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Development of Promotional Alliances
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Japanese Films Strike Back: Development of Promotional Alliances in the Japanese Film Industry in the 2000s

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Abstract

Supporting the revival of domestic films in the Japanese market in the 2000s, we find the dynamic emergence of promotional alliances or “production consortia,” led by mainly television broadcasters with several media companies. In making local films, they make new conditions that partner organizations may not only share cost, risk and resources but also collaborate for short-term media mix demonstration, which attract Japanese audience again. The aim of this paper is to explore the development of alliance networks of the production consortium in the Japanese film industry and examine the characteristics that facilitate a high rate of performance through knowledge transfer and resources, from the viewpoint of organizational network analysis. Analyzing interfirm promotional alliances in the 2000s, we find that cohesive ties within an animation film consortium contributed to a high rate of performance.

Keywords

Alliance Network, Social Capital, Cohesive Ties, Japanese Film Industry, Production Consortium

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Introduction

As the 2000s unfolded, Japanese films recaptured their domestic market share, mainly from Hollywood films. Following the long-term decline of major Japanese film distribution companies, leadership in key film projects has shifted from the big movie studios to television broadcasters, advertising agencies, and other major players. In the current filmmaking environment, these companies tend to organize promotional alliances, or a “production consortium (*seisaku iinkai*),” with companies engaged in film distribution, publishing, production, and other related media services. As the film industry is generally project-based, these many promotional alliances

have resulted in the sequential production of commercially successful films. They provided new conditions that partner organizations may not only share cost, risk and resources but also collaborate for short-term media mix demonstration for new films. However, the combination of partner firms often repeats itself. Behind the return of the market share of Japanese films as indicated in Fig. 1, we find the dynamic emergence of filmmaking alliances of media companies and an exchange structure for new ideas, knowledge, talent, human resources, funding, and film production resources.

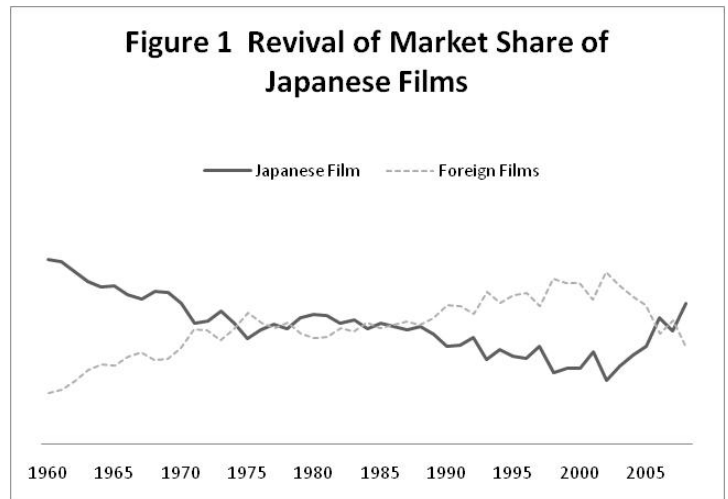
Alliance networks have attracted growing interest from management researchers as the coordination mechanism for new alliances (Gulati, 1998; Gulati and Gaugliulo, 1999). Such networks reduce the transaction costs among the partner firms, provide effective access to marketing or innovation, and facilitate knowledge transfer within exchange networks (Kogut, 1988). Alliance networks enable the serial formation of new interfirm collaboration projects as an “incubator” because they function as a coordination mechanism for knowledge, talent and resources (Inkpen and Tsang, 2005). The special content and structure of interorganizational networks have garnered considerable attention as organizational network resources or “organizational social capital” (Adler and Kwon, 2002) in terms of knowledge transfer, resource access, new business opportunities and innovation. The aim of this paper is to explore the development of alliance networks of production consortia in the Japanese film industry and examine the characteristics that facilitate a high rate of performance and social capital in making commercial films.

In particular, organizational network researchers discuss how cohesive ties and bridging ties may have contrasting effects on interorganizational knowledge transfer and learning (Ingram, 2002). Partner firms that have strong and repeated cohesive ties may see a high rate of transfer of homogeneous knowledge and collaborative activities, while the wider range of partner firms spanned by bridging ties may see the acquisition of new heterogeneous knowledge and the creation of nouveau knowledge. In the current Japanese film industry, a high rate of commercial success was seen in a case of stable partner firms with a strong exchange relationship, or cohesive ties, and also in several cases of partner firms organized for the first time with new bridging ties.

