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ETHICAL VALUES AS DYNAMIC CAPABILITIES: A MIXED-METHODS ANALYSIS OF STRATEGIC TRANSFORMATION IN JAPAN'S MATURE INDUSTRIES

ABSTRACT

This study examines how ethical corporate philosophy operates as a dynamic capability that enables strategic transformation in mature industries. Focusing on Oji Holdings, Japan's leading pulp and paper firm, and comparing seven major companies across pulp and paper and chemical sectors, we apply the Values-Driven Dynamic Capabilities (VDDC) framework to integrate qualitative evidence from corporate reports and ESG disclosures with quantitative panel data. We develop a digital indicator, Values_Count, using text-mining of integrated reports to capture the institutionalization of corporate values. Random-effects regressions with year fixed effects show a positive, marginally significant association between Values_Count and operating profit margin, controlling for environmental efficiency, globalization, and governance diversity. The findings indicate that ethical philosophy, when embedded in organizational routines, enhances sensing, seizing, and transforming processes. The study demonstrates that values function as economically meaningful microfoundations of competitiveness in mature industries.

KEYWORDS: dynamic capabilities, value-driven management, digital transformation, mature industries, panel data analysis

JEL: M14, L10, O32, C23, L60

INTRODUCTION

Mature industries such as pulp and paper and chemicals are characterized by long investment cycles, cumulative technological development, and structural inertia, making strategic transformation inherently difficult (Teece, 2007; Helfat & Peteraf, 2015). Firms in these industries must balance operational stability with long-term capability renewal, requiring sustained organizational learning and a coherent strategic vision.

Oji Holdings, a leading Japanese pulp and paper company, has pursued a series of major strategic transformations since 2010-including overseas expansion, portfolio restructuring, digitalization, and sustainability initiatives. These actions align with the Dynamic Capabilities (DC) framework, which conceptualizes organizational renewal through the sensing, seizing, and transforming mechanisms (Teece, 2007; Teece, 2018).

However, most DC research has focused on high-velocity or technology-intensive sectors, while far less attention has been paid to how DC operates in slow-moving mature industries (Eisenhardt & Martin, 2000). The central premise of this study is that ethical corporate values and organizational philosophy serve as microfoundations of DC, particularly in contexts where transformation unfolds gradually, and internal coherence is essential.

In Japanese firms, corporate philosophy and foundational values have historically shaped managerial cognition, organizational culture, and long-term decision-making (Nonaka & Takeuchi, 1995). In Oji Holdings, such values continue to influence strategic direction, particularly in areas such as ESG, global expansion, and organizational restructuring.

Recent digitalization of integrated reports further strengthens the institutionalization of corporate philosophy, enhancing visibility, consistency, and internal alignment. This digital infrastructure may play a key mediating role between values and dynamic capabilities.

Against this backdrop, this study develops the Values-Driven Dynamic Capabilities (VDDC) framework and empirically examines how digitally articulated ethical values contribute to strategic transformation and firm performance. Combining qualitative analysis of Oji Holdings with panel data analysis of eight major firms in Japan's mature industries, the study seeks to clarify how values shape capability development and operational performance.

1. LITERATURE REVIEW

1.1. Dynamic Capabilities in Mature Industries

Dynamic Capabilities (DC) theory (Teece et al., 1997; Teece, 2007, 2014) provides a foundational perspective on how firms adapt to environmental turbulence through sensing, seizing, and transforming. Although initially developed in high-velocity environments, subsequent research has extended DC theory to mature and capital-intensive industries characterized by technological stability and long investment cycles (Schilke et al., 2018). In such contexts, organizational routines, historical trajectories, and managerial philosophy shape the development and deployment of capabilities. Firms in mature sectors must still adapt dynamically to globalization, ESG pressures, and digital transformation (Kor & Mesko, 2013; Wilden et al., 2016).

