

Organizational Capability Pyramid: Creating Knowledge-Based Organizational Capabilities

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Abstract

The structure of this study is displayed in the form of a pyramid. The concept of capability hierarchy to this study is established according to Grant's proposal for organizational capability in "activities-related," "broad-function," and "cross-function" capability. Additionally, this paper also obtained approval on the 42 content elements of organizational capabilities from the specialists. The organizational capability pyramid is the thinking tool which provides the positioning of organizational capability. With respect to the capability which an enterprise currently possesses or likely to develop in the future, the capability is used to identify its class of hierarchy and whether if it is susceptible to be overtaken by competitors.

Keywords: Organizational Capability, Organizational Capability Pyramid, Content Analysis

Introduction

Resource-based theory refers to an enterprise with non-imitation and sustainability of core organizational capabilities will have economic rent to attain competitive advantages (Amit & Schoemaker, 1993; Barney, 1997; Barney, 2001; Priem & Butler, 2001; Wernerfelt, 1984). Javidan (1998) argued that an enterprise's sustained competitive advantage relies on the well-utilization of resources and whether if the enterprise's advantage is susceptible to competitor imitation. Majority of the perspectives dominating early thinking is concerned about competitive advantages that have been deeply rooted within the economic theory and with an emphasis on the scale and scope of the economy. The optimization of transaction costs, or focus on how to find their competitive advantages in an appropriate niche market of their industries (Chandler, 1990; Kogut, 1988; Williamson, 1985). Organizations in the new economy are facing with an increasing turbulence of external business environment. In recent years, the streams of research have its attention focused on resources and organizational capabilities. Organizations have evolved to characterize firms as a collection of unique resources and organizational capabilities which influence the firms' evolution and strategic growth alternatives (Dosi, Nelson & Winter, 2000; Ethiraj, Kale, Krishnan & Singh, 2005; Wernerfelt, 1984).

Organizational capability is a complex combination, and its conception has often been left vague (Collis, 1994). The purpose of this study adopts the definition of organizational capabilities espoused by Grant's point of view (1996). Grant (1996) explained why organizations exist based on knowledge-based theory, and he believed that the function of organization is to integrate individual expertise and resources into lower-level functional

capabilities; which then transfers and integrates into higher-level cross-functional organizational capabilities. Therefore, “organizational capabilities” refers to the ability to perform repeated tasks related with a productivity to create organizational values immediately or indirectly. From this perspective, resources serve as the input (Grewal & Slotegraaf, 2007; Teece, Pisano, & Shuen, 1997).

Classification includes the categories of exploration and exploitation capabilities, internal and external emphasized capabilities, or client-specific and project management capabilities...etc.; whereas organizational capabilities of individual attributes include the categories of capabilities in IT infrastructure, technical capabilities, storable capabilities, project management, and so on. Therefore, organizational capabilities can be explored with further depth. The core capabilities on which enterprises rely to compete is mostly the choice of the organizational capabilities; nevertheless, most of the literatures have failed to establish a clear framework. Thus, the organizational capability pyramid is a tool that explores the components of organizational capabilities by which an organization uses relevant resources and capabilities to develop. Consequently, competitors cannot overtake in the short term; and on the other hand, enterprises will succeed with emphasis placed upon them.

Methodology

Organizational Capability Pyramid

The framework portrays three levels of organizational capabilities, begin with the basic building block notion that the knowledge integration undergirds likewise. Based on Grant’s (1996) proposal, it is expected that a higher hierarchical organizational capability is the integration of the lower hierarchical ones. At the most fundamental level, the activity-related capability is the span of specialized knowledge integrated broadens – manufacturing capability, materials management capability, and etc. The next level, named as broad-functional capability, is the span of activity-specific knowledge integrated into broader functional capabilities – operations capability, R & D and design capability, and etc. At highest levels, named cross-functional capability as the span of activity-specific knowledge integrated into broader functional capabilities.

Data Collection of Content Analysis – Academic Periodicals and Literatures Practices

The content analysis on organization capabilities is still at the exploration stage, where a comprehensive literature collection should be prepared and academic periodicals and literature practices should be covered. For academic periodicals, the research objects listed as the top 40 organizations and management-related periodicals from the 2006 SSCI impact factors that were introduced between 1990~2008. Moreover, the content analysis is also divided into manifest and latent contents. Owing to a diverse discussion on organizational capability in the past, consistency is found with respect to the definition between job competency and capability; and as a result of unclear and bulky data, those literatures mentioning “capability” as manifest contents while those literatures indirectly associated with “job competency” is latent contents. This research covers both contents concurrently; hence those literatures which mentioned about capability, type and definition of job competency are all objects of content analysis, which covered in a total of 110 articles. In addition, literature practices are mainly emphasized on handbooks of accumulated practices overseas (Rosier & Jeffrey, 1994).