We discuss this topic in detail in four parts. First, we discuss how bonding and bridging ties in alliance networks affect interorganizational learning. Second, we describe how and why production consortia developed in the current Japanese film industry. Third, we apply network analysis to explore the development of alliance networks of production consortia in the 2000s and examine the network features that may affect the box-office performance of commercial films. Finally, we discuss how Japanese production consortia provide timely resource access for partner firms and advertising opportunities through various media; however, internationalization may become an important issue in today’s rapidly growing Asian film market and deceleration of the Japanese market.

Interorganizational Networks and Learning and the Development of Alliance Networks

The transformation of filmmaking from the movie studio system to project-based network organizations is seen not only in the United States but in Europe and Japan as well. At the start of a new film project, the



companies involved in production, film distribution, cable TV broadcasting and other media-related services are likely to organize a consortium or a network of alliances. In Hollywood, repeated collaborative ties between production and distribution organizations may affect legitimacy acquisition and eventually lead to the survival of the production organizations (Cattani et al., 2008).

Interorganizational learning is considered an important advantage of forming alliances (Gulati, 1998). As Inkpen and Tsang (2005) summarized, strategic alliances can facilitate knowledge transfer between the partner firms and build effective capability in four main ways. First, only those firms in the alliance network can acquire the know-how for forming alliances. Second, only through an alliance can the partner firms acquire detailed knowledge about each other's resources, capability and potential. Third, alliance partners in a new business area can collaborate to jointly develop new capability and knowledge. Lastly, alliance partners are able to access new resources and knowledge from the other partners. Thus, interorganizational ties in alliance networks may facilitate interorganizational learning only in the joining organizations. In the context of the film industry, production and promotional alliances also facilitate the transfer of knowledge and new access to talent, resources and funding.

Investigating the network characteristics that facilitate interorganizational learning, researchers point out that only specific content and structure may facilitate transfer of knowledge and access to resources (Gulati, 1998; Henderson et al., 2001). Thus, specific effective types of content and structure would be considered organizational social capital for alliances. Even in recent studies on interorganizational networks, several specific features were pointed out as social capital of knowledge transfer and creativity: connectivity and centrality (Cattani, et al., 2008); cohesive ties (Stark and Vedres, 2006); past or bridging ties (Soda et al., 2004); small world (Uzzi and Spiro, 2005); and so on.

However, there are two basic types of interorganizational ties that have a special effect on knowledge transfer in filmmaking and are thus considered as special social capital: bonding and bridging ties (Wakabayashi et al., 2009). With cohesive, or strongly bonding ties in an alliance network, a partner firm has repeated, strong and dense networks with regular partners, and frequently exchanges contacts and information. A trusting relationship is quickly established, making it possible to share detailed knowledge of homogeneous value of a joint business; thus their cohesive ties may facilitate the transfer of tacit knowledge. In the context of the film industry, cohesive ties enable regular alliance partners to maintain a trusting relationship, share a homogeneous vision of filmmaking, easily access common resources and talent and jointly appeal to a regular audience (Faulkner and Anderson, 1987). This leads to the successful production of a series of their unique films.

Hypothesis 1. Firms that have cohesive ties within promotional alliances in the film industry are likely to have a high rate of performance in producing a series of their unique films.

On the other hand, firms that have bridging ties within a widely extending alliance network may discover a new combination of heterogeneous ideas, knowledge and values, and subsequently come up with novel concepts, styles and approaches to filmmaking. In particular, Burt (2004) indicates that bridging ties across separated groups have a significant effect on innovativeness and define these as "structural holes." When a partner firm is located at the bridging ties to separated groups, it is likely to have an advantage in acquiring new ideas, talent and resources for inspiring radical innovation compared to firms in relatively isolated groups (Zaheer and Bell, 2005). In the context of the television industry, production staff members located at these "structural holes" can much more easily identify popular concepts and ideas of current TV shows than ones without them and frequently provide high-rating programs (Soda et al., 2004).

Hypothesis 2. Firms that are located at the bridging ties to separated groups in alliance networks in the film industry are likely to have more opportunities to produce state-of-the-art, highly successful films, recognizing the most popular and innovative concepts and styles of filmmaking.

Evolution of Promotional Alliances in the Japanese Film Industry

Film creators have had to adapt and diversify the content and array of media available to viewers who now have several options for accessing movie content. The net result of this diversification has been a decline in

interest of theater audiences, leading to a depression in the Japanese film industry. In response, a newly formed film project group, known as the production consortium, has turned the fortune of the Japanese film industry, which now has a higher market share than that of Hollywood, with box-office revenues of 210 billion yen, an increase of over 26% since 2000.