Complementing this line of inquiry, Fujimoto & Ikuine (2018) examine how industrial competitiveness evolves through the interplay of organizational capabilities, product architecture, and performance. Their Capability–Architecture–Performance (CAP) framework highlights that "design-based competitiveness" emerges from accumulated organizational knowledge and coordination abilities, factors that are especially important in industries where incremental improvement and long investment horizons dominate. This perspective reinforces the idea that dynamic capabilities in mature industries are shaped by deeply embedded organizational characteristics rather than rapid experimentation alone.

Within this broader tradition, scholars have emphasized intangible assets-such as corporate values, purpose statements, and managerial cognition-as key enablers of dynamic capability formation (Helfat & Peteraf, 2015; Teece, 2018). These intangible elements influence strategic attention, resource orchestration, and decision-making logic. Yet few empirical studies have evaluated whether ethical values themselves contribute to firm performance in mature industrial settings.

1.2. Values-Driven Management and Ethical Corporate Philosophy

Values-driven management has received growing attention amid rising expectations for transparency, sustainability, and responsible governance (Nonaka & Takeuchi, 2019; Pless & Maak, 2004). Corporate values influence how managers interpret environmental signals, prioritize investments, and design organizational processes, thereby shaping the development of dynamic capabilities. Ethical values-such as social responsibility, environmental stewardship, and stakeholder orientation-can enhance organizational legitimacy and foster long-term competitiveness (Aguinis & Glavas, 2012; Maak & Pless, 2006).

In Japanese firms, ethical values are often grounded in long-standing philosophical traditions, including Shibusawa Eiichi's Rongo to Soroban, which emphasizes the harmonization of commercial success with moral responsibility. Such philosophical foundations influence sensing and seizing behaviors by broadening managerial interpretations of opportunities and risks. Prior case research suggests that values may also support transformation by enhancing employee cohesion and guiding investment decisions under uncertainty (Nonaka et al., 2000).

Ethical values shape dynamic capabilities by influencing managerial cognition, guiding organizational routines, and fostering cultural coherence. These mechanisms enhance firms' sensing, seizing, and transforming processes, particularly in mature industrial contexts.

However, despite the theoretical recognition of the importance of values, empirical studies-especially quantitative panel data analyses-remain limited. Most existing work examines leadership or CSR outcomes rather than operational performance or capability development.

1.3. Transformation and Strategic Challenges in Japan's Mature Industries

Mature industries such as pulp and paper, chemicals, and basic materials face persistent structural pressures stemming from demographic decline, global competition, technological commoditization, and environmental regulation. Research on Japanese manufacturing identifies long-term capability-based differentiation across firms, particularly in areas such as product architecture, coordination abilities, and design-based competitiveness (Fujimoto & Ikuine, 2018). These differences help explain why strategic outcomes vary substantially even among firms operating under similar external conditions.

Panel and firm-level studies on Japanese manufacturing have documented persistent inter-firm heterogeneity in organizational practices and performance, particularly those associated with the strength of corporate culture (Ito & Pucik, 1993; Hirota, Kubo, & Miyajima, 2007). Such persistent differences point to deeply embedded organizational factors-such as philosophy, governance norms, and accumulated learning-that shape adaptation and transformation trajectories. Nevertheless, few studies explicitly examine how intangible factors such as values influence performance over time, particularly in sectors where technological change is incremental.

