

The Effect of Dynamic Capability on Business Models in Overseas Operations

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The purpose of this study is to analyze the process of how dynamic capabilities build and rebuild business models in setting up an overseas business. By constructing an analytical framework that extends Teece's dynamic capabilities (DC) framework and using it to analyze the case of Chengdu Ito-Yokado (CIY), we examined how the Japanese retailer gained and sustained its competitive advantage in an overseas market. This study examined how DC factors had influenced CIY's business model (BM) from the introduction to growth stages, and also explored the relationship among those factors. We confirmed that the differentiated BM was due to DC which (re)generated BM's transformation in sustaining the competitive advantage. Through the case analysis, we have validated the effectivity of the preliminary analytical framework for use.

1. Introduction

The business environment of Japanese firms has been changing drastically in recent years as a result of technological innovations and market globalization. As the Chinese and other Asian markets have been enjoying economic growth, Japanese companies pivoted from manufacturing to the consumption market to remain sustainable, thus creating the need to expand sales and generate profits from these emerging markets in the region.

In this paper, we argue that utilizing the perspective of dynamic capabilities (hereafter DC) may prove to be a helpful framework for case analysis. Teece, Pisano and Shuen (1997) have suggested that "building a dynamic view of the business enterprise enhances the probability of establishing an acceptable descriptive theory of strategy that can assist practitioners in the building of long-run advantage and competitive flexibility" (1997 : 513), and that "strategic theory" endeavors to explain "firm-level success and failure" (1997 : 509). Teece proposed "dynamic capabilities framework" (2007, 2014a) in his discussions of survival and growth of multi-national enterprises (hereafter MNE). There are, however, some issues with the framework. While Teece (2018) stated that DC, busi-

ness models (hereafter BM), and strategy are interdependent and interrelated, his DC framework does not specify the relationships. In addition, it has a high level of abstraction to be used practically for analyzing real-world businesses. Therefore, it is essential to develop a DC framework that requires deductive and inductive reasoning based on introspection and observation, and possibly a theory of value creation and appropriation by firms (Teece, 2014b : 335). Furthermore, research studies on the global strategies of Japanese companies from the DC perspective are scarce.

To address such issues, this paper, firstly, proposes a preliminary analytical framework, which specifies the relationship between DC and BM, by expanding the DC framework of Teece (2007, 2014a). DC is the capacity of an enterprise to create, adjust, hone, and, if necessary, replace business models (Teece, 2007) while BM defines the way the enterprise “goes to market” (Teece, 2007). Thus, BM is being built and rebuilt by DC.

This paper, secondly, uses the concept of evolutionary fitness and technical fitness in measuring the performance of DC based on the works of Helfat et al. (2007). Those measurements are still not clearly identified in quantifying methods and their interrelationship.

Thirdly, this paper attempts to examine the process of how a Japanese company has gained and sustained its competitive advantage in markets overseas through a case analysis using the preliminary analytical framework. In so doing, we intend to identify the process of BM built and rebuilt by DC as well as demonstrate the validity of the analytical framework or, in other words, the expanded DC framework.

This paper is organized as follows. First, we review the studies related to DC and BM. Second, we present the analytical methods. Third, the results of the case studies are presented. Finally, the research findings are summarized, and the contributions and limitations of this study are described.¹⁾

2. Review of Previous Studies

After Teece et al. (1997) defined their concept of dynamic capabilities (hereafter DC), other versions have been offered (e.g., Eisenhardt & Martin, 2000 ; Helfat et al., 2007 ; Wang & Ahmed, 2007 ; Winter, 2003 ; Zahra, Sapienza, & Davidson, 2006). One influential definition of DC is, for example, intentional resource-based conversions of corporations, as provided by Helfat et al. (2007) and Ambrosini & Bowman (2009). However, Teece (2007) was the first to propose a DC framework which recognizes three classes of

1) This paper is an extension of an article submitted to AJBS (The Association of Japanese Business Studies), “Expanding the Dynamic Capabilities Framework : A Case Study of Chengdu Ito-Yokado,” which was presented at the 2021 AJBS annual conference.

capabilities (sensing, seizing, and transforming) to explain the sources of enterprise-level competitive advantage over time. According to this concept, once a new opportunity, whether a technological or market opportunity, is sensed, this must be promptly addressed through new products, processes, or services. Thus, a key to sustained profitable growth is the ability to recombine and to reconfigure assets and organizational structures. A business model, then, is a plan for the organizational and financial 'architecture' of a business (Teece, 2007 : 1329), and fundamental to DC is the capacity of an enterprise to create, adjust, hone, and, if necessary, replace business models (Teece, 2007 : 1330).