The role of the production consortium is to coordinate collaborative and strategic partnerships between the companies in charge of film production. The consortium is an unincorporated association and does not have separate legal form. It is funded and formed from major TV broadcasters, film distribution companies, leading publishing companies, advertising agencies, and other supporting companies that provide business investment, benefits and services. Partnership in the consortium remains unchanged during the entire period of the film project.

Prior to the establishment of the production consortium, film production companies had invited industrial companies to invest funding and share the risks involved in film production. However, all this changed during the 1980s, when publishing companies launched film projects with the aim of marketing and selling books associated with the films. A radical shift from the traditional film industry approach occurred when mass media events were employed to promote films. The strategy involved major TV broadcasters and advertising agencies, encouraging them to join the film projects. It was these mutual collaborations that developed into a promotional alliance between media distribution companies.

The promotional alliance has two merits. Firstly, the diversification and the sharing of risk among the partner firms to minimize the risk in film production. It also allows mutual access to scarce and indispensable resources such as knowledge, technology, talent, and human resources.

Secondly, media companies participating in the production consortium can effectively launch short-term intensive promotional activities. It is then this alliance of multiple media companies that can easily create major promotional events, utilizing various windows such as free TV and book advertisement, affiliated bookstore and convenience store chains, hopefully resulting in the increase of box-office revenue. It is therefore imperative that participating media companies are able and willing to contribute to those promotional activities. Nowadays, the large-scale promotional activities are attracting the younger generation back to the theaters, resulting in an increase in audience numbers.

A successful film project led by a production consortium is the film "*Socrates in Love*." After the publishing agency obtained the film rights of the novel, they established collaboration with a TV broadcasting company and then contacted the film production company, allowing the film project to begin. The film's production cost was about 5 million dollars but it was successfully launched in 2004, along with large-scale promotional activities aired on TV commercials. Additionally, promotional activities at affiliated bookstores turned the film into a big hit. The success of this movie led to the original novel being translated into several languages and sold worldwide. The movie was remade as a TV drama and was a hit in both Japan and Korea.

However, the production consortium deals with animation movies differently. An example of this is the animation film "*Spirited Away*," which won the Grand Prix at the Berlin International Film Festival as well as the Foreign Film Category Award at the U.S. Academy Awards. For this Studio Ghibli masterpiece, the production consortium formed by Tokuma Shoten Publishing, Nippon Television Network, Dentsu (Japan's largest ad agency), Tohokushinsha Film and others came up with approximately 25 million USD for production costs. The partner firms split the costs and divided the profits in proportion to their respective investment. Since the anticipated income was three-tiered: box office, video/DVD and TV, it was not surprising that firms of this type took part in the consortium and that their participation strengthened the marketing of the film. *Spirited Away*'s production cost was an extraordinary amount, given that a Japanese film grossing over 300 million USD at the box office is considered a major hit. Each film production consortium has their representative company and the consortium is maintained by the large-scale media companies that capitalize on their expertise and vast resources in promotional activities that can often trigger mega hits from the films they subsidize. (See Fig. 2)

During the making of this film, the production company had sole responsibility and control of the project. Funding and promotional support was provided through their long-standing relationship with established TV broadcasters, advertising agencies, a publishing company that was part of their parent company, and trading companies that also owned convenience stores.

A characteristic of the production consortium in promoting films is that the TV broadcasters basically take

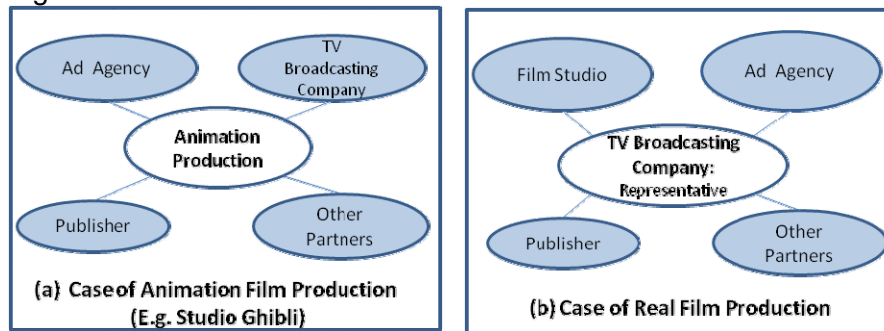
the lead and responsibility for promoting their film projects by effectively utilizing their multiple media outlets. The consortium follows the regulations set by the TV industry. Thus, when a consortium is formed, their aim in creating a new project must take into account the alliance of partner firms that have the available resources required to make the film.