1.4. Prior Empirical Research in the Pulp & Paper Industry

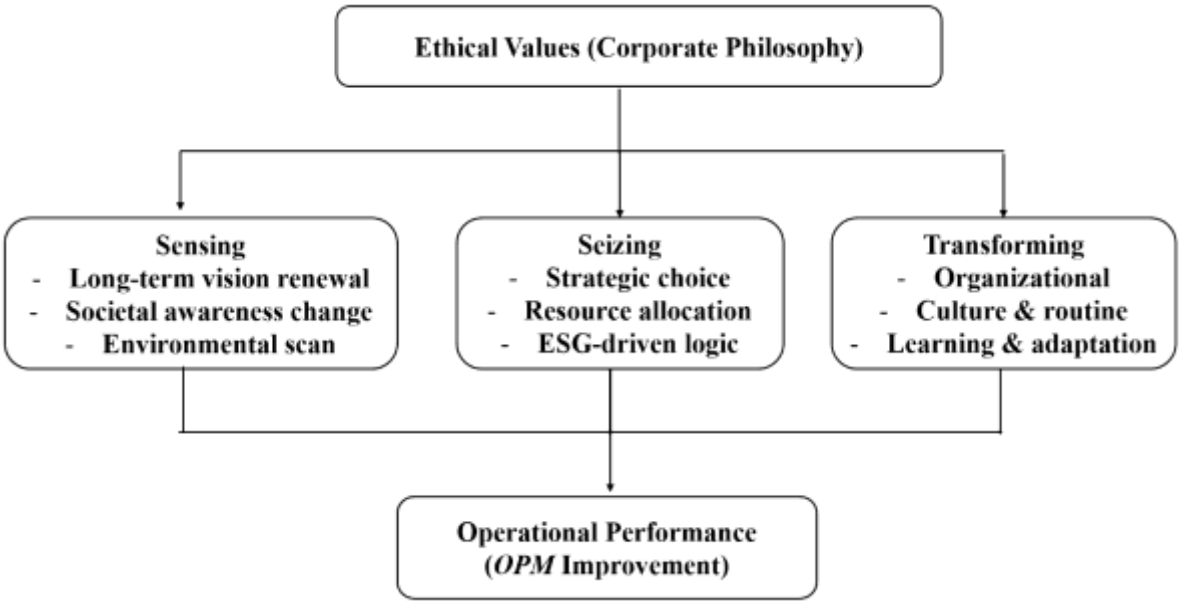
Research on the Japanese pulp and paper industry provides valuable insight into the sources of performance variation in mature sectors. Lönnstedt & Nordvall (2007) conducted a longitudinal analysis of major Japanese paper companies and showed that persistent inter-firm differences, rather than within-firm temporal fluctuations, explain most of the profitability variation. Their findings support the view that historically rooted managerial practices, and organizational characteristics strongly influence performance.

Qualitative analyses of Japanese paper firms highlight the importance of corporate values in driving innovation, overseas expansion, and sustainability investments (Oji Holdings Integrated Reports; Nippon Paper Group CSR Reports). However, these analyses rely mainly on descriptive evidence. No quantitative panel research has examined whether values themselves-operationalized digitally-help explain profitability differences in this industry.

1.5. Contribution of the Present Study

The present study integrates these research streams by empirically testing whether ethical values function as performance-relevant microfoundations of dynamic capabilities in Japan's mature industries. Using a multi-firm panel dataset (2015–2024), the study compares OLS, fixed-effects, and random-effects specifications to evaluate whether digitalized measures of corporate values contribute to operating profit margins. This approach advances prior work by (1) quantifying values as organizational resources, (2) adopting panel data methods consistent with prior empirical findings (e.g., Lönnstedt & Nordvall, 2007), and (3) linking values directly to operational performance rather than solely to legitimacy or CSR outcomes.

Figure 1 Conceptual Framework: Value-Driven Dynamic Capabilities



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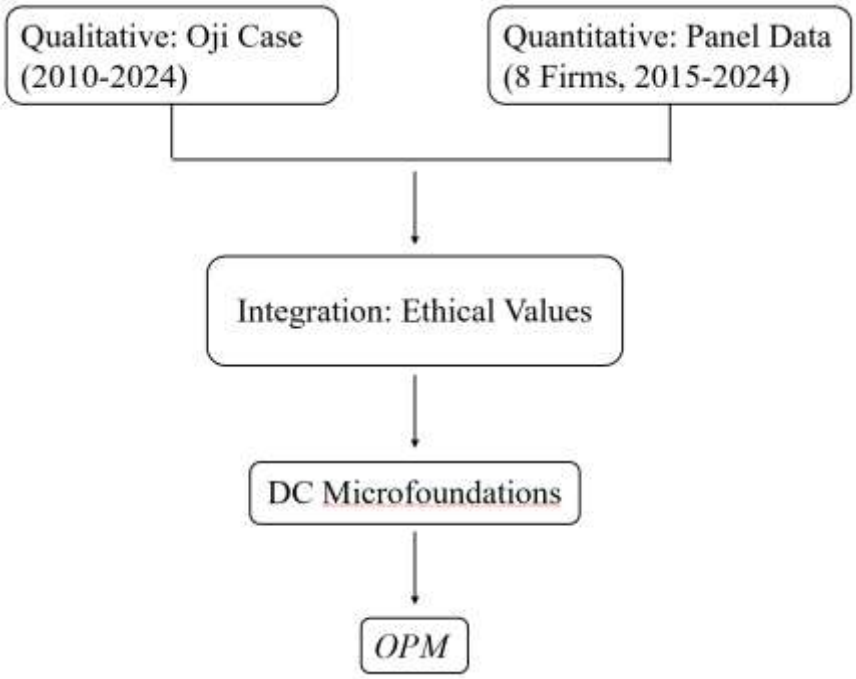
2. Methodology