The concept of a business model (hereafter BM) has been defined by many researchers (e.g., Amit & Zott, 2001 ; Chesbrough & Rosenbloom, 2002 ; Johnson, Christensen & Kagermann, 2008 ; Magretta, 2002 ; Morris, Schindehutte & Allen, 2005 ; Teece, 2010 ; Timmers, 1998). Most of their works addressed BM components, a shared commonality among them. Schön (2012) suggested three components : value proposition, revenue model, and cost model. Companies need to assess carefully how important a specific module is for differentiation before they endeavor to make it available internally or especially externally. Furthermore, partner networks need to be managed more carefully to ensure protection of competitive advantage (Schön, 2012 : 77).

Teece (2014a : 29) proposed that the growth and survival of a multi-national enterprise (hereafter MNE) is not just about adapting to market failures ; it is also about creating and deploying VRIN resources²⁾ as well as signature processes and distinct business models to enable excellence in meeting (or possibly even modifying) market demand in ways that are hard for competitors to imitate. This, in turn, may lead the MNE to engage in technology and capability transfer, and possibly even to the strengthening of complementors and suppliers. Developing distinct business models, therefore, is the key to entering and penetrating a new market. Teece (2014a : 334) put forward that the DC framework must be coupled with effective strategizing to bring about competitive advantage as dynamic capabilities do not operate alone. Furthermore, strategy, capabilities, and the business environment are co-evolving (Teece, 2014b : 341). Teece, however, failed to specify the components of strategy, the definition of which he simply quoted from Rumelt (2011 : 6) ; therefore, there is a need for supplementation.

Teece (2014a) made efforts to incorporate to the theory of MNE some of the recent developments in the field of strategic management, particularly those relating to enterprise capabilities. However, more studies are still needed to supplement current literature in international business and the theory of MNE. Hymaer (1976) focused on the process of companies' foreign market entries but did not discuss those firms' strategies after entry.

2) VRIN is the key criteria defined by Barney (1991) for resources that can support durable competitive advantage : Valuable, Rare, Imperfectly imitable, and Non-substitutable.

Likewise, even while Prahalad and Doz (1987) have categorized global businesses on two directional axes in a graph (global integration and local adaptation), they did not explore the strategies of firms and the resource base that enables actualization. We, therefore, believe that a case analysis utilizing DC perspectives has the potential to complement multinational business theories.

Considering the above, we would now present the research direction of this paper. First, Teece's (2007, 2014a) DC framework was suggested to be effective for MNEs to enter new markets and expand their businesses. However, it does not address the specifics as well as the relationship between DC and strategy, BM, and business environment, which need to be supplemented. Secondly, while empirical studies have emerged providing support for the framework (Teece, 2014b), the number of such studies is still limited. In particular, there are not many case studies on the overseas expansion of Japanese firms. To address these issues, this paper extends Teece's DC framework (2014a) by adding BM and the business environment to the equation, and the case analysis was conducted using this expanded DC framework.