On the other hand, animation films are the main responsibility of production companies that have the power and expertise to produce top-quality film content with collaborative support from many media distribution companies. They depend strongly on the skills of creators and associated professionals with whom they have long, well-established relationships in order to pursue artistic depth.

Network Analysis of Development and Effects of Promotional Alliances
Methods and Data

Using the data on Japanese films from 2000 to 2007 and conducting a network analysis on Japanese film firms, we examined the relationship between alliance network characteristics and the corresponding firm performance. We used the special issues of the Japanese film magazine, “Kinema Junpo (Bi-Monthly Report on Japanese Cinema),” which provides information about films of the previous year, such as profiles, staff and ranking by box-office sales and annual film reviewer voting conducted every February.

Figure 2 Two Patterns of Production Consortia



The final dataset covered a total of 210 films and among these, we selected 123 filmmakers. We only counted firms that made at least two films in the top 30 ranking more than two times over eight years, since firms that make only one film in the top 30 ranking over eight years are not considered to be major filmmakers. Network structure and variables were calculated through the following procedures: after we made up an affiliation network of Japanese films and filmmakers, we converted it into an event-overlap network among Japanese filmmakers, which would be their collaboration network. Using the data, we set up two datasets: all-times dataset on network and performance over 8 years, and periodic dataset on a 2-year network. The former includes network features and performance of firms during 8 years. The latter consists of firm’s network features for 4 two-year periods. This can be used as an overview of the development of networks over 4 periods.

In the next section, we check the general trends in the Japanese film industry. After that, applying a regression model, we examine what network characteristics affect the firm’s achievement of top-performing film projects.

Growth of Film Industry Network

Promotional Alliance Networks Over 8 Years

Looking at the rough profile of the all-times dataset from 2000 to 2007, it can be seen that most of the 123 firms are embedded in one network and have direct or indirect ties to other firms. The entire network is densely linked and consists of many ties.

Development of Periodic Alliance Network

The promotional alliance network in the Japanese film industry in the 2000s developed from period to period and the firms in the network moved closer to each other. As seen in 4,

an increasing number of firms entered into promotional alliances and created new collaborative relationships period by period. However, as Fig. 5 shows, the distance between firms decreased (average farness). In considering the relative decrease in average structural constraints, firms in the promotional alliance network do not have bridging ties and become relatively dependent on each other.

Figure 3 Network Structure of top film firms from 2000 to 2007

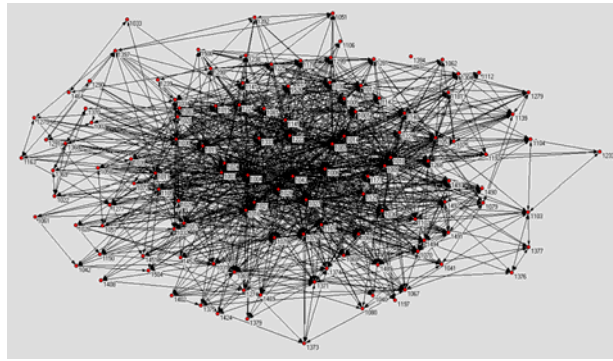


Fig.

Figure4 Development of Japanese Top Films' Alliance

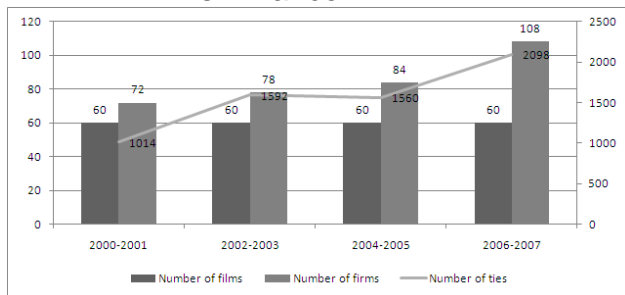
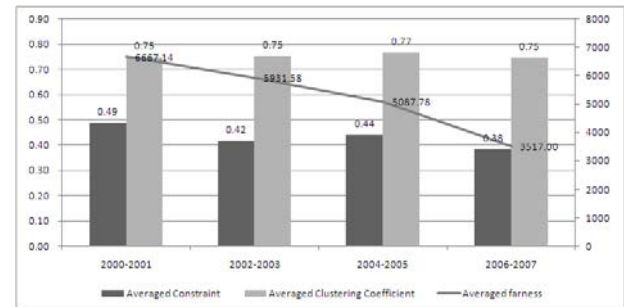


Figure 5. Characteristics of Network Structure from 2000 to 2007



Network Effects on Performance

To examine what network characteristics strongly affect firm performance, we use the all-times dataset and examine the effect of network variables, in comparison with the effects of size variables and film experience variables.