Research Design

Content analysis is a type of category defining and coding process in nature, in which the guidelines were drafted by researchers and based on the principles of coding, to define and categorize similar items. The coders consist of 3 graduate students who major in organization and human resources, with one student from the On-the-Job Master's Program, and two other teachers who majored in Strategy and Organization. Moreover, 8 experts were invited accordingly for an opinion poll; including 3 scholars and 5 industry experts, who further clarified the fittest title of organizational capability and categorized the organizational capabilities standing corresponding to the level of pyramid. The steps for the research design are depicted as follows:

Step 1: Definition of analytical units – data collection

The analytical units of content analysis include word, sentence, theme, paragraph and the whole text (Weber, 1990). Theme is an opinion to a topic which is used as the analytical unit. The key purpose of this research is to explore “what” are the capabilities within the organization, and to consolidate an organizational capability list from the definition. Furthermore, inconsistency is found with respect to the definition between job competency and capability. Therefore, the capabilities or job competency items and defined periodicals or literature contents mentioned from previous paragraph will be converted into numerous individual themes; which will be listed in accordance with items and filled out in cards and numbers respectively, in order to facilitate later coding process for interviewees with differentiation of the card contents.

Step 2: Definition of data content analysis, coding and category – preliminary data classification

Category defining is used for theme classification due to the various data sources and types. A coding process is introduced in this step with 3 coders assigned for each individual stage whereas the common consensus will be recorded first (i.e. the card numbers with similar definition will be categorized into one type). If no agreement is reached by any two out of the 3 coders, then coding will be determined by the 4th party. Lastly, a judgment is made by the verifier who is neither a coder nor a 4th party. A random sampling of cards is conducted with the practices on defining and categorized coding, while reaching a common consensus through mutual discussion before the official coding. No further communication is required for official coding.

Step 3: Screening and consolidation of organizational capability categories

According to what have been categorized in step 2, it may include personal level – job competency or organizational level – organizational capability. The focus of this research is organizational capability; therefore, the contents of listed categories should be examined one by one, while the categories of organizational capability will be retained and type of job competency will be deleted. This research follows the discussion on the characteristics of organizational capability proposed by Grant (1996) and Schreyögg & Kliesch-Eberl (2007), individually review of all collected and listed categories one by one and to proceed with identification task. Two appraisers will be required for this step to verify the 4th-party and the other one verifier should in charge of any divergence is encountered.

Step 4: Building organizational capability pyramid

Following step3, coding process is introduced at this step with 2 coders. Based on the characteristics of organizational capability, coders place each individual organizational capability at the 3 levels of organizational capability pyramid. If no agreement reached by

any two persons, then it will be determined by the 3rd party.

Step 5: Expert survey

In order to enable a more significant and professional data consolidation for this research, the experts were then invited to perform examination on naming the organizational capability and placing them at the 3 levels pyramid of organizational capability. This process aims to identify and construct a more complete organizational capability pyramid via this stage.

This research mainly emphasized on “organizational capabilities” as the issues in this field involving efforts of enterprise resources and strategy direction, in which the decision-makings are normally implemented by middle/top level management. On the other hand, the researches are managed by scholars with respect to strategy management, organization management or human resource management in the academic field. Therefore, a questionnaire survey will be given to those 3 scholars who have been working with the issues from the aforesaid fields respectively. These scholars have over 10 years of experiences in the academic field; and experts from the industry – 3 superintendents in manufacturing industry and 2 superintendents in service industry with over 10 years of experiences. The category and title of that particular organizational capability are then verified once an agreement is reached by at least half of the 8 experts. A second discussion will be conducted by another 3 experts if an agreement is reached by less than half of the experts; including 2 scholars and 1 industry expert. A revision will be issued once it is agreed by 2 out of the 3 experts.

Step 6: Reliability analysis

There are 3 types of reliability analysis for content analysis, which include stability, reproducibility and accuracy (Weber, 1990). As similarity of content analysis design through this research was classified by more than 1 coder; consequently, it will lead to a conflict and normally due to the different perceptions or ambiguous teaching by the coders. A reproducibility analysis is used to measure the consistency among the various appraisers and is introduced for measuring the reliability of this research.