3. Method

We conducted a hypothesis-generating type of case study by analyzing the case of Chengdu Ito-Yokado Co. Ltd. (hereafter CIY) based on Eisenhardt (1989). First, we developed the preliminary framework based on previous studies. Next, using the preliminary framework, we analyzed how CIY had obtained and sustained over time its competitive advantage in the overseas market. Eisenhardt (1989 : 536) stated that *a priori* specification of constructs can help shape the initial design of theory-building research. Thus, a research problem should be formulated first. Then possibly some potentially important variables with reference to extant literature should be specified next. Although Eisenhardt (1989 : 536) suggested to avoid thinking about specific relationships between variables and theories as much as possible, especially at the outset of the process, we attempted to apply this advice in developing our analytical framework consisting of several inter-related concepts. A framework, similar to a model, is usually an abstract representation of reality, and it endeavors to identify classes of relevant variables and their interrelationships. Teece (2007 : 1320) explained, though, that a framework is less rigorous than a model as it is sometimes agnostic about the particular form of the theoretical relationships that may exist.

3-1 Preliminary Framework

Figure 1 shows the relationship among the constructs in which companies take advan-

Figure 1 Passage of Time and the Relationship between Business Model and Dynamic Capabilities

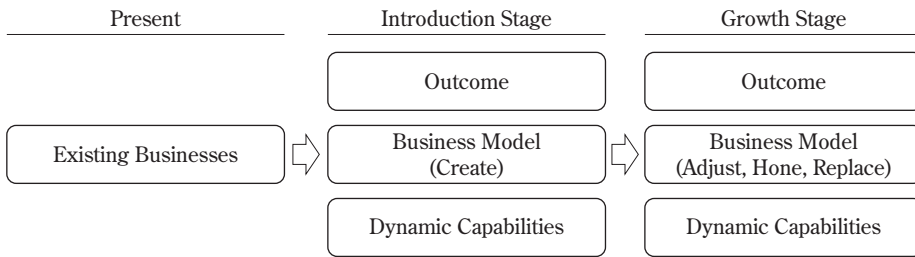
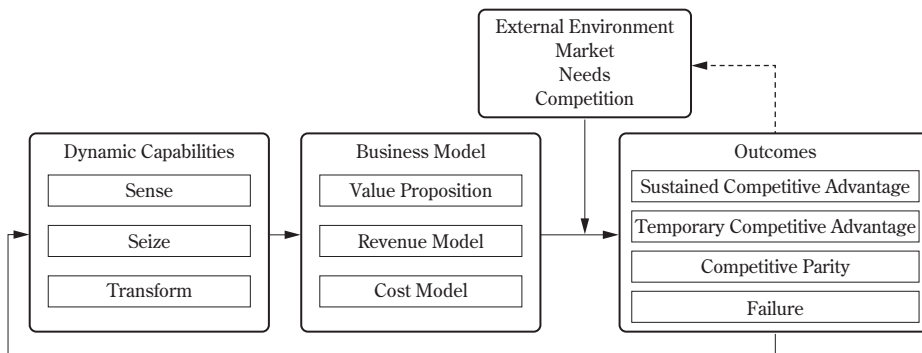


Figure 2 Preliminary Framework



(Source) Adapted from “Analysis of the Success Factors of Samsung in the Smartphone Business : Based on the Dynamic Capabilities Framework” by Chitose, M., and Kimura, T. (2016) *Journal of Strategic Management Studies*, 8 (1), p. 43. Copyright 2016 by International Academy of Strategic Management.

tage of opportunities and start new businesses by developing a new “Business Model” utilizing the resources and capabilities of existing businesses. After market entry, conditions such as competitions and market demand change ; accordingly, companies should review and revise (adjust, hone, and replace) the “Business Model” in order to adapt to the new business environment. We described “Dynamic Capabilities” as the firms’ capability to revise (i.e., adjust, hone, and replace) as well as to create a “Business Model.”³⁾

Figure 2 shows a preliminary framework for the case analysis.

“Dynamic Capabilities” refers to the capacity to create and recreate the “Business Model”, and the “External Environment” influences both the “Business Model” and “Outcomes” as a moderation factor. In addition, a firm’s “Outcomes” would be used as the basis for constant revision or redevelopment of the “Business Model” (through “Dynamic Capabilities”), while they may or may not influence the “External Environment” (Chitose

3) Kimura (2019) developed an analytical framework of business model conversion from the corporate transformation perspective which was used to analyze another Japanese company, Hitachi, Ltd.