Dependent Variables

As targeted firm performance variables we set up the average performance of films assigned by a firm. This figure is calculated by using the sum of the film sales assigned to a firm divided by the number of films assigned by the firm.

Independent Variables

We examined several independent variables including network and non-network variables (size and filmmaking experience) in order to check the effects of the former, in comparison with the latter.

As network variables, we calculated the number of ties, clustering coefficients, and structural constraints. The number of ties means the number of collaborative relationships of a firm and how widespread their collaboration is. The clustering coefficient is a typical measure of cohesive ties and shows how dense the links are for a focal firm in a direct network (ego network). It also indicates how densely the focal and partner firms have direct exchange in neighborhood networks. The structural constraint is a reverse indicator of the structural holes and bridging status of a firm. Burt (2004) defines structural holes as a special position

with important bridging ties to separated groups. The structural constraint indicates the extent to which a firm lacks these important bridging ties and is not autonomous. In setting the network variables, we created an actor-event network matrix between films and firms, based on the described film data. The matrix was then transposed into a co-membership (or, actor by actor) matrix of individual firms. Then we dichotomized the matrix. Using the dichotomized co-membership matrix, each network variable was calculated. All network variables were standardized in order to compare them among different firms. To calculate the network variables, we used UCINET 6.0, an analysis package for social network data (Borgatti, Everett & Freeman, 1999).

Drawing a comparison with the network effects, we checked the effects of firm size, profitability and film domain (animation film centered or not). In checking the effects of firm size for 2007, we used the logged number for the amount of capital, total sales, number of employees. For profitability, we also checked that of ROE. In considering the domain of filmmaking, we checked the proportion of animation films (PAF), that is, to what extent firms commit to making animation films. In the context of the Japanese film industry, animation films often show higher sales than regular films. In order to examine this effect, we also introduced the PAF, the number of animation films divided by the number of total films that a firm assigned. After we confirmed the strong correlation between clustering coefficient and PAF, as shown in Table 1, we calculated the intermediate term of both variables by multiplying the clustering coefficient by the PAF

Results

In checking the correlation among the average film performances of a firm, network variables and non-network variables, we found that the average film performance was clearly correlated with a high proportion of animation films in making films, with two network variables including clustering coefficients and structural constraints although it was weakly correlated with the number of employees and ROE, and was uncorrelated with the amount of capital and total sales (See Table 1). Therefore, we focused on the effects of clustering coefficient, structural constraint and proportion of animation films (PAF) in films, in comparison with employee number and ROE, and attempted a regression analysis to clearly confirm the effects.

We ensured a strong mixed effect of cohesive ties for the animation production consortium, a certain positive effect of the follower's position and employee size in the regression analysis, as shown in Table 2. As the base model, we found that a high level of employee size and ROE may affect the high rate of performance in Model 1, but the explanatory capacity of this model is very low. We then confirmed that the firms making a greater than average number of animation films showed a high rate of performance in Model 2, and there was a strong correlation between clustering coefficient and PAF in Table 1. We found that the intermediate term has an increasing effect on film performance. This means that the firms that make more animation films tend to have stable and continuous ties in the consortium and achieve high commercial success. Connected to this, the high structural constraint in Model 3b shows a certain significant effect of the follower's position because a firm is strongly embedded within a specific group. Thus, hypothesis 1 is partially supported in the case of animation film production consortia, however, hypothesis 2 is not supported.

