

The Source of Enterprise Organizational Capability: The Case Study of NH Company

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Abstract. More and more enterprises focus on the construction of organizational capabilities to enable enterprises to keep stable business operations. Especially in the protean and increasingly fierce competitive market environment, most industries have stepped out of the Blue Ocean Stage. In addition to focusing on investing or market opportunities, mature organizational capabilities are more necessary to achieve profitability. Research shows that organizational capabilities are an important internal resource of an enterprise. And the construction and continuous evolution of the organization's capabilities are the determinants of the enterprise's growth. However, there is no unified cognition on the formation process of organizational capabilities. This paper will take NH Company as a case to explore the relationship between employee management activities and the construction of organizational capabilities. This paper finds that employee management activities, carried out from employee governance, employee ability and employee thought, are effective methods for forming organizational capabilities. The enterprises can select a suitable measure to invest in and cultivate the organizational capabilities gradually. The importance of the paper is reflected in filling the gap in the definition and the formation process of organizational capabilities.

Keywords: Organization Capabilities; Case Study; Employee Management Activities.

1. Introduction

There is no unified consensus on the definition of organizational capability. But it can be roughly defined as the ability that the organization enables to achieve a specific goal by using the organization's resources and implementing a series of coordinated activities. In other words, organizational capabilities are the ability to solve business problems. And this ability is irreplaceable and non-imitative [1]. Accompanying the continuous change of the market environment and continuous growth of the enterprise scale, organizational capabilities become a more and more important source of the sustainable development of enterprises. These capabilities can guarantee that enterprises can maintain steady development and gain continuous competitive advantage. Any enterprise pursuing sustainable development cannot ignore the importance of the construction of organizational capabilities. As the unique key resources accumulated inside the enterprise, the management process should be paid more attention to the construction and formation of enterprise organizational capabilities. And the firms have to accumulate as rapidly as possible [2]. Since organizational capabilities are the ability to solve business problems, three questions need to be answered. First, what are the business problems of the enterprise? Second, how to solve the problems? Third, is the enterprise willing to solve it? Yang (2010) proposed that organizational capabilities are the overall combat effectiveness of a team in some aspects [3]. The effectiveness is exceeding the competitors to create value for customers. Yang also proposed Yang's Triangle Model to explore how to improve organizational capabilities from three perspectives including employee governance, employee ability, and employee thought. Definition of the organizational capabilities from a micro perspective is more practical to analyze the process of forming organizational capabilities. So, this paper defines and explains organizational capabilities from the micro perspective of a human. It is a suitable way to explore the formation process through a case study.

Therefore, the paper first will review the literature about the formation of organizational capabilities from the perspective of the enterprise's internal resources and the micro perspective of the employee. And then the paper will explore the source of the organizational capabilities' formation by case study. The paper selects NH company as the research object. NH is a listed company focusing

on agriculture and husbandry. The agriculture and husbandry industries are characterized by strong periodicity. The influence factors of business performance, including the volatility of the external industry, the development scale of the enterprise, the business results of the enterprise, and the enterprise's organizational capabilities, can be combined. The result of combining shows that organizational capability is one of the important resources for enterprises to participate in violent market competition. At the same time, the listed company ensures the convenience of the data and the management activities collection. The case is typical to analyze. The formation process and source of the organizational capability can be well proved by the problems NH meeting and the method of solving problems from the internal employee ability, employee governance and employee thought of NH company. Finally, the paper will conclude the experience from the process of solving problems and make recommendations for further improvement of the organizational capabilities.

2. Literature Review

The success of an enterprise is constrained by many internal and external factors. When external factors cannot be controlled, enterprises can only strengthen their internal causes, the organizational capabilities, to resist business risks. There are mainly two factions in research on the source of organizational capabilities. One faction thinks that organizational capabilities are based on the organization's knowledge. Therefore, the formation process of organizational capabilities is the process of the organization's learning and the organization's knowledge iteration. Another faction analysis the organization's capabilities from micro people perspective and takes people as the medium for the formation of the organizational capacity. Starting from the employee management model, the organizational capabilities can be improved from three aspects: employee ability, employee motivation, and employee governance.