& Kimura, 2017). In many cases, corporate strategy dictates business model design (Teece, 2018); therefore, “Business Model” includes strategy as a factor in the framework. “Outcomes” are either one of the following: Sustained Competitive Advantage, Temporary Competitive Advantage, Competitive Parity, or Failure (Ambrosini and Bowman, 2009: 43). “Business Model” has three components: Value Proposition, Revenue Model, and Cost Model (Schön, 2012: 75), while “Dynamic Capabilities” is divided into three sub-capabilities: Sense, Seize, and Transform (Teece, 2007: 1342).

In addition, the framework also takes account of chronological changes, specifically referring to changes occurring from the “Introduction Stage” to the “Growth Stage.” Companies must modify or reconstruct their “Business Model” based on the “Outcomes” to survive in the market (as expressed by the solid line from “Outcomes” to “Dynamic Capabilities” in Figure 2, implying that “Outcomes” influence “Dynamic Capabilities”). The company’s “Business Model” is modified or reconstructed by its “Dynamic Capabilities.” On the other hand, a company’s “Outcomes” sometimes influence its “External Environment,” the relationship of which is expressed by the dashed line from “Outcomes” to “External Environment.” The dashed line shows that while there are cases that a company’s “Outcomes” influence its “External Environment,” it is not always so. These two feedback lines allow chronological analysis of the case.

3-2 Data and Analysis

In this paper, we selected Japanese international retailer (Ito-Yokado Co., Ltd.), which was established in Chengdu (hence, Chengdu Ito-Yokado; hereafter CIY) in 1997 for our case study analysis since the company has experienced high growth. In analyzing the case of CIY, we first defined the scope of the “Introduction Stage” as the period from 1997 to 1999 (3 years), and the “Growth Stage” from 2000 to 2006 (7 years). We used interview data as the primary data for the analysis and also secondary data, such as investor relations (IR) information, annual reports, and news releases.⁴⁾

In assessing DC, we used the concepts of “technical fitness” and “evolutionary fitness,” as proposed by Helfat et al. (2007). The latter refers to how well a dynamic capability enables an organization to make a living by creating, extending, or modifying its resource base. In this paper, we evaluated the “Outcomes” of the business as one of the following: ‘Sustained Competitive Advantage,’ ‘Temporary Competitive Advantage,’ ‘Competitive Parity,’ and ‘Failure,’ based on its performance (sales growth and profit). On the other hand, the former refers to how effectively a capability performs its intended function when

4) Interviews with one Japanese and two Chinese managers were conducted during the period from April 2018 to March 2019 in China. After introducing the purpose of the research, a semi-structured interview was conducted based on an evaluation sheet, which includes BM and DC factors.

Table 1 Definition of DC Variables

	Definitions of Teece	DC Variables
Sense	Processes to Direct Internal R & D and Select New Technologies	Research and Development Capability
	Processes to Tap Developments in Exogenous Science and Technology	Capability to utilize external technologies
	Processes to Tap Supplier and Complementor Innovation	Capability to leverage suppliers
	Processes to Identify Target Market Segments, Changing Customer Needs and Customer Innovation	Capability to comprehend customer needs
Seize	Delineating the Customer Solution and the Business Model	Product proposal capability Capability to communicate with customers Value chain design capability
	Selecting Enterprise Boundaries to Manage Complements and "Control" Platforms	Capability to build business ecosystems
	Selecting Decision-Making Protocols	Capability to select decision-making protocols
	Building Loyalty and Commitment	Leadership
	Decentralization and Near Decomposability	Capability of decentralization
Transform	Cospecialization	Co-specialization capability in assets, strategy & structure, and strategy & process Capability to invest in co-specialization
	Governance	Incentive alignment capability
	Knowledge Management	Organizational learning capability Knowledge integration capability

normalized (divided) by its cost. This study evaluates how each factor of DC had influenced each factor of BM and how significant. This new approach from previous studies is made possible by organizing systematically the relationships among factors such as “Outcome,” “Business Model,” and “Dynamic Capabilities” in the preliminary framework.

