Resource Based View and Core Competence Assessment of KIKKOMAN

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I. Introduction

The paradigm of competence based strategy has had a tremendous influence on shaping strategy content in the last decade. Espoused by practitioners and used in Europe, the tenets of core competence are taught in business schools throughout the United States. Advocates of the theory maintain that core competence is a combination of unique resources and capabilities that allow firms to capture a near monopoly positions in their markets (Prahalad and Hamel, 1990, 1994). Competence based strategies help firms achieve and maintain competitive advantage (Hamel and Heene, 1994; Itami, 1985; Legnick-Hall, 1992; Prahalad, 1998). Despite adoption within the business community, conceptual and theoretical development of this phenomena has lagged.

To capture the dynamism of the firm's competitive behavior one needs to trace the growth of the firm in terms of its resources and capabilities, in particular, the way resources are used. Penrose (1959) argues that "services yielded by resources are a function of the way in which they are used - exactly the same resource when used for different purposes or in different ways and in combination with different types or amounts of other resources provides a different service or set of services (p. 25)." The uniqueness of each firm lies in the way the organization bundles resources and capabilities.

Our primary objective here is twofold. First we wish to understand current thought in core competence theory and indicate where the theory is heading. Secondly, we attempt to examine the core competence paradigm and demonstrate its application by analyzing Kikkoman Corporation's current and historical capabilities in a case study of the company.

The first two sections of this paper examine the RBV (Resource-Based View) and C2 (Core Competence) perspectives on the firm. The two paradigms are inextricably linked – indeed, the C2 paradigm has its foundation in the RBV. The first section of the paper focuses on RBV theory. This section also reviews the characteristics of RBV and definitions of resources used in the literature. The second section examines the core competence paradigm in light of the RBV of the firm. This section defines C2 and examines how C2 is developed within firms. Among other issues the section describes the nature of firm specific capabilities and characteristics that make these capabilities unique and overviews the current research in the areas. A third section assesses Kikkoman Corporation's success and longevity through the C2 and RBV Views. The paper concludes with a discussion of the strengths and limitations of the analysis and lays the groundwork for further research linking the two paradigms to evolution of C2 within firms.

II. The RBV of the Firm

A. Overview

The theoretical base for much of the research on core competence is strongly linked with the development of resources and capabilities. The resource based view (RBV) of the firm emphasizes firm specific resources and capabilities as a major determinant of firm performance and competitive behavior (Penrose, 1959; Barney, 1986; Wernerfelt, 1984; Peteraf, 1993). The RBV model contends that firm specific resources enable the firm to earn abnormal returns/profits and assure a sustainable competitive advantage (Peteraf, 1993).

The recent emphasis on the RBV paradigm has been strategic management's reaction to the earlier emphasis on the impact of external environmental factors on strategic choices and outcomes especially as reflected in the predominance of Porter's Five Forces Model in strategy content development. Strategic management research has begun to stress firm's internal capabilities in order to explain and understand differences in firm performance. RBV addresses how to develop and utilize capabilities which will sustain and enhance firm performance (Lengnick-Hall, 1992). Wernerfelt (1984) looked at resources as the drivers of successful diversification, while Rumelt (1984) suggested that examination of firm resources was a suitable starting point for identifying products and markets where they could be applied. These two authors were among the first to explicitly focus on the management of resources. Since then considerable theoretical work has been done to develop the RBV paradigm (e.g., Barney, 1986 and 1991; Dierickx and Cool, 1989; Peteraf, 1993).

The theory of the firm in the resource-based view (RBV) is constructed to investigate the way in which the firm's resource endowment can be a source of abnormal profits and sustained competitive advantage (Penrose, 1959; Wernerfelt, 1984; Dierickx and Cool, 1989; Barney, 1991; Peteraf, 1993). Research on RBV is about the changes and development of skills, abilities, and knowledge within the firm. The emphasis is on internal resources, i.e., "productive services" available and developed within the firm (Penrose, 1959). The role of central management is to establish and alter the administrative structure, give general guidelines and policies, and provide decision-making. Firms adapt to short term operational problems and yet must also establish some longer term goals. The firm is seen as an evolving collection of physical and human resources. To capture the dynamism of the firm's competitive behavior one needs to trace the growth of the firm in terms of its resources and capabilities and, in particular, the way resources are used. The uniqueness of each firm lies in the way it bundles resources and capabilities. The firm seeks profits to reinvest in organizational capabilities and thus assure the firm's long-term viability.

B. Distinguishing Characteristics of the RBV

The resources characteristics within the RBV theory lay the foundation for describing and identifying a firm's core competencies. RBV theory provides four conditions that are required in order for a resource to offer sustained competitive advantage (Barney 1986; Peteraf, 1993). The first condition is *resource heterogeneity.* This condition implies that firms have differing resources and capabilities, operate at different efficiency levels, and thus vary in their ability to compete in the market place (Penrose, 1959). Important to this idea is the concept of Ricardian rents which posits that resources can obtain superior rents if they are in limited supply and cannot be rapidly increased. These resources are limited in the short run but may be renewed and expanded incrementally within the firm that utilizes them.

