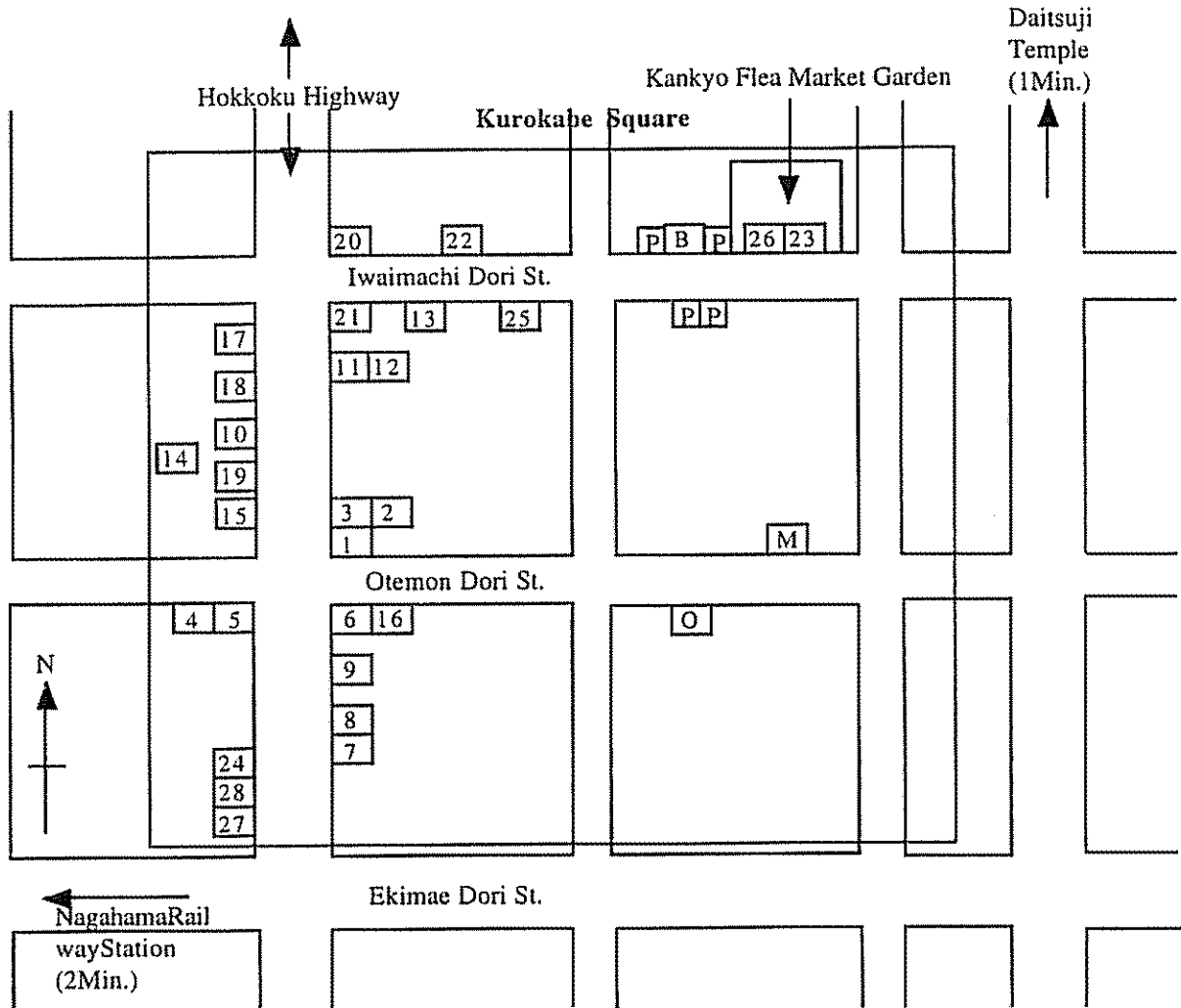
3-1 Kurokabe Square: 1987-1989



3-2 'Kurokabe Street of Glass': 1990-1992



3-3 Kurokabe Square: 1999



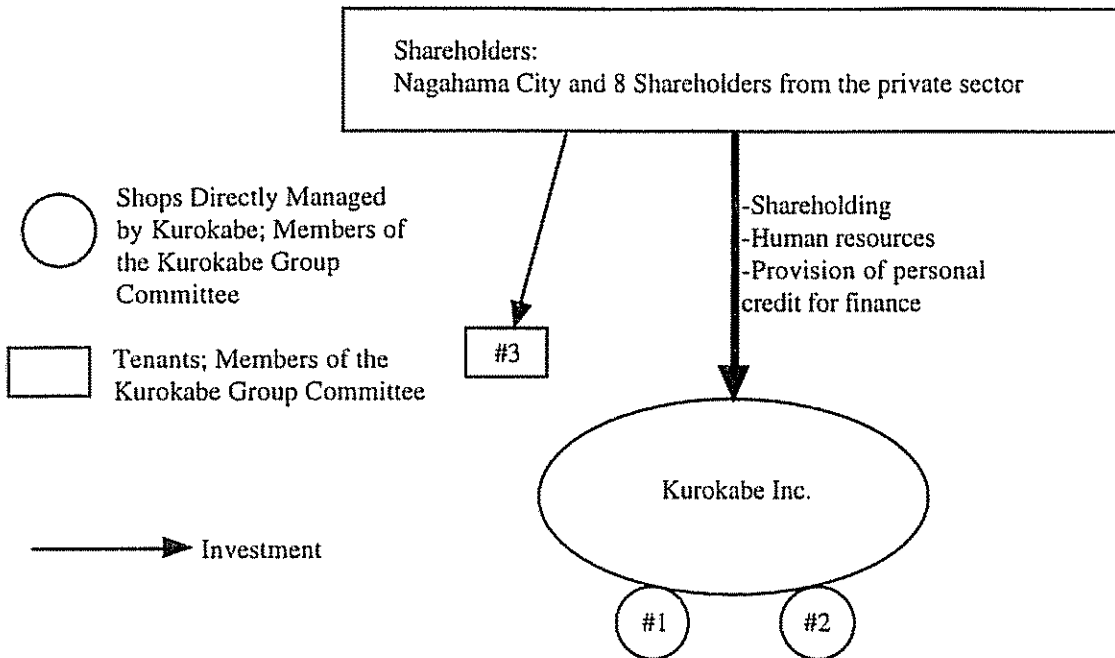
- 1 Kurokabe stores and its associated stores (#1-#28)
- B Kurokabe B-class Factory Outlet Shop
- M Biwako Nagahama Musical Box Store
- P Platinum Plaza
- O Town Creation Office