Since it is difficult to directly measure each of the BM and DC factors in the preliminary framework, we defined observables that can be measured for each factor. Schön’s (2012 : 75) definition of “Business Model” was adopted, in which he specified components of ‘Value Proposition’ as : Product & Service, Customers, and Geography ; those of ‘Revenue Model’ as : Pricing Logic, Channel, and Customer Interaction ; and those of ‘Cost Model’ as : Core Assets & Capabilities, Core Activities, and Partner Network. As for “Dynamic Capabilities,” we adapted definitions from the microfoundations of Teece (2007) as shown in Table 1.

The following procedure was applied for the analysis of technical fitness. First, based on the preliminary framework, we analyzed the BM and DC in each “Introduction Stage” and “Growth Stage” and estimated the success factors. Second, for each BM factor, we rated how important it was in delivering the results on a five-point scale.⁵⁾ Third, for each factor of the BM, we likewise evaluated on a five-point scale which factors of the DC influenced it, and if so, to what extent. Fourth, apart from the evaluation by the authors, interviews were conducted with experts who were familiar with CIY. Finally, the interview data was cross-examined with our evaluations, and a final assessment was decided while striving to ensure as much objectivity as possible.

4. Result

4-1 Evolutionary Fitness

Outcomes

We used two criteria based on the concept of “evolutionary fitness” (Helfat et al., 2007) to evaluate the “Outcomes” in each of the stages : survival (if it earned positive profits) and growth (if it earned positive CAGR⁶⁾). The “Introduction Stage” resulted in ‘competitive parity’ because it earned negative profit while enjoying positive CAGR. CIY’s sales revenue in 1997, its first operating year, was 18 million RMB, and it recorded a net loss of 8 million RMB. Its CAGR till 1999 was 354% ; however, its accumulated loss was 117 million RMB for the same period.

The “Growth Stage” resulted in ‘sustainable competitive advantage’ because it earned positive profit and positive CAGR. CIY’s sales revenue in 2000 was 513 million RMB, and it

5) Five-point scale : very important, important, neutral, not very important, and unimportant.

6) Compound Average Growth Rate

recorded a net profit of 5 million RMB. It was the first profitable year for the company, and it has continued making net profit since then (e.g., net profit rate in 2006 was 7%).

4-2 Technical Fitness

Business model

BM analysis of CIY based on the preliminary framework (Figure 2) is summarized in Table 2. The items listed in the table are the factors that were evaluated highly (very important or important), and the factors that are rated very important are underlined in the table.

CIY's outlet was characterized as a combination of a general merchandise store (GMS) and department store to fit to the Chinese market, with categorized products displayed on each floor and some floors had shop-in-shops (SISs). CIY's BM was transformed from the "Introduction Stage" to the "Growth Stage" based on their learning experiences. Considering "Value Proposition" under "Business Model," CIY introduced a high level of customer service to differentiate the store from the others. CIY initially introduced Japanese-style products such as packed perishables, and slow-moving items were replaced in the food section resulting in a total revamp of merchandise in half a year. CIY eventually started offering more attractive products in the "Growth Stage", i.e., products with better quality, such as organic vegetables and more Japanese cuisine such as *onigiri* and *natto*. It became possible because local business partners (suppliers) came to trust CIY as it strictly followed contract terms such as payments.

With regards to the "Revenue Model," it was a trial-and-error process for CIY to be accepted by the local market. In the "Introduction Stage," CIY transferred operational knowhow developed in Japan such as open displays and newspaper inserts. In the "Growth Stage," it also introduced private apparel brands and enhanced Japanese makers' products utilizing its group resources as well as locally developed supply networks.

As for "Cost Model," CIY initially transferred operational knowhow developed in Japan such as unit control system and employee training among others, which were improved through the daily operations. In the "Growth Stage," when CIY opened its second outlet in 2003, it successfully transferred operational knowhow developed in the first outlet and, as a result, overachieved its first-year's sales targets. The differentiation factor of the high level of customer service had been further improved through employee training and empowerment.

News of the excellent reputation of CIY's employee training spread fast and SISs started sending their employees to CIY for training. CIY's bargaining power in negotiations had become strong enough to charge SISs for training fees, and their advice to not transfer store staff for at least half a year after training was being heeded.