Research Results

Preliminary data classification (step1, step2)

A coding process is introduced to consolidate the academic and practical literatures and periodicals related data. The card is generated from the practices handbooks of Rosier and Jeffrey and top 40 organizations and management-related periodicals by 3 coders (Rosier & Jeffrey, 1994). A preliminary statistics has indicated that there are 320 items depicting the theme of capability or job competency without eliminating the repetitive answers and a total of 105 categories after an elimination of repetitive answers.

Screening and consolidation of organizational capability (step3)

Followed by step 2, the organizational capabilities are classified as preliminarily with the cards filled out, and which will be identified by the 2 coders respectively. First of all, a review on whether if the capability complies with the characteristics of organizational capability proposed by Schreyögg and Kliesch-Eberl (2007); then be classified as organizational capability and the others will be classified as non-organizational capability categories.

With respect to categories of organizational capability which have undergone the screening process, through what are found as part of the organizational capability categories will confront with many organizational capabilities simultaneously. On the other hand, implies that the capability has confronted with different levels of organizational capabilities, assembly issues between wordings of partial capabilities or similar contents in reality nevertheless expressed differently by letters. The contents of the capabilities which have undergone the screening process will further be consolidated by the appraiser again, based on Grant's theory (1996). However, in the incident where the most important organizational capability category might be deleted during the process; which will lead to an inaccurate research result as related opinions are provided through an expert survey. The contents of the 42 organizational capabilities were established after a preliminary screening and a consolidation process for organizational capabilities. It is discovered that similar contents can be classified in order to enable a clearer content, whereas the leading organizational capability is named after the overall concepts and contents; accordingly, with a total of 16 titles for organizational capabilities. In which the related definitions of various leading organizational capabilities were consolidated in Table 1:

Insert Table 1 about here

Consolidation of the organizational capabilities pyramid from experts (step4, step5)

Facilitating a more significant and professional data consolidation for the research, the experts were invited to perform examination on the pyramid and the content of various organizational capabilities to help clarifying the suitability of the content or titles of each leading organizational capabilities. There are still 42 contents for the organizational capability and 16 leading organizational capabilities after consolidating the opinions from 8 experts through a questionnaire. The revisions on part of the contents for organizational capabilities or titles; in addition, to the content classification of organizational capability within the leading organizational capability are required. There are 4 titles or content names for organizational capability which have been revised according to the opinions from the experts, and 1 adjustment is made on the category of organizational capability:

Validity analysis of content analysis (step6)

To measure the reliability with reproducibility for reliability of content analysis, i.e.:

$$\text{Reliability} = \frac{n \times \text{average inter-rater agreement}}{[1 + (n-1) \times \text{average inter-rater agreement}]}$$

n = number of appraiser
 average inter-rater agreement = $2M \div (N_1 + N_2)$
 M : numbers of total agreement N_1 : Numbers of coding agreed by No.1 coder N_2 : Numbers of coding agreed by No.2 coder

There are 95 organizational capabilities recognized by the two appraisers in the meantime, and therefore, the average inter-rater agreement = $2 \times 95 \div (105 + 105) = 0.905$ with high reliability of $2 \times 0.905 \div [1 + (2-1) \times 0.905] = 0.95$.

The reliability of content analysis for an opinion poll by the 8 experts is divided into 4 parts: (1) Whether if the title of a leading organizational capability is appropriate; (2) Whether if the content name of organizational capability is appropriate; (3) Whether if the content classification of organizational capability is appropriate; (4) Whether if the classification of organizational capability pyramid is appropriate. The above 4 items all reported a high reliability.

Conclusions and Managerial implications

In a knowledge-economy based world, the speed which rate people acquire knowledge is far beyond the rate of knowledge transformed. Under the pressure for faster transformation and increasing knowledge, enterprises needs to retain valuable knowledge within organization and transfer it into organizational capability; and these can be used to increase competitive advantages for competition with rivals. Organizational capabilities are embedded in the organizations (Day, 1994; Grewal & Slotegraaf, 2007). In order to strengthen the continuation of competitive advantages, managers must hold objectives to construct organizational capabilities by relying on the inter-connected resource (Dierickx & Cool, 1989); and devotion of developing the relationships among enterprises and knowledge-based resources, extending to enterprises' functions and hierarchy (Erdem & Swait, 2004). This study aims to discuss the organizational components by content analysis, which employs organizations as a main body and using academic and practical literatures as analytical subjects. Multiple heterogeneous categories are established in expectation to construct a complete organizational capability pyramid for enterprises' applications.