A second RBV theory condition is *imperfect imitatability.* To sustain profits a firm must possess resources that are difficult to imitate (Dierickx and Cool, 1989). Barney (1992) proposes three reasons why resources are hard to imitate: a) dependence upon a unique historic conditions occurs when the firm is at the right place at the right time to obtain the resources (e.g., ownership of mineral rights); b) causal ambiguity develops when a firm's understanding of its own reason for success is not understood (such a condition thus makes it difficult for competing firms to duplicate the same strategies and develop the same resources); or c) social complexity occurs when the resources are so complex that they are difficult to manage or influence (e.g., a high rate innovativeness which is derived from a firm's culture). Such resources with any combination of these reasons tend to defy imitation because they have a strong tacit dimension and are difficult to fully understand. They may also be path dependent in the sense that they are contingent upon preceding levels of learning, investment, stock assets, and development activity. Such a path would be difficult to repeat (Dierickx and Cool, 1989).

Competition may also be limited because of *imperfect substitutability.* Firms should not be able to substitute different resources to achieve the same performance. For example, two firms may compete in the same way and achieve high quality, but may utilize different resources and capabilities. One firm may have a production system that capitalizes upon its people and supplier relations, while another firm uses technology and backward integration to achieve superior levels of quality. These resources in and of themselves do not give a competitive advantage or superior performance (Barney, 1986), but the way in which the firm has bundled them may.

The third condition is that of *imperfect mobility* where resources and capabilities cannot be traded or are less valuable to other users. Peteraf (1993) argues that imperfect mobility of resources may be tied to a specific context and other elements of the firm. This concept suggests that the resource must have some necessary and specific conditions to be employed in a manner to sustain competitive advantage. Immobile resources because of their idiosyncratic or firm-specific nature are heterogeneous.

The above three conditions are seen as cornerstones to competitive advantage. Peteraf (1993), Barney (1991), and others combined these conditions as they all relate to the conceptualization of the inability to duplicate resources and resource use. These authors refer to this condition as the inimitability of resources (Barney, 1991; Prahalad and Hamel, 1990; Grant, 1991). Some of these characteristics are not mutually exclusive; the value of resources will decline if it becomes less scarce; a resource is less valuable and less scarce if it is easily imitable.

C. Definition of Resources

Understanding the definition of a resource in the RBV theory helps clarify and outline the idea of what is core competence and how it operates within an organization. Comprehension of core competences resides in the conceptualization of resources and capabilities in the RBV paradigm. Building on Penrose's (1959) seminal contribution, RBV theorists have actively begun to identify and appraise the nature of resources that are valuable (Wernerfelt, 1984; Barney, 1991; Prahalad and Hamel, 1990; Teece et. al, 1997; McGrath et al., 1994). However, there are a number of terms used to identify these resources. Among the comparable terms used in this evolving conceptual literature have been:

- ❑ ❑ Distinctive competence (Selznick, 1957; Andrews, 1971, Hitt and Ireland 1985)
- ❑ ❑ Strategic resources (Barney, 1986, Dierickx and Cool, 1989)
- ❑ ❑ Core competencies (Dosi et al., 1991; Prahalad and Hamel, 1990)
- ❑ ❑ Dynamic capabilies (Teece et al., 1990).

Phrases such as firm resources, organizational capabilities, and core competencies have been used loosely and interchangeably. All these terms are used to describe a strength that the firm relies on to attain competitive advantage.

Grant (1991) synthesized the various definitions and terms used by theorists. He identified six categories of resources: financial, physical, human, technological, reputation, and organizational. His work, along with that of Nelson and Winter (1982), suggests that capabilities are the *application* of resources. These theorists open the door for examining core competences as the interlinking of resources and capabilities.

Other RBV theorists have begun to understand what makes these resources unique (Prahalad and Hamel, 1990; Teece et al, 1997; Conner, 1995). They have conceptualized that learning and knowledge is inherent to resources and capabilities which give competitive advantage. Dierickx and Cool (1989) suggest that assets, resources, and capabilities that can be purchased are not the source of abnormal profits or sustained competitive advantage. One way to interpret their comments is that assets that involve some element of knowledge or learning are difficult to transfer and are context sensitive. The RBV theory of the firm places a great deal of attention on intangible assets which may be more firm specific and have the potential to be more significant rent-generators than purchasable resources (Conner, 1995). Teece et. al. (1997) emphasize capabilities as the "mechanisms by which firms learn and accumulate new skills and capabilities (p.521)." Such capabilities are aimed at deploying and coordinating different resources (Teece, et. al., 1997; Leonard-Barton, 1992). Capabilities are composed of knowledge which occurs from the learning that takes place within the organization (Teece et. al., 1997). Learning and knowledge are fundamental to the development and the utilization of resources and capabilities in RBV theory. This focus is reflected heavily in Prahalad and Hamel's (1990) argument that sustained competitive advantage is achieved by core competencies which involve "the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technology" (p.92).

RBV theory views resource use and development as dynamic. Resources change as the result of innovative managerial behavior, as it is the *use* of the resources and not the resources themselves that generate profits. This model emphasizes how human, physical and intangible resources will combine over time to create value. It allows for a dynamic view of firm behavior and manipulation of resources. Schumpeter (1950) discussed this behavior as a process of "creative destruction," wherein a firm must continually renew its resources and abilities by remaining innovative. Penrose (1959) also acknowledges that firm behavior is dynamic and that firms remain competitive by developing new combinations of resources. Firms remain competitive by acquiring new knowledge and skills (Winter, 1987).