Table 2 Business Model Analysis

	Introduction Stage (1997–1999)	Growth Stage (2000–2006)
Value Proposition		
<u>Product & Service</u>	<u>GMS + Dept. Store style (introduction of SIS)</u> <u>Abundant product range</u> <u>Packed perishables (J-style)</u> <u>Replace slow-moving products</u>	Further developed : more attractive product range due to local buyers and relationships developed with suppliers <u>Propose products with better quality, e.g. Organic vegetables</u> <u>Propose more Japanese cuisine, e.g. onigiri, natto</u>
Customers	Affordable items & something new	Value for money (based on improvement of the living standard)
Geography	One outlet in Chengdu City	Additional outlet in the area in 2003 – transfer operational know-how – dominant strategy (J-style)
Revenue Model		
<u>Pricing Logic</u>	Equivalent with other shops in the same area	Pursue “value-for-money,” proposing better quality of products
<u>Channel</u>	<u>Open display (J-style)</u> <u>Leaflet ads (J-style)</u> <u>Self-service at food section and consultative sales at SISs</u> <u>Clean and organized retail environment (J-style)</u>	Further improved : higher quality through employee trainings Introduction of apparel Private Brand (PB) Introduction of demonstration sales Enhance Japanese makers’ products
Customer Interaction	High-level customer service (J-style) No discount offers on haggling (J-style) Frequent sales events Conversation meetings with customers (J-style) Opinion box (J-style)	Further improved : higher quality through employee trainings
Cost Model		
<u>Core Assets & Capabilities</u>	Retail operation developed in Japan, e.g. unit control system	Further improved: higher quality through employee trainings <u>Transfer operational know-how to the second outlet</u>

Core Activities	Introduction of foreign culture through sales events Japanese-level of customer service and employee trainings to accomplish it	<u>Further improved: higher quality through employee trainings and empowerment</u>
Partner Network	Through Ito-Yokado Company's network Non-consignment deal (J-style)	<u>Further improved: expand partner network based on the reputation in the market</u> <u>Develop local buyers</u> <u>Charge SISs education fees</u>

Dynamic capabilities

DC analysis of CIY based on the preliminary framework (Figure 2) is summarized in Figure 3 (Introduction Stage) and Figure 4 (Growth Stage).

The arrows indicate which factors in the BM were affected by each factor in the DC. The factors in bold are those that were evaluated as very important.

Important factors of DC and BM as well as their relationship were discussed in each stage. In the Introductory Stage, the company's capability to utilize suppliers and to understand customer needs ("Sense" sub-capability of DC) increased the "Value Proposition" of

Figure 3 DC Analysis (Introduction Stage)