2.1. Research Design

This study adopted a mixed-methods research design that integrates qualitative analysis of corporate documents with quantitative panel data analysis. The qualitative component examined the strategic transformation of Oji Holdings between 2010 and 2024, drawing on integrated reports, sustainability disclosures, mid-term management plans, CEO messages, and publicly available secondary materials. These data provided rich insights into how ethical values, organizational culture, and long-term orientation had shaped Oji's sensing, seizing, and transforming processes within the Values-Driven Dynamic Capabilities (VDDC) framework.

To complement and generalize these insights, the quantitative component analyzed a panel dataset of eight major Japanese firms operating in mature industries. The sample included leading firms in the pulp and paper and chemical sectors, enabling cross-company comparison of how values, environmental performance, governance characteristics, and globalization relate to operating profitability.

Figure 2 Research Design and Mixed-Methods Approach



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2.2. Sample and Data Collection

The quantitative dataset covered the period from 2015 to 2023 for eight firms: Oji Holdings, Nippon Paper, Mitsubishi Chemical, Sumitomo Chemical, Toyobo, Mitsubishi Paper Mills, Hokuetsu Corporation, and Kuraray. These firms were selected because they represent core players in Japan's mature industries and publish integrated reports on a consistent annual basis. Financial and non-financial variables were collected from integrated reports, ESG disclosures, and company financial statements.

Because the study focuses on operating performance rather than investor returns, the primary dependent variable was *Operating Profit Margin (OPM)*, which reflects operational efficiency and is highly relevant for assessing strategic transformation in capital-intensive industries.

Table 1: Firm Overview and Sample Structure

Firm	Industry	Years Vovered	Notes
Oji Holdings	Pulp & Paper	2017-2024(FY)	Core case Firm
Nippon Paper	Pulp & Paper	2017-2024(FY)	
Mitsubishi Paper Mill	Pulp & Paper	2017-2024(FY)	
Hokuetsu Corporation	Pulp & Paper	2019-2024(FY)	
Mitsubishi Chemical	Chemical	2015-2023(FY)	Continuous reporting
Sumitomo Chemical	Chemical	2017-2024(FY)	
Toyobo	Chemical	2017-2024(FY)	
Kuraray	Chemical	2017-2024(FY)	

Source: own

2.3. Measurement of Key Variables

Figure 3 Construction Process of *Values_Count* (Digital Ethical Values Indicator)

Source: own

This figure illustrates the text-mining procedure used to construct *Values_Count.* Integrated reports were converted into machine-readable text using Python-based scripts. After

preprocessing, value-related keywords derived from corporate philosophy statements were counted and normalized to ensure comparability across firms and years.