The bulk of writing about RBV theory writing focuses on the nature of resources and firm strategic behavior, but remains conceptual. Thus in the

RBV, firm behavior revolves around the concepts of resources and capabilities and how a firm utilizes its unique set of resources and capabilities to achieve competitive advantage. RBV goes beyond economic models to describe how some firms can generate abnormal profits through heterogeneous resources and capabilities. In a similar way, core competence is seen a bundle of tangible and intangible resources and tacit know-how, that must be identified, selected, developed, and deployed to generate superior performance (Penrose, 1959, Wernerfelt, 1984). These scarce firm-specific assets may lead to competitive advantage.

III. Core Competence Theory

A. Overview

The emerging core competence based view of the firm provides opportunity for assessing, deploying, and developing firm specific resources and capabilities. It enhances the RBV paradigm by making linkages between the competitive advantage of the firm and its resources and capabilities. These become more specific in the framework provided by core competence. Applying core competence to RBV theory moves the theory beyond the abstract to potential for actual application.

B. Core Competence Defined

The term "core competence" has been described differently by a number of scholars. Dosi, Teece, and Winter (1992) define core competence as "a set of differentiated technological skills, complementary assets and organizational routines and capacities" (p.521). Winterschied (1994) refers to "the specific tangible and intangible assets of the firm assembled into integrated clusters which span individuals and groups to enable distinctive activities to be performed." (pp 271). Prahalad and Hamel (1990) tend to down play physical assets and define core competence as the "a technical or management subsystem which integrates diverse technologies, processes, resources and know-how to deliver product and services which confer sustainable and unique competitive advantage and added value to an organization."

Prahalad and Hamel (1990) argue that to stay competitive in today's global markets, it is necessary to seek competitive advantage from a capability which lies behind the product that the firm produces. It is this ability, that these authors call core competence of the corporation. In their view, core competence gives an organization a unique competitive advantage because it enables the firm to diversify into new markets by migrating the core competence. Similarly, because it is a hidden capability which competitors cannot easily imitate, a firm may obtain a dominant position, even a near monopoly, in its chosen markets. Prahalad and Hamel's definition of core competence focuses on the resources and capabilities relating to technology and products in an organization.

Other authors have looked at resources and capabilities through the lens of distinctive capabilities, distinctive competence, core skills, and strategic resources (Selznick, 1957; Wrigley, 1970; Rumelt, 1974; Hofer and Schendel, 1978; Snow and Hrebinak, 1980; Barney, 1992). Distinctive competences are linked to positive, superior performance (Hofer and Schendel, 1978; Amit and Schoemaker, 1993: Selznick, 1952). These resources and capabilities are identified as something a firm does better than its competitor, the foundation to long term competitive performance, and abilities which grow the company (Snow and Hrebiniak, 1980; Wernerfelt, 1984; Aaker, 1989; Itami, 1985X). For example, Snow and Hrebiniak (1980) suggest that functional areas such as production could be a distinctive advantage. Barney (1991), MacDonald (1985), Fiol (1992), and Harrigan (1985) move beyond the limitations of distinctive capabilities into the development of core capabilities and competence. They propose that such resources and capabilities, if they are difficult to buy or imitate, are strategic assets. As Amit and Schoemaker state, "strategic assets are a set of difficult to trade and imitate, scarce, appropriable and specialized resources and capabilities that bestow the firm's competitive advantage (p.36)."

The concept of core competences takes a step further in differing from other organizational competencies descriptions such as core capabilities and distinctive capabilities. Core competences are conceptualized as knowledge embedded in the technical subsystem which comprises both the creative and implementation capability of the organization to develop technologies and applications (Leonard-Barton, 1992). In general, a firm's competence involves the differential skills, complementary assets, and routines used to create sustainable competitive advantage. Core competence gains strategic importance which moves beyond the functional abilities (Snow and Hrebiniak, 1980) and the ability to compete (Aaker, 1989). Core competence must have some level of firm specificity found through non imitability. It must also, as Prahalad and Hamel (1990, 1994) argue, provide a basis to access or enter new markets. It should make a disproportionate contribution to the perceived customer value or to the efficiency with which that value is delivered. A core competence is an organization's hidden capability of coordination and learning which competitors cannot easily imitate. When exploited it delivers the organization a near monopoly position in its chosen markets. Prahalad and Hamel (1990) assert that it is necessary to seek competitive advantage from a core competence, which lies behind the products that serve the market. In their view, core competence gives an organization a unique competitive advantage because it enables the organization to diversify into new markets by migrating the core competence and creates strategic competitive barriers to other firms.

C. Core Competence Development

The core competence stance proposes that sustained competitive advantage accrues to firms which have resources which are valuable, rare, difficult to imitate, and without substitution (Barney, 1994). However, with the passage of time these qualities may erode due to changes in the competitive environment. Such changes may include a Schumpeterian disequilibrium event (e.g., a radical innovation), new consumer attitudes, or imitation (Barney, 1994; Brumagim, 1995). To overcome the possible erosion of core competences, firms may seek to discover (on purpose or accidentally) and use more valuable resources. Researchers are beginning to look at the origins and development of core competence.