Exhibit 4: List of Kurokabe Square member shops

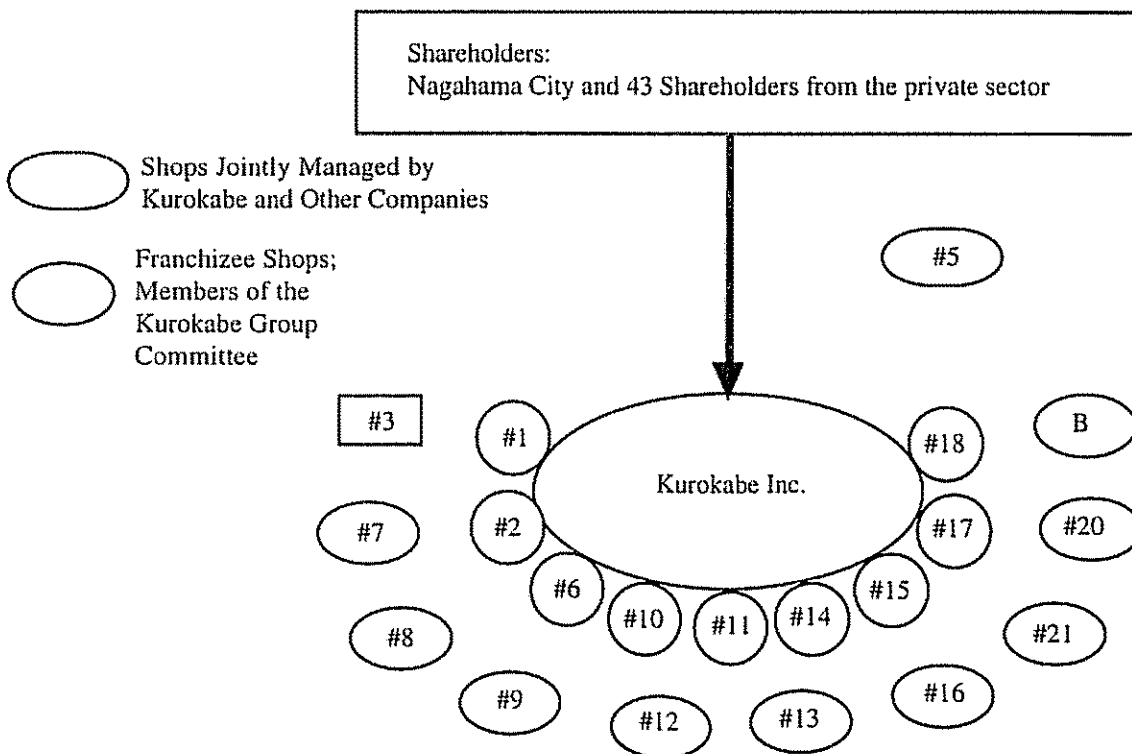
Building Number	Name	Operation	Est.	Function
1	Kurokabe Glass Hall	Direct	1989	Hand-made glass sales and display
2	Studio Kurokabe	Direct	1989	Glass Studio
3	Bistro Mur Noir	Tenant	1989	French Restaurant
4	Nabekama Manju	Franchisee	1996	Japanese traditional sweet shop
5	Fuda no tsuji Hompo	Joint	1990	Traditional Japanese glass and local souvenirs
6	Gallery Manu	Direct	1991	Glass shop
7	Nishikawa	Franchisee	1991	Antique fine-arts shop and folk museum
8	Yokarou	Franchisee	1991	Local cuisine restaurant
9	Tourists' Information	Franchisee	1992	Tourists' information
10	Kurokabe Glass Museum	Direct	1992	Glass museum mainly european collection
11	Stained Glass Hall	Direct	1992	Shop and studio of stained glass
12	Taiko Hyoutan	Franchisee	1992	Hyoutan (gourd) shop
13	Sunrise KoKo	Franchisee	1993	Accessory and craft shop of glass
14	Yoya	Direct	1993	Cafe restaurant
15	Crv	Direct	1994	Kitchenware and general goods shop
16	Bunbuku Chaya	Franchisee	1993	Japanese tea room
17	Lattenberg Hall	Direct	1995	Glass engraving studio
18	P.act	Tenant	1995	Sandwich shop
19	Morishima	Tenant	1996	Japanese restaurant of local premium beef
20	Kano Shojuan	Franchisee	1995	Japanese traditional sweet shop
21	Rococo	Franchisee	1995	Gobelin tapestry and Belgian lace shop
22	Sobaya	Franchisee	1997	Japanese noodle restaurant
23	Steak Gion	Franchisee	1997	Steak restaurant
24	Hokkoku Gama	Franchisee	1997	China studio
25	Nayasu	Franchisee	1998	Sweet factory and shop
26	La Ferm	Joint	1998	Wine and bottle shop with a bar
27	Kimura	Franchisee	1998	Boiled fish paste shop
28	Komaki Kamaboko	Franchisee	1998	Ayu (sweetfish) shop
B	B-hall	Franchisee	1990	Factory outlet shop of glass
M	Biwako Nagahama Musical Box Hall	Direct	1996	Musical box shop

Exhibit 5: Inter-organizational Collaboration in the Kurokabe Project (1987-1999)