2.1 Cultivating Organizational Capabilities through Organizational Knowledge

Spender (2004) puts forward the concept of organizational capabilities based on organizational knowledge [4]. Grant believes that organizational capabilities are the result of integrating organizational knowledge and the integration process is complex. The organizational capabilities rely on the ability to use and integrate lots of experts' knowledge and personal knowledge. The integrating result determines whether the organizational capabilities can be an important resource of the enterprise's competition. With the rise of the organizational knowledge view, organizational learning becomes an important way to explain the evolution of organizational knowledge. The organizational learning mechanism, including repeated practice, experience encoding, mistakes, and learning rhythm, has an important impact on the formation of organizational capabilities. Sarah also pointed out that both the new enterprises and the mature enterprises must respond to market changes through experiments, learning by doing, trial and error learning, improvisation, and other ways. And with the increasingly mature operation of enterprises, the frequency of improvised learning will gradually decrease, the frequency of trial-and-error learning will increase at first and then decrease, and experimental learning will continue increasing [5].

2.2 Cultivating Organizational Capabilities through Employee Management

With the increasingly complex external environment, based on the traditional resource view, researchers began to explore the relationship between organizational capabilities and sustainable competitive advantage in a dynamic environment. And the relationship between organizational capabilities and entrepreneurs has attracted attention [6]. Human capital as the mediating role of the organizational learning capabilities can enhance the firm performance [7]. From the micro perspective of a human, Yang pointed out that the organizational capabilities of an enterprise consist of the employee's willingness, the employee's ability, and the employee's governance.

According to Yang's Model, the first pillar supporting organizational capabilities is employee ability. In particular, the senior managers and the employees must have the knowledge, expertise,

communication and coordination skills, and management skills. These skills enquired by the organizational ability, such as innovation, low cost, service, and so on, implement the enterprise strategy. The second pillar supporting organizational capabilities is employee willingness. If the enterprise can mobilize the initiative of employees' self-management, the employees will transfer their passive work to their daily concern thing that is pursued by employees match the organizational capabilities required by the company. The third pillar supporting organizational capabilities is employee governance. The employees have the ability and enthusiasm to actively participate in the work, but the result of whether the employees can achieve the goals is also subject to the organizational level and structure of the enterprise.

3. Case Description

The predecessor of NH Company, initiated by the former chairman, was established in 1982 and grew up with the pace of China's reform and opening up. NH has created huge business value and social value for society and has been consecutively ranked among the top 500 enterprises in the world for two years. NH has mainly experienced four development stages including the initial exploration period (1982-1991), breakthrough development period (1992-2004), convergence presentation period (2005-2012), and transformation and innovation period (2013 to date). (See table 1)

Table 1. NH Development Stage

Stage	Time	Important Business Measure
Initial Exploration	1982-1991	- Starting from the breeding industry - Based on the policy and market research, forming the main business of feed
Breakthrough Development	1992-2004	- Completing listing based on the main business - Setting up the first overseas factory
Convergence Presentation	2005-2012	Becoming the largest agriculture and animal husbandry listed company through major asset acquisition
Transformation and Innovation	2013 to date	Arranging business of the pig breeding and food processing through acquisition

By the end of 2001, Nh has become the industry leader in agriculture and animal husbandry enterprises with the largest scale and most industries involved. The production base covers more than 10 countries in the world and all provinces in China, except Taiwan Province, covering from cities to remote villages. In the process of enterprise development, NH based on its superior resources has continued to expand the industrial field. It has gradually expanded from the initial feed production, and livestock and poultry breeding to facilities construction, food processing, and finance. NH has become a comprehensive enterprise cluster dominated by the agriculture and food industries.

The development of NH mainly depends on the acquisition and only in recent years, NH becomes a diversified company. In recent years, the company's operating income has continuously increased. However, due to factors such as the long-term low price of pigs after a sharp decline, the rise of feed raw material prices, and the outbreak of the African swine fever virus epidemic, the industry's breeding costs have generally risen, and the company's profitability has declined. The loss in 2021 will reach 9.59 billion. Under Pe or PB valuation, the company's valuation is significantly lower than that of other voucher companies.

The current operating results and external estimation of the company's development potential are deeply affected by the extensive management of the enterprise. In the past, NH did not precipitate enough organizational capabilities. The lack of the cultivation of the employee ability, the guidance of the employees' thinking model, and the governance mode as a large diversified industrial group make the enterprises unable to confront risks and make a smooth transition in a poor external environment. Under the series pressure of market fluctuation, biosafety, and raw material prices, Nh

Company needs to break through the self-comfort zone to subvert the old management mode of the company. And then NH should strive to explore and practice new ideas, new methods, and new paths to reform and innovate the improvement of the organizational capabilities

4. Analysis of the Problems

4.1 Theoretical Framework

Based on the above literature review, is an effective and important source that management initiatives implemented with the medium of the employees. The paper will analyze the problems of the NH from employee ability, employee willingness, and employee governance. The triangle model of organizational capabilities is as followed.