Table 2: Variable Definitions and Measurement

Variable	Definition	Measurement
OPM	Operating Profit Margin	Operating profit / Sales
Values_Count	Ethical values articulation	Text mining count (normalized)
GHG_Intensity	Greenhouse gas intensity	Scope 1+2 emissions / Sales
Female_Directors	Gender diversity	% of women on board
Overseas_Ratio	Glovarization	Overseas sales ratio

Source: own

2.3.1. Digitalized Values Indicator (*Values_Count*)

To quantify how actively firms, articulate their corporate philosophy, a novel digital indicator-*Values_Count*-was constructed using text-mining. The indicator measures the frequency with which value-related keywords (e.g., integrity, trust, sustainability, harmony, contribution) appear in each firm's integrated report. These keywords were derived from the corporate philosophies and mission statements of Japanese industrial firms and reflect the ethical and normative elements emphasized in the VDDC framework. Text extraction was conducted using Python-based scripts to convert integrated reports into machine-readable text. The preprocessing procedures included tokenization, lowercasing, stop-word removal, and lemmatization. A dictionary of value-related keywords was constructed based on corporate philosophy statements commonly used by Japanese industrial firms. Keyword frequencies were normalized by report length and standardized to ensure comparability across firms and years.

This digitalized indicator enabled empirical evaluation of the hypothesis that ethical values, when institutionalized and communicated within digital reporting systems, enhance dynamic capability processes.

2.3.2. Control Variables

Three types of control variables were included:

Environmental Performance

- *GHG_intensity* (Scope 1+2 emissions per unit of sales).

Captures environmental efficiency and cost exposure.

Governance Diversity

- *Female_Directors* (percentage of women on the board).

Reflects organizational diversity and governance modernization.

Globalization

- *Overseas_Ratio* (share of overseas sales).

Measures international exposure and learning opportunities.

Firm and year effects were incorporated to account for unobserved heterogeneity and macroeconomic shocks.

2.4. Analytical Strategy

The panel dataset exhibited both cross-sectional and longitudinal variation, making panel regression models appropriate. Three models were estimated for comparison:

1. Pooled OLS with year fixed effects

Provides baseline estimates without controlling for firm-level unobserved heterogeneity.

2. Firm-and-year Fixed Effects (FE) model

Controls for all time-invariant firm-specific characteristics.

Useful as a robustness check given the limited within-firm variation of values.

3. Random Effects (RE) model with firm random intercepts and year fixed effects

Allows estimation of between-firm effects, consistent with the theoretical assumption that values and corporate philosophy represent relatively stable organizational attributes.

Standard errors were computed using SPSS (for FE) and the MIXED procedure (for RE), ensuring consistency with the modeling assumptions. Because *Values_Count* varies more between firms than within firms over time, the RE model provides a theoretically appropriate estimator.

To assess robustness, pooled OLS, firm-and year-fixed-effects, and random-effects models were estimated. The fixed-effects specification served as a robustness check, given the limited within-firm variation of values-related indicators.

2.5. Model Selection

A Hausman test was conducted to compare fixed-effects and random-effects estimators. The test result ($\chi^2(4) = 1.84$, $p = 0.76$) indicated that the random-effects specification cannot be rejected and is therefore adopted as the main model. This result supported the interpretation that differences in values across firms, not short-term changes within firms, were a key driver of performance differences.

Therefore, the RE model with firm-level random intercepts and year fixed effects was adopted as the main specification for interpreting the performance implications of values.

2.6. Mixed-Methods Integration

The qualitative and quantitative components were integrated through the VDDC framework. Qualitative analysis identified how Oji's ethical philosophy shaped its sensing, seizing, and transforming processes over a decade of strategic transformation. Quantitative analysis tested whether similar patterns hold across peer firms and whether values exert measurable effects on performance indicators.

Qualitative evidence from Oji Holdings illustrates how value-driven investment decisions, ESG initiatives, and digitalized reporting practices reinforce the mechanisms identified in the quantitative analysis.

This triangulation strengthens the validity of findings by showing that values function both as qualitative strategic drivers and as empirically detectable performance resources in mature industries.

3. RESULTS

3.1. Overview of Empirical Strategy

To evaluate the performance implications of ethical values in mature industries, three panel regression models were estimated: (1) pooled OLS with year fixed effects; (2) firm-and-year fixed-effects (FE) model; and (3) random-effects (RE) model with firm-level random intercepts and year fixed effects. The dependent variable was *Operating Profit Margin (OPM)*, which captures operational efficiency and was particularly relevant for evaluating strategic transformation in capital-intensive industries. The Hausman test indicated that the RE estimator was appropriate ($\chi^2(4)=1.84$, $p=0.76$), suggesting that differences in values across firms, not short-term within-firm variation, drive performance differences.