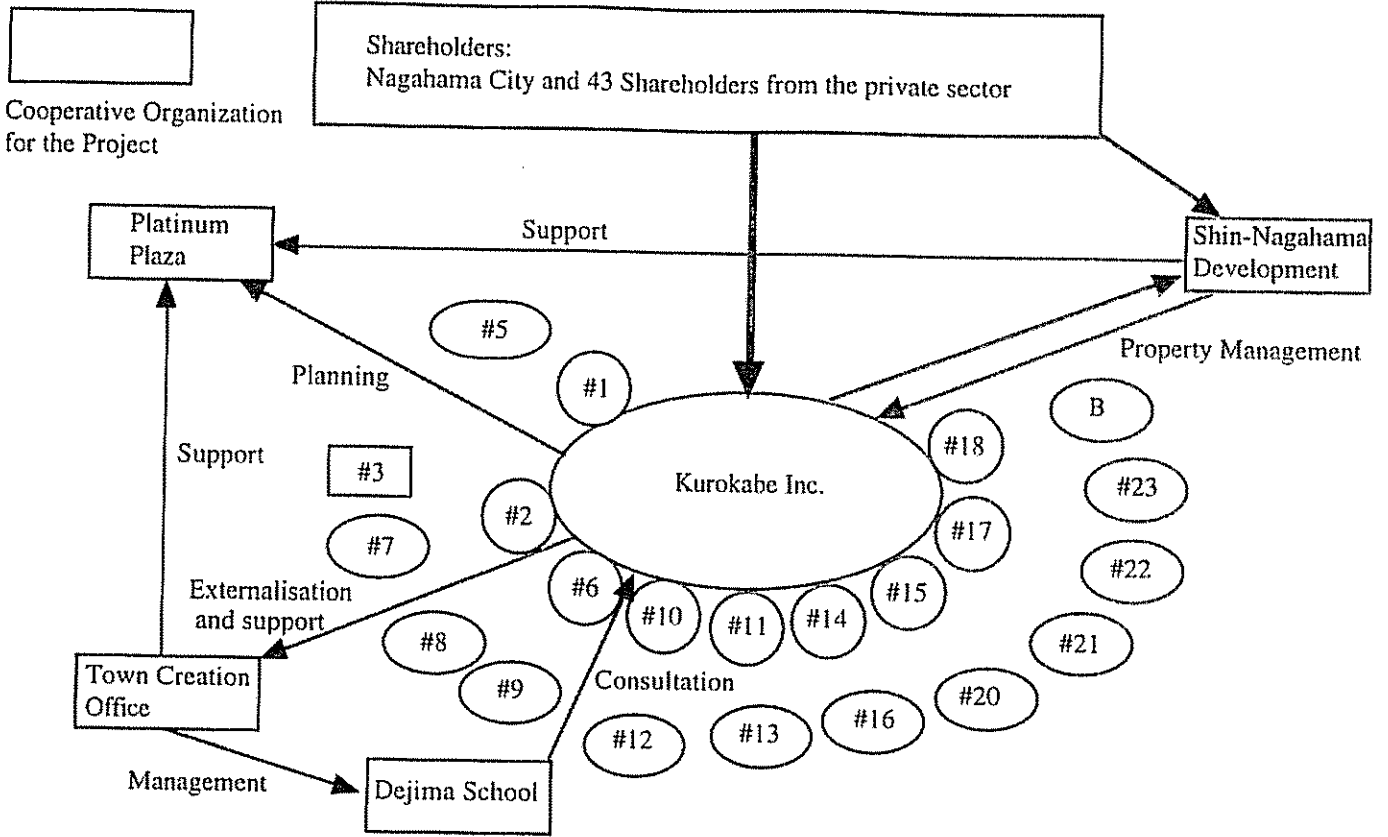
5-1: 1987-1990



5-2: 1991-1995



5-3: 1996-1997



5-4: 1998-1999

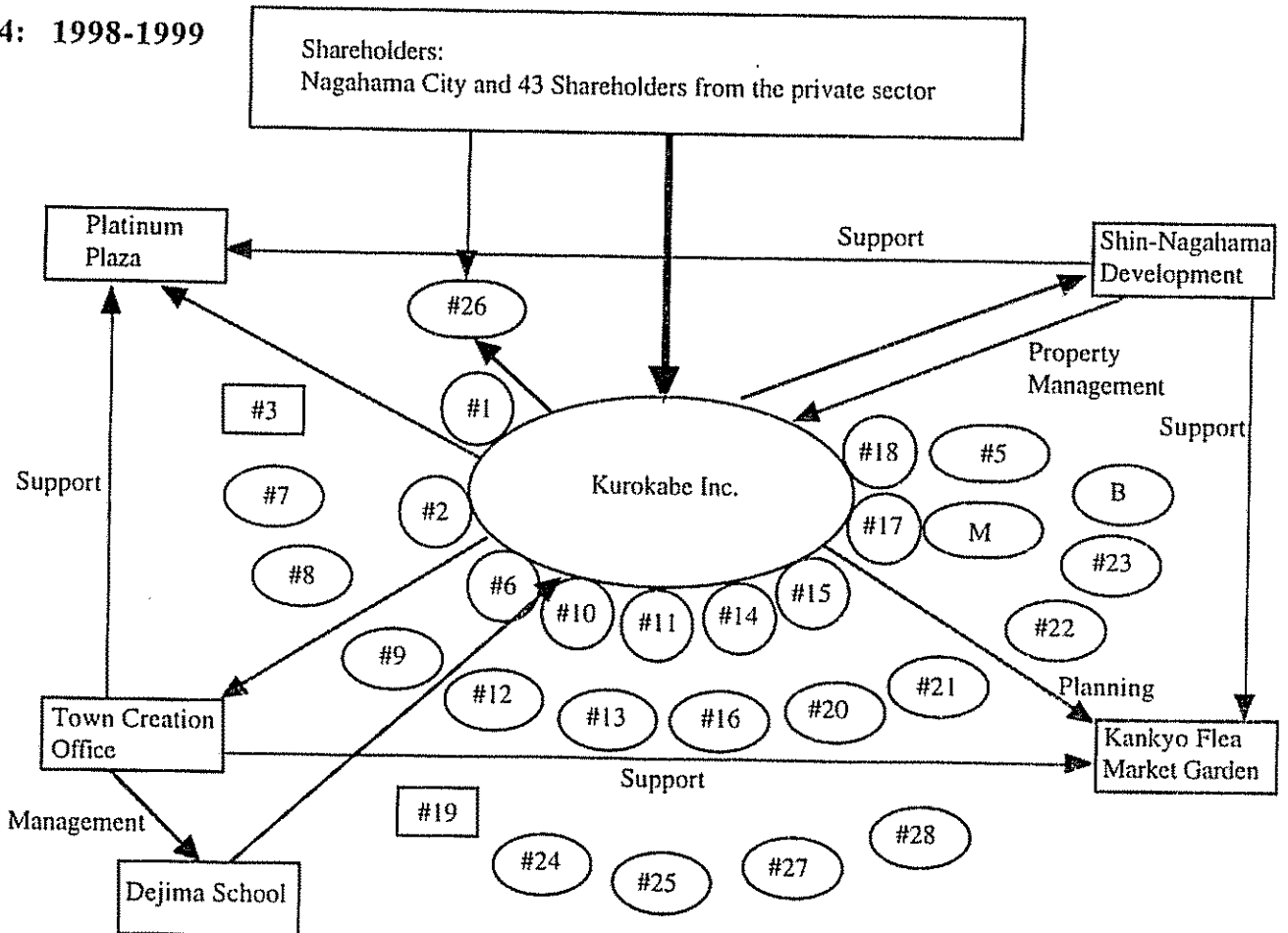


Exhibit 6: Revenue of Kurokabe Inc., and the Number of Visitors to Kurokabe Square and Nagahama

Accounting Year	Revenue (million Yen)*1	Number of Visitors (thousand)*1	Number of Tourists to Nagahama (thousand)
1989	123	98	-----
1990	190	205	1971.9
1991	300	345	2129.4
1992	304	492	2297.2
1993	410	737	2678.3
1994	478	878	3073.5
1995	589	1162	3134.1
1996	667	1402	5720.5*2
1997	862	1630	3882.9
1998	877	1680	-----

*1 Total figures of Kurokabe's directly operated venues only.
 *2 A local exhibition was held.

Source: Based on Kurokabe (1999) and other sources

Exhibit 7: List of Shareholders of Kurokabe Inc.*

Shareholder	Equity Shares	Investment (million yen)	Percentage (%)
Nagahama City	1400	140	31.81
Nagahama Shinkin Bank	150	15	3.41
Shiga Bank Plc.	150	15	3.41
Biwako Bank Plc.	150	15	3.41
Biwa Warehouse Plc.	150	15	3.41
Zaimitsu Construction Plc.	150	15	3.41
Ogaki Kyoritsu Bank Plc.	100	10	2.27
Hase Building Plc.	100	10	2.27
Sazamani Wine Ltd.	100	10	2.27
Takahashi Metalworks Plc.	100	10	2.27
Kita-Biwako Hotel Sumibun Plc.	100	10	2.27
Harada Plc.	100	10	2.27
Employee ownership	100	10	2.27
28 other firms and 3 individuals	50 each	5 each	1.13 each
Total 44 shareholders	4300	430	100%

*July 1999

Exhibit 8: Some propositions on commerce in Nishida's Philosophy

- All things you have are not your possessions but belong to heaven. You have been just asked to be a steward of them.
- Stores in which sincerity is present will make profit naturally and consequently.
- Compared with diligence, which is the only precious thing you can gain and which never fades, profit is a just illusion.
- Commerce should aim to contribute to others by providing services needed by them. Profit should be considered an inevitable result.
- The cause of deadlock can mostly be traced to the pursuit of your own interest.
- Authentic products can spread naturally without any advertisement.
- Those who deal with capital should have the sense to be in awe.
- To deal with good products is important, but to be a good merchant is much more important.
- Those who deal with money tend to neglect to be benevolent by being extravagant without being aware.
- You will benefit from the result of tasks in which you do not principally mention the profit.
- Even if you establish a big business, never forget that its success is derived from heaven. You should not think that its success derives from yourself.