Locus of competence emergence Researchers ascertain through anecdotal and case study evidence that the source of new core competences occurs through R & D and new product development efforts (Itami, 1987; Prahalad and Hamel, 1994; Winterschied, 1994; Lei, Hitt, and Bettis, 1996; Prahalad, 1998). This underlying assumption is widely found in the current literature. Theorists suggest that innovation and experimentation may help to develop new technologies which improve firm's abilities to serve current markets as well as enter new markets (Lei, Hitt, and Bettis, 1996; Prahalad, 1998). Rosenbloom and Christensen (1994) indicate that participating in new technology arenas encourages the development of technical capabilities.

McGrath et al. (1995) empirically tested the assumption that core competences are developed through new product development activities. Other conceptual authors generalize even broader sources of new core competence. Itami (1987) and Cohen and Levinthal (1990) propose that only by internal development do firms gather the tacit ability which leads to non-imitability. Learning by doing involves the absorption of new information and the recombination of current capabilities (Deeds and DeCarolis, 1997). The knowledge gained from learning results in new competences. Prahalad and Hamel (1994) conceive that new competencies are only developed when learning occurs to develop new knowledge bases. Pitt and Clarke (1999) propose that "competence development is not the property of the SBUs (p.305)", rather, it is an organization wide endeavor. McGrath (1998) holds that competence development is a process by which the firm seeks to enhance processes, products, technologies, or skills and thus the domain of the entire firm. Defining the sources of new core competences as activities or initiatives which sponsor learning, opens the question of *how* firms manage it or identify when it is occurring?

Process of competence development If competitive advantage is obtained through core competences, it becomes a critical issue for firms to understand and manage the processes that lead to the development of these core competencies. This area lacks research as the main thrust of existing research focuses on showing that a core competence did indeed develop rather than how it was developed (Mascarenhas, Baveja, and Jamil, 1998). Competence development has mainly been measured by patent citation and bibliometric data (Henderson and Cockburn, 1994; Deeds and Decarolis, 1997). Researchers have also looked at the addition of scientific fields and technologies as indicators of competence development (Walsh 1995;

Rosenbloom and Christensen, 1994).

C2 researchers have proposed factors which play a role in competence emergence (Prahalad and Hamel, 1994; Mascarenhas, Baveja, and Jamil, 1998; Prahalad, 1998; McGrath et al., 1994; McGrath, 1998). Pitt and Clarke (1999) conceptualize that knowledge orchestration is important to develop new competences. This factor allows new efforts to avoid the routines and structural boundaries of the firm. McGrath et. al's (1995) study on competence emergence used, deftness and comprehension, i.e., similar constructs.

Factors which are important to competence development have also begun to be explored. The Mascarenhas, Baveja, and Jamil (1998) qualitative case studies indicate that some environmental and contextual factors play a role in competence development. These researchers maintain that exposure to a demanding technical, operating or economic environment increases the likelihood of competence development. They observed that core competence development utilizes the informal corporate culture and goals of that culture. Building relationships was also viewed as an important element for the development of core competence. In addition, Prahalad (1998) proposed that when building new competencies, relationships are important. He states that "firms need to invest in extensive socialization, travel, and job assignments to build people's networks" (p.102).

The C2 concept provides a rich foundation for the explaining, and predicting, firm behavior. The concept provides a medium for applying RBV theory to understand and manage firm behavior. The current C2 literature brings glimmerings of comprehension into this conceptual space. The literature suggests that understanding types of competence is important and that research is needed to understand the processes by which a competence develops. Further study is needed to understand the evolution and development of core competencies in firms. Kikkoman Corporation provides an excellent setting for understanding and exploring the historical evolution and development of various types of core competences.

IV. Kikkoman

A. Case Synopsis[i)]

Kikkoman Corporation is the oldest continuous enterprise among the two hundred largest industrial firms in Japan. Kikkoman's beginnings date from the early 1600's and parallels the evolution of the shoyu industry in Japan. The history of Kikkoman illustrates the astuteness for developing numerous capabilities to maintain their long term success. The widow Mogi is credited with the founding activities that led to the modern corporation. The family has made constant strategic and operational adjustments as both proactive and reactive responses to industry changes. They have developed capabilities and utilized them in their strategies to gain sustained competitive advantage. For example, in the early 20th Century Kikkoman Corporation took on a new form of organization, introduced modern management practices, and developed the relationship between the company and its community. These abilities allowed Kikkoman to become one of the earliest Japanese firms to internationalize.

Kikkoman entered the international markets twice. The first excursions extend back at least two centuries, but largely ceased during WWII. The company's post-WWII entry into international markets followed the classic evolutionary pattern — first exporting into the US market, then establishing a marketing organization, and finally building a plant. This led to the major strategic move in the US of building a manufacturing plant in Walworth, Wisconsine., the first post-WWII DFI in the US by a Japanese company. In the US market the firm has been challenged by numerous competitors and has continued to succeed. Although faced with maturing markets for its most important product, soy sauce (or shoyu), Kikkoman continues to capitalize upon its capabilities while diversifying its product line and continuing its impetus for expanding into new country markets.