First, the research study applies content analysis method, taking word stems as analytical units and sorting the collected relevant information through coding of four phases to attain 105 categories. Moreover, these categories are examined according to the literatures of Schreyögg and Kliesch-Eberl (2007) to confirm if the sorted results are qualified for organizational capabilities attributes; and further attaining the 42 content elements of organizational capabilities. For clarification and make the categories more comprehensible, organizational capabilities are grouped in categories with similar connotation and renamed as the leading organizational capability titles; resulting in a total of 16 leading categories for organizational capabilities. Finally, based on Grant's (1996) knowledge hierarchy theory, a complete picture of the organizational capabilities pyramid is constructed through a survey for specialists to clarify the appropriateness of sorted content.

In the past literatures, many enterprises have been provided as successful signs; the study seeks the reasons for enterprise success from different literatures and compiles them into capabilities which contribute to enterprises success. Continually, to identify the elements of organizational capabilities; the complete organizational capability pyramid is constructed as the basis for researchers to construct individual accumulating model of organizational capabilities in the process. In addition, distinct expectations and requests for enterprises that are frequently encountered (wording changed) owning in changes of conditions; such as improvement of technology, loose politics and law, and change of biological environment...etc. Therefore, enterprises need to accumulate different capabilities to meet all needs. The organizational capability pyramid is composed of all kinds of successful factors from the past to the present. Nonetheless, following the change of time, the successful factors will need to be re-explored and the content of categories also require re-examination; in order to establish the categories of organizational capability pyramid that is suitable in accordance with the movement in the environment.

Literatures pointed out that the planned strategies suitable for environmental resources will reveal enhanced financial performance (Judge & Douglas, 1998; Russo & Fouts, 1997), and the planned strategies suitable for environmental resources can generate valuable organizational capabilities for competing in the outside environment (Christmann, 2000). Sharma, Aragón-Correa & Rueda-Manzanares (2007) also pointed out that organizational capabilities affect the development of strategies which enterprises plan to further fit in with environmental resources.

Enterprises may determine the kind of organizational capabilities they possess through a comparison with the present, to find out their core capabilities. On the other hand, enterprises may verify whether if they are possessed with proprietary organizational capabilities through the establishment of a benchmark enterprise; and take the organizational capabilities from the benchmark enterprises as a blueprint towards the goal and strategies where these enterprises attempts to construct future core capabilities.

The primary role for a firm is the integration of knowledge which could be viewed as a hierarchy. The first level composes of capabilities dealing with specialized tasks. The higher level of integration composes of capabilities requiring a more extensive integration. A wider span of integrated knowledge will lead to a more complex set of problems in the creation and management of organizational capability and more difficulty in achieving these capabilities. Knowledge is a preeminent resource for a firm, and thereby organizational capability involves the integration of multiple-knowledge bases as the enterprises tend to possess different and rare knowledge. While integration across a wide scope of specialist knowledge is important in sustaining competitive advantage; with hypercompetitive conditions may ultimately result in all positions of competitive advantage being eroded by competition.

In the firms' point of view, organizational capability pyramid is most desirable when the enterprise possess organizational capabilities different in content; but delivering the same level of knowledge integration. Under these situations, the firm applies limited resources to stretch across a wide set of organizational capabilities. Enterprises with own organizational capabilities may establish a benchmark enterprise and take organizational capabilities from the benchmark enterprises as their blueprint toward the goal and strategies which they attempt to construct the future core capabilities. One of the most important reasons for ascribing the organizational capability pyramid is to prevent an undesirable situation in which a company's core capabilities could not be established; due to the company expending excessive time and efforts on none-core capabilities. Therefore, companies with limited resources lead the firm realize it must identify the best use of the limited resource.