Fig 1. The Triangle Model of the Organizational Capabilities

4.2 Problems with Employee Ability

Developing from a single business company of feed, NH Company has become a diversified industrial group spanning feed, breeding, and food, and achieved rapid development through mergers and acquisitions of potential companies in the same industry. In this process, the company did not pay enough attention or cost to the cultivation and attraction of employees.

First of all, due to the change in the business scale of the company's operation, the employees' abilities needed by the company have changed rapidly. To respond to this change, the enterprise needs to quickly clarify the talent portrait, build or adjust the employee competency model and review the employees according to the competency model. Based on the result of the review, the companies should find and screen qualified employees, and consolidate the satisfied employees. However, up to now, NH Company has not formed an employee competency model with its development characteristics. This is mainly because the company's acquisition and expansion mode do not allow the company to calmly think about how to enable employees' ability to meet the needs of enterprise strategic development.

Secondly, there is no differentiated development path for employees at different levels, such as senior executives, mid-level, and grass-roots employees, so even if employees have the desire to improve their capabilities, they cannot find a suitable path to improve. Research shows that an entrepreneur's tenure, educational background, and participation in training activities greatly affect the formation of organizational capabilities [8]. There is also no training mechanism in NH company. Employees can only learn from practice and follow their predecessors without receiving suitable training on corresponding skills. The learning results are not systematic, and employees do not know whether they have learned correctly.

Thirdly, these employees' ability is accumulated in individuals, and it is impossible to form continuous transmission of capabilities in the organization. Finally, the employee's ability leaves the organization with the resignation of the employee.

4.3 Problems with Employee Willing

The rapid acquisition and merger have made the sources of employee diversity, influenced by the previous companies, and the background and culture of the employees are very different. Naturally, the employee thinking unification and guidance is difficult. At the same time, if the enterprise ignores the construction of the employee thinking model determining the employee's willingness, the result is unimaginable.

The construction of employee willingness needs to be guided by the enterprise's culture. Organizational culture is also one of the major factors in innovation capabilities [9]. Appropriate and guiding enterprise culture is the foundation of building employee willing. At present, NH Company runs many versions of the enterprise's culture programs with different contents. The enterprises should be unified and lasting. Combined with the development stage of the enterprise, the explanation and behavior guidance could be adjusted to be suitable for the habits of employees of all ages, genders, socio-economic statuses, minorities, and so on. At present, the most widely implemented enterprise culture content is like family, like school, and like an army. This culture is more suitable for the start-up period of enterprises, the traditional business model, and the traditional employees. With the expansion of the enterprise's business, especially the business transferred from the original feed processing which is a traditional industry to food innovation. The business focus has changed the composition of the employees. And with the gradual decline of the employees' age, there are serious obstacles to the recognition and acceptance of the current enterprise culture. Under the guidance of the culture, the enterprise should clarify what the enterprise encourages, what the enterprise encourages, and what the enterprise punishes, relying on the honor system and the assessment and incentive mechanism to solidify. Cadres are the spokesmen of the enterprise culture and organizational willingness. Cadres' rotation or the new cadres' cultivation is an effective method to achieve unity of will.

The building of employee willingness is a medium-term and long-term program that requires a lot of cost input in the early stage and can be harvested in the later stage. Therefore, this is a top job project, and the enterprise must improve the importance of this project to achieve medium-term and long-term construction. If the enterprise cannot plan to build the thinking mode, the enterprise won't see anything negative in the short term, but it will be a disaster in the medium and long term.

4.4 Problems with Employee Governance

When the employees can devote themselves to the enterprise's work enthusiastically, the enterprise's governance model, including the organizational structure, and the power and responsibilities process, determines the achievement of the result of its business objectives. An excellent organization must have clear rights and responsibilities, simple and standardized processes, and smooth and efficient information transmission. In general, the organizational structure is subordinate to the corporate strategy, and the strategy depends on its organizational capabilities [10]. From this point, the innovation of the organizational structure model must reflect the requirements of enterprise organizational capabilities.

Every employee understands the overall strategic objectives of the enterprise, and the objectives are broken down layer by layer to ensure that each employee knows what he is fighting for to support the realization of the objectives. This is the base of efficient collaboration across organizational boundaries.