Table 3: Summary Statistics

Variable	Freqency (N)	Mean	SD	Min	Max
OPM	63	0.05010	0.04860	-0.20000	0.14727
Values_Count	63	1.73845	0.67844	0.03196	5.28907
GHG_Intensity	63	0.03994	0.00138	0.00186	0.07700
Female_Directors	63	0.10628	0.07546	0.00000	0.35714
Overseas_Ratio	63	0.43095	0.17101	0.16200	0.79200

Source: own

Table 4: Correlation Matrix

Variables	*OPM*	*GHG_Intensity*	*Overseas_Ratio*	*Female_Directors*	*Values_Count*
OPM	—				
GHG_Intensity	-0.004	—			
Overseas_Ratio	0.323	—	—		
Female_Directors	0.079	—	—	—	
Values_Count	0.176	—	—	—	—

Source: own

3.2. Effects of Ethical Values on Operating Profitability

Across models, the digitalized values indicator, *Values_Count*, exhibited a consistent positive effect on *OPM*, supporting the study's argument that ethical corporate philosophy contributed to superior operational performance. In the pooled OLS model, *Values_Count* showed a positive and marginally significant coefficient (B = 0.010, p = 0.083). This effect became stronger in the random-effects model (B = 0.017, p = 0.087), which accounts for unobserved firm-level heterogeneity.

The fixed-effects model showed a positive but statistically insignificant coefficient. This pattern was theoretically aligned with the nature of values as relatively stable organizational characteristics. Because *Values_Count* varies more between firms than within firms over time, the RE model captures its performance effects more appropriately. The results collectively indicated that firms that more actively articulate and institutionalize their ethical values tend to achieve higher operating profitability.

These findings provide quantitative evidence for the Values-Driven Dynamic Capabilities (VDDC) framework: ethical philosophy functions as a performance-relevant microfoundation of sensing, seizing, and transforming in mature industries.

Table 5. Panel Regression Results (Dependent Variable: *Operating Profit Margin (OPM)*)

Variable	OLS (Year FE)		FE (Firm & Year FE)		RE (Firm RE+Year FE)	
	Coefficient (B)	p-value	Coefficient (B)	p-value	Coefficient (B)	p-value
GHG_Intensity	7.560	0.129	-14.552	0.335	-2.574	0.737
Overseas_Ratio	0.108	0.005	-0.049	0.850	-0.049	0.162
Female_Directors	-0.001	0.987	-0.118	0.639	0.096	0.351
Values_Count	0.017	0.083	0.010	0.158	0.017	0.087
Constant	-0.055	0.147	0.095	0.487	-0.034	0.505
Year dummies	Included		Included		Included	
Firm dummies	—		Included		Random Intercepts	
R^2 (overall)	0.163		0.569		0.293(pseudo)	
Adjusted R^2	0.105		0.363		—	
F-test / Wald χ^2	F=2.815, p=0.033		F=2.769, p=0.003		Wald χ^2=4.685, p<0.001	
Hausman Test	—		—		$\chi^2(4)$=1.84, p=0.764 (RE prefered)	

Source: own

3.3. Effects of Globalization, Environmental Efficiency, and Governance Diversity

The coefficient for *Overseas_Ratio* was significantly positive in the OLS model (p = 0.005), indicating that international market exposure enhances operational profitability. Although the effect became statistically weaker in the RE model, the direction remained positive, suggesting complementary effects between global expansion and value-driven management.

In contrast, *GHG_intensity* and *Female_Directors* exhibited no significant short-term effects on *OPM* across the three models. This result implied that environmental efficiency and gender diversity may influence long-term competitiveness or institutional legitimacy rather than immediate operational outcomes. Their insignificance in the short-term horizon was consistent with the structural attributes of mature industries, where substantial shifts in environmental and governance metrics occur gradually.