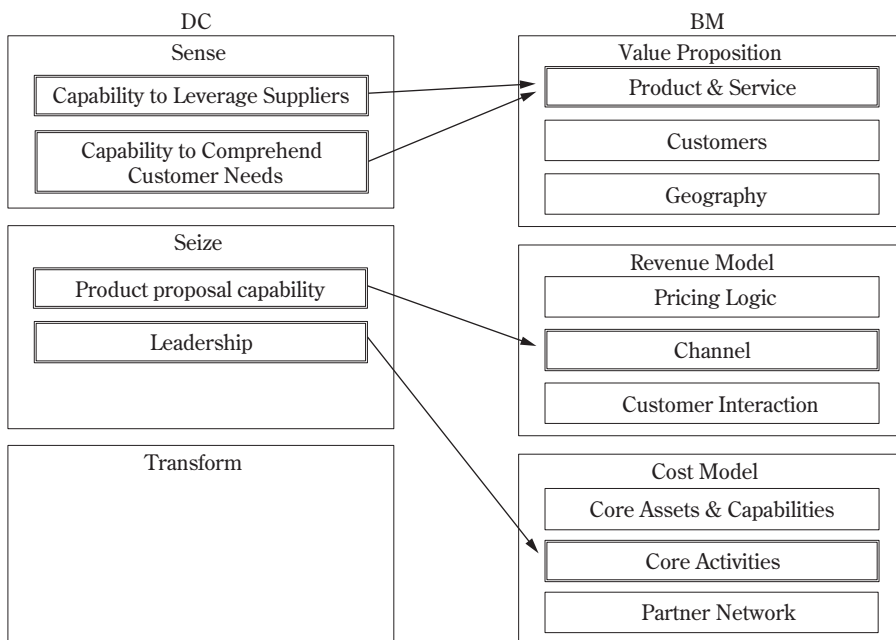
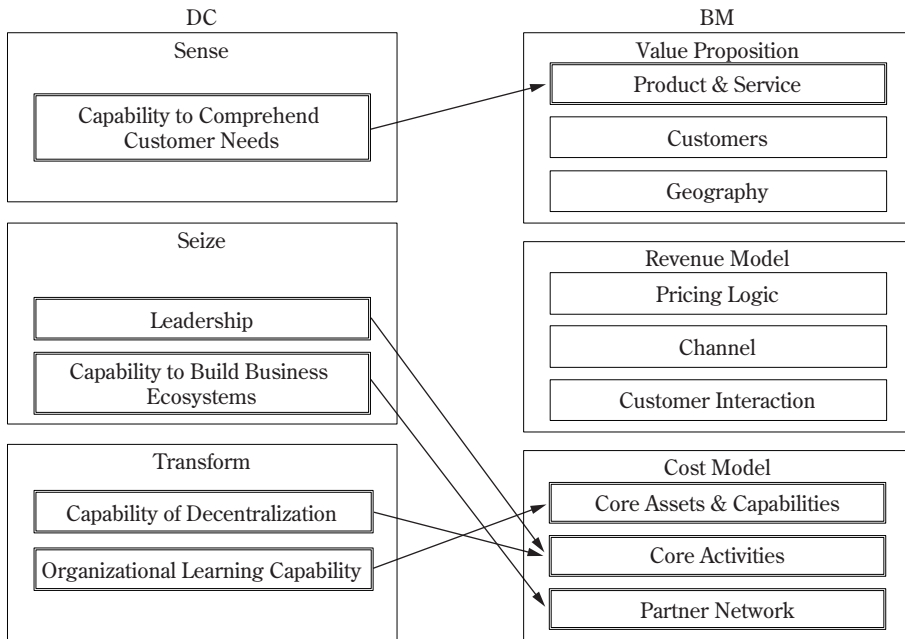


Figure 4 DC Analysis (Growth Stage)



BM through products and services. Its capability to propose products (“Seize”) enhanced the “Revenue Model” of BM through establishing appropriate distribution channels and promoting public relations. Leadership (“Seize”) reinforced the “Cost Model” of BM through customer service that was comparable to good service as in Japan, and employee trainings in ‘Core Activities.’

In the Growth Stage, the company’s capability to understand customer needs (“Sense” sub-capability of DC) increased the “Value Proposition” of BM through products and services. Leadership (“Seize”) reinforced the “Cost Model” of BM through high-level customer service and employee trainings in ‘Core Activities.’ Its capability to develop the business ecological system enhanced the “Cost Model” through the partner networks by expanding business partners and strengthening relations with them. Its capability to adapt to the environment (“Transform”) reinforced the “Cost Model” of BM through empowering local employees (in ‘Core Activities’). Their capability to integrate the collective knowledge and learning reinforced the “Cost Model” of BM through transferring operational knowhow to the second outlet or branch (in ‘Core Assets and Capabilities’).

4-3 Moderation Factor

External environment

In CIY's case, the "Outcomes" had influenced the "External Environment" with positive effects to the company's business operations. In the "Growth Stage," CIY showed strong performance in Chengdu despite the entry of new competition in the area. The increase in consumer traffic only reinforced the fact that CIY's merchandise and services stood out as shown by CIY's persistent success in terms of customer patronage. As a result, CIY continued to be in the number one spot when it comes to sales per square meter even while the market had become saturated.