B. Analysis - A Historical Perspective

During the seventeenth and early eighteenth centuries, the activities begun by the various Mogi family members joined later by the Takanashi families became the Noda Shoyu Company and, since WWII, the Kikkoman Corporation. The firm's core competences as they have evolved since the 17th Century are depicted in Table I. The company has continually augmented its skill set since inception. Kikkoman Corp., its precursory companies, and the previous activities undertaken by family members allowed Kikkoman to initiate new strategies and secure new opportunities (e.g., advertising in Japan in the 19th Century and the US Walworth plant as the first Japanese FDI after WWII). Competitors have clearly tried to emulate company moves.

From the very beginning this family firm has emphasized quality in its basic product, i.e., shoyu. The founder obviously was a courageous, resourceful, and energetic matriarch. This set of qualities is reflected in much of the company/family's history through almost four centuries. The location on the Edo River gave access to Japan's largest market, i.e., today's Tokyo.[1] As the city grew, the family continued to find ways of aggressively developing its niche in that market. As the family grew, so did the various talents. The early strategy of the family can be described as backward vertical integration, that is, various family members learned various skills, such as barrel making, that otherwise would have been undertaken by other firms. Obviously the family grew large enough to enable the development of this variety of skills. Only in 1918, i.e., almost 300 years after inception, did the various family enterprises join together into the combined firm called Noda Shoyu Co. The impact of WWI created a competitive situation that encouraged family interests to more compactly join forces.

Perhaps most intriguing is Kikkoman's emphasis on research and development that has led to a line of sophisticated products which students might not readily associate with the humble soy sauce that sits on the grocery store shelf. The early initiation of R & D activities demonstrates the family commitment to the future vitality of its enterprise. Research and development activities made tremendous impact on process technology as well as proliferating an ever-increasing set of products. The firm appears to never waver from becoming more and more efficient at the production of its base product and to continually add to its product line.

The marketing activities, and especially the development of the brand name, are important to note. Kikkoman as a brand has had international recognition for over 100 years. The aggressive brand recognition efforts intended to differentiate the product began in the early 1800's when Mogi Saheiji received shogunate's recognition for the family premier brand. There was aggressive promotion of the brand through multiple tactics. The family created a high quality product with a recognized brand name. Mogi Saheiji, in particular, added value through brand development. He avoided competitive pressure by creating brand loyalty. Brand recognition led to higher demand and greater market share. Under these favorable conditions,

Evolution of Kikkoman Core Competences Over Four Centuries in the Japanese and International Markets

Time Period: Area of Core Competence Development:	Early Period 17th Century-1887	Noda Shoyu Brewers Assn 1887-1918	Noda Shoyu Company 1918-1945	Kikkoman Corporation1 945-Present
Marketing				
➢ ➢ Product Distribution	1834	Mid to late 1800's		
➢ ➢ Brand Image Management	Early 18th *1868*			
➢ ➢ Advertising/Sales	1881		*1918*	
➢ ➢ Market Leadership		1890		*1976*
➢ ➢ Pricing Power		1890		
➢ ➢ Exporting		*1890*		
➢ ➢ Mass Advertising				1950 *1956*
Production				
➢ ➢ Quality Control	1838 *1872*			
➢ ➢ Raw Materials Procurement		1894		
➢ ➢ Research & Development		1904		
➢ ➢ Process Technology		1904		1972
➢ ➢ Economies of Scale		1909		1972
➢ ➢ Foreign Manufacturing			*1918*	
➢ ➢ Product Development/Diversification				1950 *1972*
Management & Organization				
➢ ➢ Managerial Continuity	17th Century			1957
➢ ➢ Local Agents/Consultants		*1911*		
➢ ➢ Centralized/Decentralized Decision-Making			1918	1957
➢ ➢ Community Relations			1928	*1971*
➢ ➢ Global Learning				1957

Note: Regular type is when development initiated in Japan (e.g., Product Distribution = 1834); small italics type is when development initiated internationally (e.g., Product Distribution = *mid to late 1800's*) the company could demand a higher price, thus a higher margin with resulting greater profits to invest in the company's other aggressive strategies, including R & D activities as well as plant and facilities modernization.

The company's development of international experience goes back to the late 17^{th} century — in short this company has been practicing international strategies for over three hundred years. With its import and export activities, Noda Shoyu Company[2)] gradually developed knowledge and experience in dealing with foreign governments and unfamiliar customs and business practices. The company also used its relationships with food import/export agents to learn about foreign markets. These international efforts were clearly recognized by the early 20^{th} Century.

The family's development of resources and skills has proven invaluable in the international marketplace. Production competencies were capitalized upon in their internationalization and acquisition strategy. The ready adoption and implementation of new technology led to breweries with economies of scale and thus absolute cost advantages. The process technology advances were then transferred into the other companies that the company acquired (e.g., early 20^{th} Century consolidation by purchasing other shoyu companies and, in the post-WWII period, the initial joint venture and later purchase of Del Monte product lines).