Extracted from Nishida (1922) and summarized by the author.

Exhibit 9: Comparison between the Exchange Mode and the Collaboration Mode of Inter-organizational Relations

Constructs Dimensions	Exchange Mode	Collaboration Mode
Conditions for the Emergence of the Relationship	Resource scarcity	Resource scarcity, explicit goals of the collaboration
Attitude of the Participants	Egocentric: establishment of relationship for pursuing self-benefit	Pursuit of benefits gained as the result of collaboration, and distributed by the inter-organizational collaboration system
Selection of the Participants	Resources and abilities they can provide	Existence of trustworthy relations, provision of necessary resources, acceptance of the vision and the goals of the collaboration
Criteria for Assessing the Relationship	Efficiency and equity of the exchange	Effectiveness of the collaboration, and efficiency and equity of the exchange
Factors to Maintain the Relationship	Trust, formal and psychological contracts, norms of <i>fair exchange</i> , commitments and internal dispute resolution mechanisms and indebtedness	In addition to the factors which maintain exchange relationship; Norms for <i>collaboration</i> , shared goals, commitment, centripetal force for the goal and informational interaction for business creation, authority of the core firm
Unit of Analysis	Exchange	Business creation
Level of Analysis	Dyad	Network (necessity of core organization)

The Exchange mode is constructed from a literature survey (Inaba, 1998, Chapters 2 and 5).

Exhibit 10: A Process Model of Inter-organizational Collaboration for Business Creation