5. Discussion

In evaluating the preliminary framework through the results of the case analysis, we have found how CIY obtained and sustained the competitive advantage. By summarizing the relationship between the DC and BM factors in the introduction and growth stages, we intend to explain the validity of the framework we developed.

CIY created a BM designed to transfer operational capabilities developed in the Japanese market to the Chinese market in the "Introduction Stage" to meet government expectations of modernizing the domestic distribution system in China. The processes undertaken by CIY consisted of gathering information from customers through home visits and opinion boxes as well as from employees through informal meetings. "Sense" was initially the key for CIY, however, this had limitations as market conditions were totally different and there were so many uncertainties. The socialist distribution mentality still pervaded in the local Chinese people, and it was not customary for staff manning the shops to thank customers (Yutani, 2011). CIY, therefore, had to start from training local staff members to bow (a sign of greeting and respect) and to verbally greet customers properly.

In the "Growth Stage", the company not only enriched its product range by expanding and reinforcing local supplier networks but also introduced private-brand items and Japanese products by fully utilizing Ito-Yokado Company's group resources ("Seize"). CIY's management team spent considerable time and efforts at educating local employees and gradually empowered them. Operations continued to improve by scaffolding day-to-day knowhow through the Plan-Do-Check-Action (PDCA) cycle which facilitated organizational learning ("Transform").

From the analysis, we can deduce that DC factors have impacted BM factors. Our preliminary framework allowed systematic analysis in determining the relationship among factors in "DC – BM – (External Environment) – Outcomes." We can confidently claim that the analysis was conducted systematically due to the following reasons: (1) the anal-

ysis was sequential from entry into the new market to growth of the business, and (2) it identified the relationship of key success factors among components: Outcomes, External Environment, BM, and DC. While Teece (2014b : 341) stated that strategy, capabilities, and the business environment co-evolve, he failed to specify contents of strategy. Our preliminary framework supplemented Teece's DC framework by (1) introducing BM, which includes strategy, (2) introducing the influence of the external environment, and (3) considering the relationship among factors of DC and those of BM.⁷⁾ As a result, we have confirmed that our preliminary framework, which was expanded from Teece's DC framework, is valid for case analysis.

In this paper, we have identified our three main contributions in developing the DC theory. Although Teece (2014a) did not specify the contents of strategy in its DC framework, we added BM and considered the relationship among the factors. Second, we introduced measurement scales such as evolutionary fitness and technical fitness (Helfat et al., 2007) to assess company performance. Third, even though we consider this study an empirical one to support the DC framework, we believe it has practical contributions as well. An analytical framework to examine how a company obtained and sustained a competitive advantage in a foreign market has been proposed. When a company tries to enter a new market or start a new business, it needs to consider many factors. While the existing theories are narrow in scope, the framework we proposed allows systematic analysis by extracting important factors.

6. Conclusion

In this paper, we attempted to challenge ourselves by analyzing the capability development of a Japanese company in an overseas market. Current experimental studies on DC emphasized that there is a need to investigate processes of creation and evolution over long periods of time and to conduct more focused studies of dynamic capabilities (East-erby-Smith, Lyles, & Peteraf, 2009). We hope that this study has partly contributed to solve such issues. We have proposed the expanded DC framework leading towards theory development by identifying a moderate frame of factors that have causal relationship. We have used such an analytical framework to apply to the case of CIY enabling us to identify the BM and DC sequentially.

On the limitations of this study and suggestions for future research, first of all, we only considered the factors included in the analytical framework and excluded other factors

7) While the dynamic capabilities framework of Teece (2014a) included (generic) resources and (ordinary) capability, our preliminary framework included (generic) resources and (ordinary) capability as factors of the business model.

such as regional and industrial characteristics (e.g., retail marketing). Second, while we tried to collect as much information as possible, primary as well as secondary, there was a limit to collecting internal information. Third, since it is a single case study, we would need more cases to analyze to be able to firmly generalize the hypotheses. We intend to do more case studies on the entry of other Japanese companies in the international market to clearly establish methods and perspectives for analyzing the relationship between DC and BM and to contribute to the development of DC theories in the future.

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