Beginning in 1918 the Noda Shoyu Company also increasingly improved its managerial systems and skill by organizing into a single enterprise with coordinated decision making. When the individual breweries formed the manufacturer's association, only marketing and procurement functions were coordinated. All internal functions were independent. Under the new organization formed in 1918, all other functions of the company were consolidated within the new corporate structure. Some decisions were deliberately made only at the top management level while others were delegated to managers of specific product lines or company activities. Such coordination in decision making allowed management to determine and implement corporate strategies without being caught up in time-consuming day-to-day minutiae. This ability stands them in good stead even today with the far-flung Kikkoman enterprises. For example, similar patterns can be identified in how the firm manages its US operations.

The company also learned how to manage its relationships with its employees, community, and various other publics. The long 1927-28 labor strike was not financially crippling for the company. However, it gave impetus to activities to build a strong identity between the employees and the company. After the strike, the Noda Shoyu Company began a deliberate program to rebuild its relationship with its public image and with Noda City, the community where the widow Mogi and her family first launched shoyu activities and where much of the firm's identify remains focused today. The program included carefully selected acts of corporate philanthropy. The company learned that it is important to nurture its relationships with its employees and the local community and developed policies and programs to support those relationships.

The company also developed its community relations expertise through its heavy involvement in the city of Noda. The careful attention to "nemawashi" or root tending is an example of risk management. In Noda Kikkoman worked at being a good citizen in order to diminish the work force propensity to strike. The company invested in health facilities and education for Noda citizens. Such investments helped provide a steady stream of educated and healthy workers. Other investments in cultural and civic aspects of Noda assured a social system in which families thrived and good workers wanted to stay in the area. Thus the company and community became mutually supporting systems.

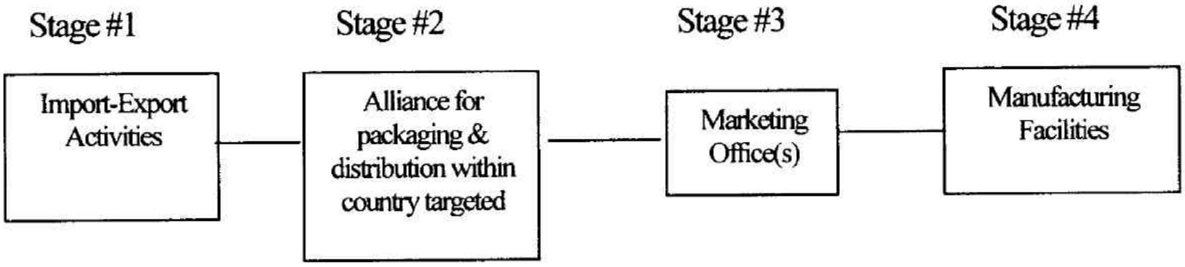
These community skills stood the company in good stead in the 1970's as it entered the Walworth. Wis., to build its first US plant. In its entry into Walworth and its continuing activities in the immediate region and beyond the company reflects how thoroughly those skills have become imbedded in the very fabric of the company. The character of the relationship in the Walworth plant may differ. However, the low turnover and long list of applicants attests to the company's favorable treatment of employees.

The results of the application of the company's skill sets in its various markets appear in its current financial position. In its fourth century of operation, Kikkoman has a strong balance sheet with shareholder's equity remaining consistently at about 40% of the capitalization structure.[ii] The company has remained profitable and performance overall remains fairly consistent. Declining domestic sales (i.e., in Japan) are offset by faster paced growth in international markets with higher profit margins.

However, financial controls (for example, the continuing Japanese appointment to the Walworth controller's position) appear to be the Kikkoman approach. Financial controls may not be the appropriate method for monitoring and controlling the company's current situation. Financial controls are most appropriate in mature, stable industries and discrete business units. Increasingly Kikkoman confronts short product life cycles in the food industry with many of its new introductions essentially performing like food fads. In such circumstances, the company might well put more emphasis on strategic or operating control.[3]

C. Development of Competences During the Firm's various phases of international activity.[4]

The evolution of Noda Shoyu's international activities followed a typical four-stage pattern[5] for penetrating a country market as shown below:



The company entered each stage by developing and seeking distinct advantages. Importing raw materials gave the company access to higher quality raw materials and thus continued building the quality image that had been the firm's hallmark since its inception. Exporting gave Noda Shoyu additional outlet for their shoyu and allowed the company to take advantage of economies of scale and thus lower production costs as the technology changed. The company followed the export-marketing-manufacture pattern twice, before W.W.II and again after the War. By following the depicted sequence, Kikkoman Corp. built its knowledge base and expertise in each market before making sequentially heavier investment and taking the attendant higher risks of the next stage.

There were early moves to manufacture in such diverse locations as Korea, Manchuria, Indonesia, and the US. The company was a significant risk taker from its inception. Its moves after WWII into the US market appear tame in retrospect. The disruption of W.W.II and the the height of the anti-Japanese sentiment in the US lingered for several decades.[6]

It is important to note that the company's original export market was people who typically used shoyu, not individuals whom the company had to persuade de nova. Thus, the original markets outside Japan were either other Asian peoples or Japanese people living in other countries. The company initially relied on third parties, that is, agents who were familiar with the markets into which the goods were imported. Use of such agents was important in the firm's organizational learning process as the agents provided information and established the company's groundwork for understanding markets and trading needs. Kikkoman's ability to select and manage these agents helped the company obtain an advantage over other firms.