3.4. Firm and Year Effects

The firm fixed effects in the FE model revealed substantial and statistically significant differences across firms, indicating that firm-specific managerial philosophies, historical trajectories, and accumulated capabilities strongly shape long-term operational performance. In particular, firms such as Oji Holdings and Nippon Paper exhibit consistently strong baseline performance even after controlling for operational, environmental, and governance variables.

These findings highlight the embedded nature of organizational philosophy and routines in shaping performance trajectories. Year fixed effects were statistically insignificant, suggesting that macroeconomic fluctuations, industry shocks, and regulatory changes had relatively modest impacts on operating profitability during the study period.

3.5. Summary of Empirical Findings

The empirical results provided robust support for the central proposition of this study: ethical values function as dynamic capabilities that enhance firm performance in mature industries. Specifically:

Values_Count was positively associated with *OPM* in both OLS and RE models ($p < 0.10$), suggesting that ethical values-when digitally articulated and institutionalized-may contribute to operational profitability.

The RE estimator was statistically preferred, indicating that inter-firm differences in values were more important than within-firm year-to-year variation.

Global expansion supported profitability, while environmental efficiency and board gender diversity exhibited no short-term effects.

Strong firm effects indicated that long-standing organizational philosophy and routines play a critical role in shaping performance trajectories.

Taken together, these findings provided support for the Values-Driven Dynamic Capabilities (VDDC) framework and demonstrated that ethical values were not merely symbolic expressions but economically meaningful resources that supported strategic transformation in mature industrial contexts.

4. DISCUSSION

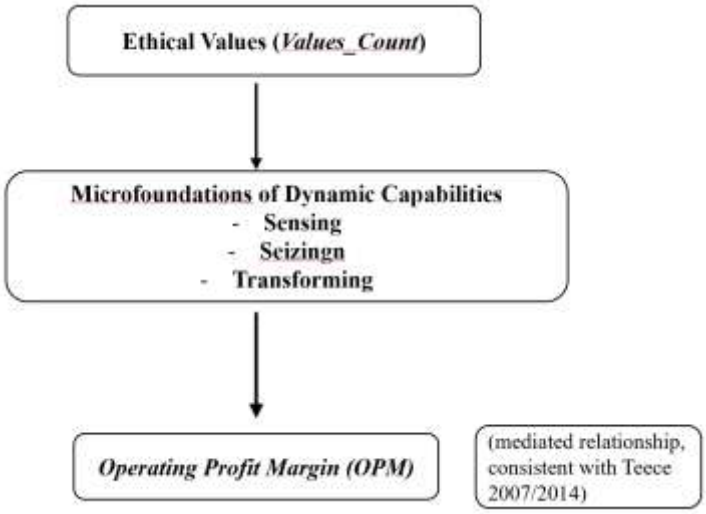
4.1. Integrating Values and Dynamic Capabilities

The results suggest that ethical values, when clearly articulated and institutionalized, positively contribute to operating profitability in mature industries. Values shape managerial cognition, strategic attention, and resource orchestration, thereby influencing the effectiveness of sensing, seizing, and transforming behaviors (Helfat & Peteraf, 2015; Teece, 2018).

In the context of Japanese mature industries, organizational capabilities tend to develop through long-term accumulation and coordination rather than rapid experimentation. This is consistent with the Capability–Architecture–Performance (CAP) framework (Fujimoto & Ikuine, 2018), which highlights that deeply embedded organizational knowledge and coordination abilities underpin competitiveness. The present findings imply that values serve as a guiding logic that supports these historically rooted capabilities and enhances their deployment under conditions of uncertainty.

Ethical values shape dynamic capabilities by influencing managerial cognition, guiding organizational routines, and fostering cultural coherence. These mechanisms enhance firms' sensing, seizing, and transforming processes, particularly in mature industrial contexts.