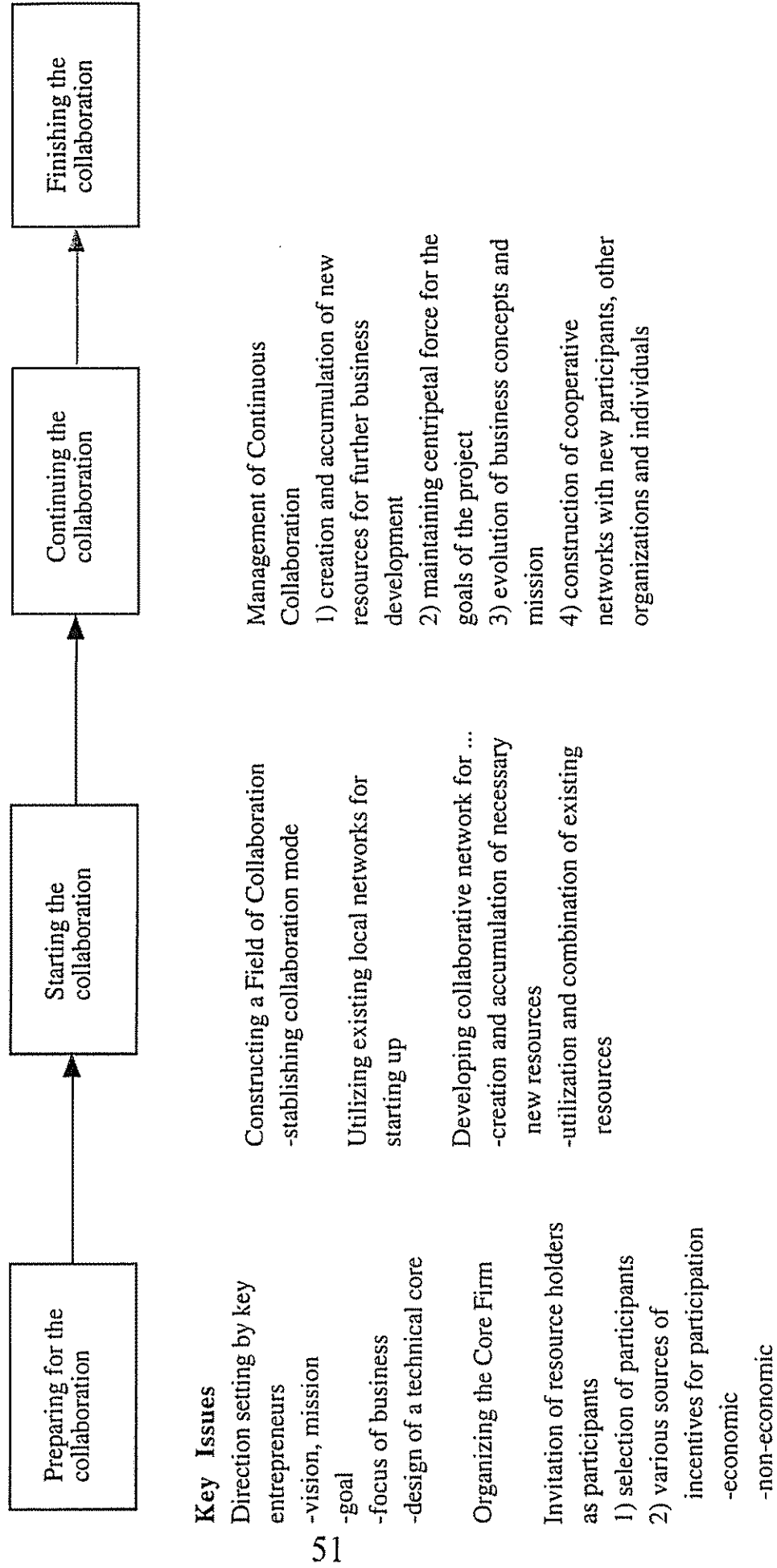


Exhibit 11: A model of the development of inter-organizational collaboration