After NH company changed from a single business company to a multi-industry group, it did not design a differentiated management and control mode according to the development stages and characteristics of each business. The organizational levels were not sorted out. Employees at all levels of the organization do not know their work priorities, their roles in the enterprise value chain, and their responsibilities and authorities. The lack of the top to bottom guidance of personal goals based on company strategy causes frequent problems of employees working independently or with incorrect operational content. Sometimes, the employees need to find things to do and think about what he is

contributing to the enterprise. This abnormal governance model cannot support the stable development of a large diversified industrial group.

5. Suggestions

NH company has experienced 40 years and should cultivate and precipitate excellent organizational capabilities. However, neglect of employee management behavior leads to the current situation. Successful redeployment of the resources for dynamic adaption requires organizational management activities to be well aligned with the firm's business process. The alignment is considered to be an executive-level commitment. Therefore, withdrawing from the macro perspective of the business process, the senior manager of NH company should strengthen the management activities for employees by cultivating high-level employee ability, positive employee thinking, and the orderly employee governance mode to re-cultivate the organizational capabilities which are suitable for the current stage.

5.1 Employee Ability

First of all, the enterprise should define the employee capabilities required by the organization and establish a job qualification system and employee competency model. Then, the enterprise should inventory the existing personnel and identify the employee capability gap. Through internal connection and external introduction, personnel is allocated through multiple channels to quickly supplement core competencies. The employee training mechanism should be as comprehensive as possible, including business talents, professional management talents, and various professional talents. Training and practice should be combined and the job rotation mechanism should be set up.

5.2 Employee Willing

The enterprise should choose and cultivate an enterprise culture that is more suitable to the current business situation and the habits of the employees, such as making profits for the farmers and making benefits for the eaters. Taking culture as the guide, the enterprise should clarify the enterprise's business philosophy and management principles. And then the enterprises convey the company's vision and mission to employees so that the employees can share the same values with the company. The enterprise should clarify the code of conduct for cadres and employees and set up a benchmark and spiritual monument to plant cultural concepts in the hearts of employees. The enterprise should build a comprehensive compensation and incentive mechanism to guide employees' thinking and behavior. After the combination of organizational performance and personal performance assessment employees are willing to work hard for the organization.

5.3 Employee Governance

To match the characteristics and development stages of each industry, the company should, in combination with its business strategy, define the focus of the organizational control at each level. Then, the company builds a differentiated management and control mode and framework in a different industry. The research shows that the ideal match between the organization structure and development status is positively correlated with organizational performance [11]. Driven by the strategy, integrating key functions and building an enterprise operation management system based on the PDCA process. At the same time, guided by problem-solving, the enterprise should comb the process accountability system, and promotes inter-department cooperation and business innovation.

Based on the above analysis, it can be seen that employee-mediated management is an important source of organizational capacity. There are close links between each pillar. Without a clear organizational governance structure, the company cannot deduce the specific job responsibilities of employees, so it is impossible to accurately assess whether the employees' capabilities meet the company's requirements [12]. Under the above circumstances, even if employees are willing to work

for the company, their results cannot be guaranteed to meet the company's requirements and transferred to suitable organizational capabilities.

6. Conclusion

Through the case study, the paper finds that the lack of management activities mediated by employees directly leads to failure to form externally competitive organizational capabilities even after a long period of enterprise development. Therefore, it is an important source of organizational capabilities through management activities including employee ability, employee thinking, and employee governance. It is a good time to cultivate excellent organizational ability through employee activities at any time. However, the cultivation of the organizational capabilities is a medium-term and long-term project, which requires the company to be willing to invest in costs and wait for the result in the patient. Enterprises must implement projects positively because the enterprises can obtain organizational capabilities such as innovation ability, organizational learning, and cross-sectoral cooperation from specific means [13]. The process of organizational capabilities building is split through three dimensions related to employee activities, making the source of the organizational capabilities more specific and operable. The source of the organizational capabilities is visualized into specific measures, and enterprises can select to invest and cultivate appropriate organizational capacity according to their conditions.

The main contribution of this paper is to fill the gap in the definition and the formation process of organizational capabilities, the formation source of which from three dimensions including the employee ability, the employee willingness, and the employee governance. The paper methodologies the specific operation of the formation of the organizational capabilities, which provides a reference for other researchers when analyzing the source of the capabilities.

Although this paper proposes the source of the organizational capabilities, it can be further studied in the future about the specific ability which can be divided from the organizational capabilities. And the differences in methods of employee capability, employee willingness, and employee governance corresponding to each ability can be further studied.

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