US marketing activities initially took place in territories nearest to Japan and where there were greater concentrations of people of Asian origin, namely Hawaii and California. Manufacturing facilities, in contrast, were located near the source of raw materials. The ability to manage such wide spread operations allowed Kikkoman to successfully internationalize.

D. Kikkoman's strategic and operational choices in entering the US market.

Only after WWII did non-traditional users begin to be a market for shoyu. These were veterans and other individuals who had traveled or lived in Japan. The company wisely realized that the traditional markets would not provide significant growth opportunities in the W.W.II period and its programs to penetrate non-traditional markets were diverse and aggressive. Unlike other non-US food manufacturers and marketers, Kikkoman sold a non-modified product in the US market and at the same time as pursuing a multitude of other non-Japanese foods and recipes. The company had already begun the process of "westernizing" soy sauce in its home market and thus had some experience in that process.

An important company skill set is Kikkoman's ability to manage a large far-flung enterprise with apparently strong controls from corporate headquarters, yet with the feeling on the part of the employees that they have an impact on the choices that are made. Although Kikkoman management espouses a consensus decision-making in the US Walworth facility, in the late 1990's three of the top five managers were Japanese. Neither executives nor local workers in Walworth expect to attain the most senior positions in the US in the near future. The questions might well arise, thus, whether the company truly practices what it preaches and what is an appropriate pattern for a geographically dispersed firm.[7)]

A major issue for any firm operating a branch office or activity is locus of control. The home office must determine how closely to be involved in monitoring and decision-making at the local level. Some organizations use hierarchy and chain of command as the methods and means of operation to evaluate performance at the local level. Other organizations use price/profit and the results of operations to evaluate performance.[8)] Kikkoman appears to have successfully master the use of a combination. There is evidence that the satisfaction at the local level is very genuine and that the company is a good corporate citizen in Walworth, in the state of Wisconsin, and, indeed, in the US.

In short, the company has developed a superb skill set which it can utilize in the application of its strategies. The internationalization of Kikkoman demonstrates the firm's superior abilities. Many of these skills date from the company's inception — dedication to continuing quality and process improvement, for example. The company has been on the forefront on many issues among which are research and development, community relations, and localization of management. In spite of its age and size, the company appears very nimble. Examination of Kikkoman's four centuries of survival and success mandates a healthy respect for a "foreign" competitor whose base is a fairly "humble" product!

V. Discussion

The RBV paradigm emphasizes distinctive, firm specific and thus hard-to-copy assets, skills, and knowledge. These aspects of the firm are referred to generically as core competencies that confer competitive advantage to the firms that possess them. Kikkoman's unique competitive position stems from its set of abilities which have at different stages contributed to its success. The development of these core competences is the result of organizational knowledge and learning. Continual learning involves the absorption of new information and behaviors and results in recombining of current capabilities.

Kikkoman's development of various core competences over its history has contributed to the firm's ability to remain successful over such an extended period of time. Tracking Kikkoman's development of its success factors is essentially a study in ascertaining how the company invested in the development of competitive advantages that have kept them in the forefront of competition in their niche, i.e., soy sauce manufacture and distribution. These various competences and their linkages are difficult to replicate and form a barrier to competitors executing the exact same strategy. The analysis of the evolution of the success factors profile is essentially an analysis based on the resource-based viewpoint (RBV).[9)]

Kikkoman Corporation's skill sets have certainly evolved. The pattern of evolution suggests that core competences are often created from prior abilities and can be seen as a tangled network of skills that are recombined or blended. The sustained competitive advantage of Kikkoman lies in the firms continual quest to enhance and augment its skill sets even as it transfer them across country boundaries and product applications. However, whether the company will be able to evolve quickly enough to remain competitive in the ever-quickening pace of change in the food industry is open to question.[10)]

The current study explores the historical development of sustained competitive advantage within a large Japanese firm. It illustrates how the RBV and competence based strategy can explain the successful strategic development of the firm. the study also highlights supports the concept that core competences are complex skill sets which are acquired through learning and are related to prior abilities. The findings in this study also suggest that core competencies can build off each other and are linked when utilizing them in strategy as demonstrated by Kikkoman's internationalization. Although this explores the use of core competences, further work is need to fully determine the network of linkages and how these are managed when implementing a strategy.

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1) For discussion of strategic locational advantages see Michael Porter, "The Competitive Advantages of the Inner City," *Harvard Business Review*, July-August, 1995.

2) Noda Shoyu Company officially became Kikkoman in 1964.

3) Collis and Montgomery refer to "Financial Controls" as holding "... managers accountable for a limited number of objective output measures...." While "Operating Controls ... recognize that all sorts of events outside managers' influence ... may affect their performance". Collis and Montgomery depict the latter as encouraging managers to be proactive in rapidly changing environments. (*HBR*, May-June, 1998, p.78). In a similar vein, an anonymous reviewer of the case manuscript suggested a "distinction .... needs to be made between the purpose and use of financial controls as compared to strategic controls."