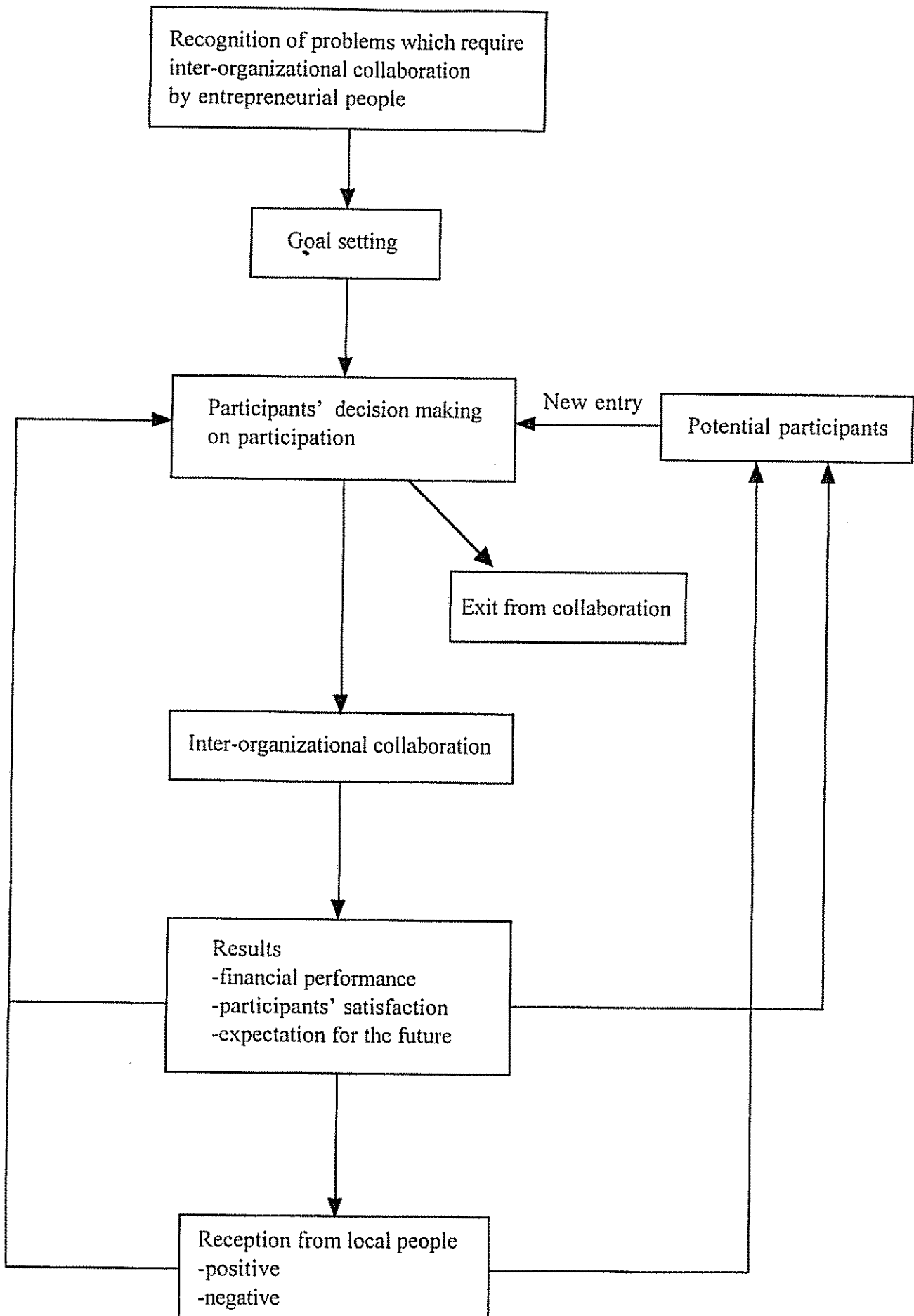
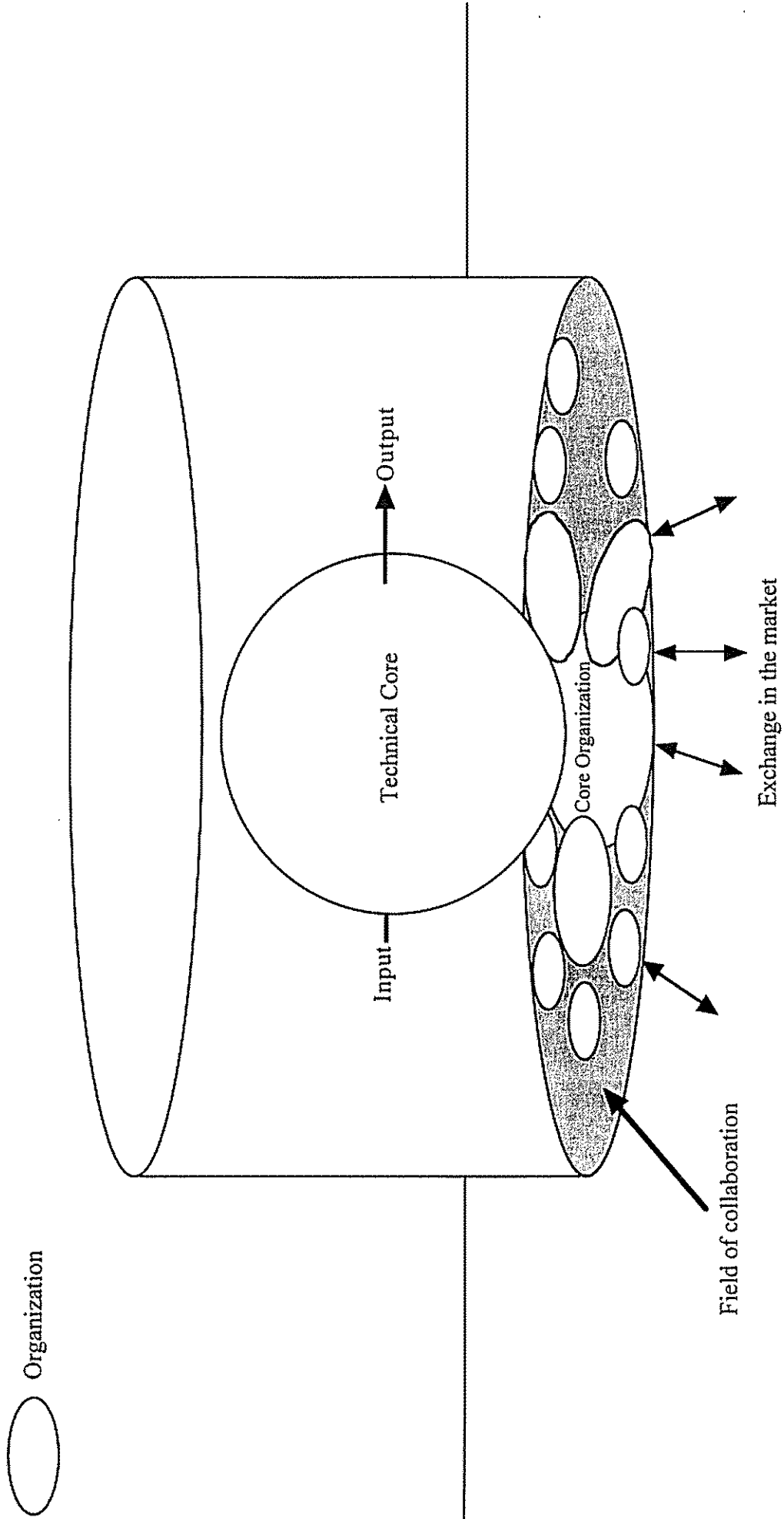


Exhibit 12: Inter-organizational Collaboration, Field of Collaboration, and Technical Core



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