Figure 4 Path Model Linking Values, Capabilities, and Performance



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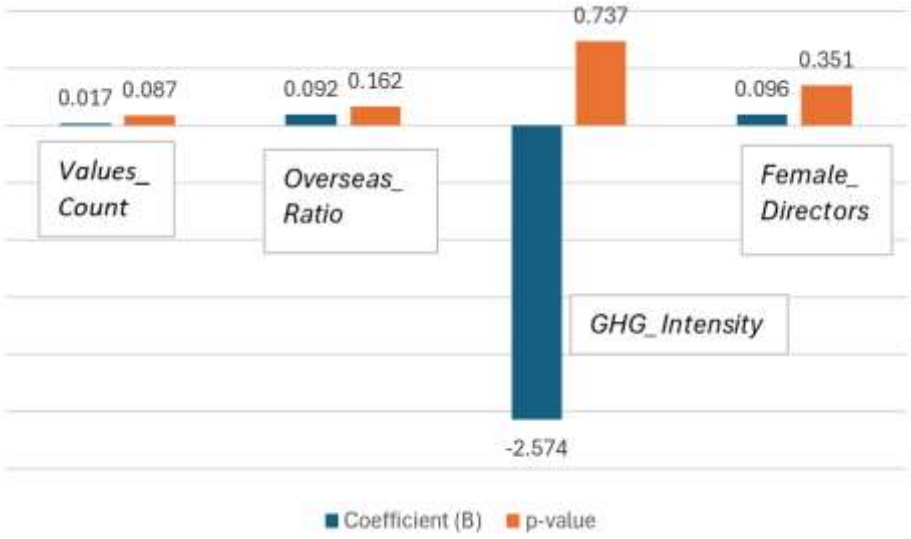
4.2. Theoretical Implications

This study advances DC theory by providing quantitative evidence that values function as microfoundations of dynamic capabilities in environments characterized by incremental innovation and long investment cycles. The results complement research emphasizing the cognitive and intangible bases of capability formation. Moreover, the alignment between the empirical findings and prior work in the pulp and paper industry (Lönnstedt & Nordvall, 2007) supports the view that persistent inter-firm heterogeneity reflects deeply embedded organizational characteristics-consistent with the CAP-based argument that capabilities evolve over long timeframes.

Figure 5 Coefficient Plot of RE Model



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4.3. Practical Implications

For managers, the results highlight that value articulation is not merely symbolic; it can shape investment logic, guide capability development, and improve long-term profitability. Embedding ethical principles into strategic planning and organizational processes may be particularly beneficial in industries subject to ESG requirements and environmental regulation.

4.4. Implications for Japanese Management Studies

The findings resonate with established perspectives in Japanese management, which emphasize the role of philosophical foundations and long-term capability accumulation. Fujimoto and Ikuine's (2018) observation that design-based competitiveness emerges from coordinated organizational abilities aligns with the idea that values guide strategic consistency and employee cohesion. The results suggest that Japanese firms' traditional emphasis on shared philosophy may contribute to stable capability development in mature sectors.

4.5. Limitations and Future Research

Although *Values_Count* provides a novel digitalized measure of ethical values, it captures textual articulation rather than direct behavioral enactment. Therefore, caution is warranted in interpreting the indicator as a proxy for actual organizational practices.

Additionally, while the random-effects specification aligns with prior industry research, further examination using alternative modeling approaches or cross-industry comparisons would enhance generalizability.

CONCLUSION

This study examined whether ethical values act as performance-relevant microfoundations of dynamic capabilities in Japan's mature industries. Using a multi-firm panel dataset, the analysis showed that stronger articulation of ethical values is associated with higher operating profitability. These findings suggest that values shape managerial cognition and internal decision-making logic, thereby enhancing the effectiveness of dynamic capabilities.

The study contributes to the literature by quantifying values as intangible organizational resources and employing panel-data methods consistent with established empirical findings. Importantly, the results align with perspectives emphasizing the long-term, accumulated nature of organizational capabilities in mature industries (Fujimoto & Ikuine, 2018). Values appear to provide a stable orientation that supports capability development over time.

For practitioners, the findings underscore the importance of embedding ethical principles into strategic planning and organizational processes. Future research should investigate the internal mechanisms through which values influence capability formation and performance outcomes.

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