4) See, for example, Jan Johanson and Finn Widersheim-Paul, "The Internationalization of the Firm," *Journal of Management Studies*, October, 1975, pp.305-22: Johanson and Widersheim-Paul suggest that firms may move through four internationalization stages: no regular export activities, export via independent representatives (agents), establishment of sales subsidiaries, and establishment of production facilities (i.e., direct investment). Kikkoman's US entry clearly parallels these four stages. Indeed, pre-WWII

and the reentry after WWII suggest a similar evolutionary process.

5) The various forms of entry modes (including: exporting, turnkey projects, licensing, franchising, joint ventures, and wholly owned subsidiaries) have both advantages and disadvantages. [See C.W. Hill, P. Hwang, and W.C. Kim, "An Eclectic Theory of the Choice of International Entry Mode," Strategic *Management Journal*, Vol.11 (1990), pp.117-28; E. Anderson and H. Gatignon, "Modes of Foreign Entry: A Transaction Cost Analysis and Propositions," *Journal of International Business Studies*, Vol.17 (1986), pp.1-26; and F.R. Root, *Entry Strategies for International Markets* (Lexington, MA: D.C. Heath, 1980).]

6) See, for example, Bernard Saracheck, "Japan Bashing and the American Malaise," Business *and the Contemporary World*, Vol.IV, No.3 (Summer, 1992), pp.40-48.

7) See, for example, Philip Kotler who suggests that international marketing organizations tend to fall into one of the following categories: a) an export department, b) an international divisions (including geographic or product groups, international subsidiaries, or matrix organizations) or c) a global organization. [Philip Kotler, *Marketing Management: Analysis, Planning, Implementation, and Control,(Upper Saddle River, NJ: Prentice, Hall, Inc.)* p.421-425]

8) See earlier footnote on financial and operating controls.

9) The resource based viewpoint (RBV) sees the firm as acting to acquire strategically valuable resources that are potentially the source of sustainable competitive advantage. [See, for example: James G. Combs and David J. Ketchen, "Toward a Synthesis of the Resource-Based View and Organizational Economics in the Context of Grand Strategies," *Journal of Business Strategies*, Vol.14, No.2 (Fall, 1997), pp.83-105; M.A. Peteraf, "The Cornerstones of Competitive Advantage: A Resource-based View," Strategic *Management Journal*, Vol.14 (1993), pp.179-191; J.B. Barney, "Firm Resources and Sustained Competitive Advantage, *Journal of Management*, Vol.17 (1991), pp.99-120; and C.K. Prahalad and G. Hamel, "The Core Competence of the Corporation," *Harvard Business Review*, May-June, 1990, pp.79-91.]

10) See David J. Collis and Cynthia A. Montgomery, "Creating Corporate

Advantage," *Harvard Business Review,* May-June, 1998, pp.71-83. Collis and Montgomery suggest that most companies believe that they are getting the alignment of their resources — assets, skills, and capabilities — in sync when in truth they are not. To Kikkoman's credit the company may fit with the Collis-Montgomery pattern for success: "Creativity and intuition are hallmarks of great corporate strategies ... discipline and rigor ... brilliant strategies began with new ideas. These were followed by deliberate investments in resources made over many years, the development of a clear understanding of the businesses (sic markets) in which those resources would be valuable, and the painstaking tailoring of (the organization) to make the strategy a reality. Ultimately strategies that prevail are well-constructed systems that deliver tangible benefits." (p.83) However, in the current environment with increasing pace of change, can Kikkoman deliver sufficient new ideas rapidly enough and then follow with the reallocation of investments on a timely basis?

i) Research Methodology: The analysis in this paper is based primarily on the authors' development of two cases. The first case "Kikkoman Corporation in the Mid-1990's: Market Maturity, Diversification, and Globalization" (*Case Research Journal,* forthcoming). The second case compares the company's decision to build a second plant in Corvallis, CA with the decision to undertake investment in plant in Shanghai, China. The first Kikkoman case was based on data from the field, library, and internet sources. The authors, thanks to support from the Japanese government and the Institute for Training and Development in Tokyo, interviewed executives at the plant in Walworth on two occasions, at the marketing offices in California, and at corporate headquarters in Tokyo. Among the interviewees were Mr. Yazuburo Mogi, as well as senior executives in Walworth and California. Some of the interviews were carried out by the entire team and others by a single team member. In some instances the interviewer checked back with interviewees by phone. In all cases the interviews were kept in notes that have provided the field quotes and other observations included in this case. The field data was preceded and augmented by data drawn from extensive library and internet searches. The public sources that were used are acknowledged in the case endnotes. The methodology for the second case is proceeding parallel with that of the first.

本稿は，キッコーマン株式会社の協力により作成した研究論文である。多くの研究者に情報提供すると同時に，本論文を活用して頂くため英語で作成した。国際経営および経営戦略の視点から競争要因を考察している。神奈川大学経営学部衣笠洋輔教授は，1979年に「日本企業の国際化戦略」（日本経済新聞社刊）を著し，その中でキッコーマン株式会社を取り上げ，国際経営，マーケティング戦略の観点から論及した最初の研究者といってもよい。衣笠先生の学恩に感謝するとともに，今後のご活躍とご健勝を祈念いたします。

経営学部教授　田中則仁