The research result recommends using the components of organizational capabilities for later researches, to analyze the accumulating model and the influence factors of organizational capabilities. Furthermore, Grant (1996) held opinions for organizational capabilities according to knowledge-based concept. Organizational capabilities mainly consist of five hierarchies which include single-task, specialized, activity-related, broad-functional, and cross-functional capabilities; where the former two are more oriented towards individual core competency. Based on the results of the study, the later studies determine the hierarchy of each organizational capability belongs, and can be used as reference for enterprises in determination and selection on accumulating capabilities. Moreover, the discussion with respect to organizational capabilities is a new issue for those whom are unfamiliar with the industries or the academic filed. In addition, with respect to the business field, organizational capabilities often involve strategic thinking, resources planning and distribution; and normally those authorized personnel who make practical decision for this questions are usually(wording changed) the senior managers. Based on the previous mentioned background factors, this study adopts the investigation method for survey on specialist opinions. Although, the study lacks sufficient recovery rate for surveys; each recovered survey may still fully represent specialists' opinions, because the completed questionnaire meets the qualification of the study criterion. On the other hand, the survey opinions of specialists conducted by subsequent researchers may also contribute to the content of the study.

This study has classified components of organizational capabilities initially for

enterprises to search for their own organizational capabilities from the categories; however, no further discussion has been done on the method for practical application in the study. If more studies adopt in this concept, then a more complete knowledge system will be constructed based on the concept of organizational capabilities. In addition, different results may form from organizational capabilities explicitly or tacitly in the process of identifying organizational capabilities. Due to more tacit organizational capabilities are not easily identified by enterprises or general institutes, the capability list collected from a rich source of literatures must be sufficiently flexible; as some organizational capabilities not easily identified are excluded from the list and becomes a limitation for this study.

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Table 1
Definition of 42 Organizational Capabilities and 16 titles

Titles(16 items)	Organizational Capabilities (42items)	Definition
Financial Planning and Human resource Capability	Financial planning capability, Talents developing capability, Institutional Training capability	To control finance and allocate human resource in an optimal manner through achieving organizational goal through organizational system
Resources Deploying Capability	Working capital replenishing capability, Authorizing capability	To loosen control timeliness for allowing employees to make their own decisions and to maximize organizational profits
Raw Material Accessing Capability	Raw material acquiring capability, Key component in hand (controlling) capability	To acquire critical raw materials for products when in needs
Market Dynamics Understanding Capability	Information collection capability	To acquire valuable and reliable information from the market conveniently
Logistics System Planning for Commodities Capability	Inventory capability	To establish a system for the lowest storage for fitting in with the optimal operating management and to satisfy the multiple and changing consumer needs
Marketing and Business Expansion Capability	Branding capability, Channels capability	To deliver products to consumers promptly and enable them recognize and accept the brand
Concrete Management System Capability	Modern management system introducing capability, solid management system capability, corporate successor cultivating capability	To establish an organizational system for rapid accumulation and transformation for supporting all kinds of activities and enhancement in work effectiveness and efficiency
Corporate Vision and Consensus Sharing Capability	Organizational consensus cohering capability, Organizational culture sharing capability	To allow employees understand and recognize corporate values and yield activities, opinions, and behavior norms under the values
New Products Development Capability	New technology development capability, R&D capability	To create new advanced products to satisfy consumer needs
Establish after-sales Service and Customer Relationship Capability	Customer confidence capability · Long-term relationship with customers capability, Key customers in hand capability, Fast services to customers capability	To satisfy customer need quickly and let them feel relieved during transaction, and acquire and integrate customer-related information to keep a long-term relationship with customers
Ideal R&D Capability	Continuous innovation capability · Green products manufacturing capability	To create production process and product in a new and green way to satisfy market's need and fit the concept of environmental protection

Titles(16 items)	Organizational Capabilities (42items)	Definition
Profitable Products Manufacturing Capability	Customization capability, High-end products manufacturing capability, High price product manufacturing capability	To create successful selling products with new function and high price and satisfy individual customer needs
Management and Administrative excellence capability	Product quality adhering capability	The management principles and procedure for improving products and service continuously, and to satisfy customer needs or exceed their expectation to allow sustainability in organizational operation
Products Development Based on Customer Demand Capability	Flexible in emergency orders capability, Product diversification capability, Time-to-market for new products capability	To keep creating multiple products to satisfy different groups of consumer needs
Product Transportation and Storage System Capability	Global logistic capability, Global resources integration capability	To coordinate all kinds of activities from global production to smoothly sales for reducing all kinds of costs and to keep up with changes in the market in time
Industrial Networking Integration Capability	Strategic alliance capability · M & A capability, Diversification capability, Global resource allocation capability, Vertical division of labor capability, Vertical integration capability, Corporate scale expanding capability, Networking capability, Resource integration and application capability	To let all kinds of corporate operation activities expand outwards and to be integrated inwards for making good use of the resource in an organization by different cooperation methods