Table 1 Pearson Correlation between Network, Size and Performance

No	Variables	n	Means	S.D.	1	2	3	4	5	6	7	8	9	10							
1	average sales of assigned films (JPY)	123	242219.60	237529.16																	
2	total sales of assigned films (JPY)	123	2208868.29	3195455.74	0.32	**															
3	proportion of animation films (PAF)	123	0.24	0.37	0.38	**	0.26	**													
4	logged capital size (2007, JPY)	118	4.97	1.22	0.06		0.26	**	0.08												
5	logged total sales of firm (2007, JPY)	111	6.50	1.08	0.11		0.31	**	0.12	0.79	**										
6	ROE (2007)	97	152.77	1271.66	0.23	*	0.04		0.30	*	-0.06	-0.07									
7	logged number of employees (2007)	115	2.57	1.00	0.17	†	0.35	**	0.12	0.82	**	0.89	**	-0.11							
8	ties	123	20.07	16.05	-0.08		0.74	**	-0.12	0.29	*	0.31	**	-0.09	0.36	**					
9	structural constraint (SC)	123	0.14	0.07	0.24	**	-0.34	**	0.20	*	-0.21	*	-0.24	*	0.13	-0.31	**	-0.71	**		
10	clustering coefficient (CC)	122	0.66	0.22	0.26	**	-0.51	**	0.09	-0.20	*	-0.22	*	0.11	-0.23	*	-0.77	**	0.70	**	
11	intermediate of CC and PAF	123	0.49	0.32	0.49	**	0.15	†	0.95	**	-0.08	-0.09	-0.71	**	-0.08	-0.41	**	0.39	**	0.88	*

Note: †p<0.1, *p<0.05, **p<0.01.

Table 2 Regression Model of Network and Size Effects on Average Film Performance

Independent Variables	Model 1	Model 2	Model 3a	Model 3b
constant number	70587.9551	28681.69	-260016.58 *	-140039.27
employee (2007, logged)	51.30969425 **	53039.54 **	80503.98067 **	75027.85 **
ROE	62572.95313 **	27.23744434	25.28	24.38
proportion of animation films (PAF)		262132.33 *	202807.81 **	
clustering coefficient (CC)			910373.8306 †	
structural constraint (SC)			174432.71	913328.60 *
intermediate of CC and PAF				327951.42 **
F values	5.37 **	9.56 **	9.23 **	13.33 **
R ²	0.10	0.24	0.34	0.37
R2 adjusted for D. F.	0.08	0.21	0.30	0.34
ΔR ²		0.22	0.13	0.04
N	96	96	96	96

Note: †p<0.1, *p <0.05, **p<0.01. Non-standardized coefficients are shown.

Conclusion

In the Japanese film industry, we find that the dynamic emergence of production consortia enables the creation of many commercial film projects supported by major TV broadcasters rather than big movie studio. Furthermore, while TV broadcasters, advertising agencies, publishers, book wholesalers, and, in some cases, retail store franchises join these consortia, Japanese films benefit from concentrated short-term advertising opportunities through multiple media outlets (TV, radio, magazines, ads in bookstores or convenience stores). Thus, Japanese films have become more commercially successful and have regained their domestic market share in the 2000s. With the increase in formation of production consortia, promotional alliance networks have grown since the 1990s. Major television broadcasters, film distributors, advertising agencies, publishers, and production and media companies that join these alliances are

embedded within these networks. They jointly invest financial resources, provide easy access to popular talent and production staff members, share managerial cost and risks, and promote advertising campaigns for their film projects in a short term. These alliances facilitate the learning process for making current popular films. Using the network analysis, we identified the growth of promotional alliance networks and their cohesive ties, recognizing the increase in number of firms, ties and shortening of distance between firms.

However, in examining the network effects on filmmaking performance, we found that the cohesive ties within several regular production consortia of animation films are likely to contribute to a high average performance of films. If, through these cohesive ties with partners, firms maintain stable collaborative relationships and continue to make a series of a special title or unique taste, their concept and style may be supported by regular audiences over the long term. For example, over twenty years, the production consortium led by the *Ghibli* animation studio provided a sequence of successful animation films including “*Spirited Away*” and “*Howl’s Moving Castle*” and these films consistently retain the unique cinematic flavor of the famous director Hayao Miyazaki. But, in the context of making real films, although bridging ties or structural holes that can facilitate planning and producing innovative films are considered to contribute to high performance, we identify their reverse effect and believe that bridging ties may not lead to cutting-edge films. We need to consider the fact that the Japanese audience tends to demand ordinary Japanese films flavored with Japanese culture, while they also tend to seek innovative Hollywood films, supporting several major consortia. Furthermore, in the latter period of the 2000s, many commercial films have been produced by “production consortium,” so not all promotional alliances can expect to make remarkable profits. We must also longitudinally analyze the development of alliance networks and how network effects have changed from period to period. In considering the rapid growth of Asian film markets and the growth limit for the Japanese market, Japanese filmmakers should consider transforming domestic alliances into those that spread out more widely through Asia.

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