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## Innovation Efforts of Halal Food and Beverages Small and Medium Enterprise in Malaysia

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### Abstract

Innovation is an important factor for a successful and sustainable business. Hence innovations need to be implemented in every enterprise regardless of its size. This research aims to identify types of innovation strategies by small and medium halal enterprise in Malaysia. 12 halal enterprise owners were interviewed and the interview narrative were analyse using thematic analysis procedures. Seven basic themes have been identified that represent types of product innovation, organisational innovation and marketing innovation. However, service innovation does not obviously observe from the interview narrative analysis. This study helps to understand the three types of innovation strategies by the small and medium enterprise and also the types of innovation effort that need to be further emphasis in the innovation strategies by the small and medium enterprise.

**Keywords:** *Innovation, Halal Food Industry, qualitative research, Small and Medium Size Businesses*

### Introduction

Innovation is a phenomenon in the evolution of a society. It is a natural process in the development of human beings. Earlier society does not only perceive the element of innovation as an element to increase their sources of income which are harvested from natural resources, but it is equally seen as an element to curtail their everyday workloads. However, according to the economic experts, there are different terms referring to innovation. The innovation activities are originally seen to be inclusion of capital increment concept where it is often associated with the market situations and technological advances (Galindo & Mendez-Picazo 2013, Linder et al. 2003). Thus, in the field of innovation, business is the driving force for change in a competitive environment. The rules is that, traders cannot refuse to change if they want to succeed. Innovation has been identified as a major factor in the success of an entrepreneur (Duane & Webb 2007). Among others, innovation is referred

to as the use of new products or processes to enhance competitiveness and profit based on consumer needs (Zahra et al 1998) and also the implementation of new ideas that create values (Linder et al. 2003).

Innovative is also of no less importance to the food and beverages industry. In the European Union, the food and beverages industry is the largest manufacturing sector and is one of the key drivers in the economy that contributes to economic output and employment opportunities (Menrad 2004). However, there is little research on innovation practices in the small and medium enterprise of food and beverage sector (Baregheh et al 2012, Alam et al. 2016). Although there are some related studies, it only include limited specific topics such as the role of the network and the relationship (Kuhne et al 2010), Avermaete et al. 2003). There is lack of empirical research on the types of innovation and renewal in the small food industry sector (Avermaete et al. 2004, Abu et al. 2011). On the other hand, the development of Malaysia's halal industry shows that the food and beverages industry has successfully penetrated the international halal market. It is observed that the development of the halal industry in Malaysia demonstrates a huge potential in terms of profitability through business opportunities that can be explored in this halal product market.

It is found that more than 112 countries have created market opportunities for halal food products. It is also observed that while the developed countries are facing a reduction in population with the diminished size of the family, the Islamic countries are experiencing rapid growth and have a large family size. As the fastest developing religion and the second largest in the world, Islam is expected to experience an increase of believers' population by 30 percent by 2025. Accordingly, the global market for halal products is expected to reach US \$ 580 billion a year as every Muslim consumer need to take halal food and drinks as well as halal medicines. This will generate greater demand for halal products. Given the population growth and income growth, it is expected that as much as 20 percent of the world food market are from halal food (World of Food Asia 2014). Looking at this phenomenon, this paper will discuss the innovation efforts that have been implemented by halal Small and Medium Enterprise (SME) in Malaysia to investigate the innovation strategies being undertaken by them in order to cater for the rapid grow of halal food industry.

### **The Concepts of Innovations**

The concept of innovation varies according to the situation. The type of innovation is categorized based on the outcome of the innovation process. Most types of innovations have been classified over the years. The earliest models have proposed several types of innovation that are innovation in organizational structure, production process, human resource, product or service. The binary model proposed in the 1970s and 1980s states that administration, technical, incremental, radical, product and process as the type of innovation (Chaganti & Damanpour 1991). To date, several combined models have been developed that identify different types of innovation. Among them are studies by Oke et al. (2007) and Abu et al. (2012) which discusses about product innovations including incremental and radical types of innovation, services and processes (including administration, service and production) as innovation types. On the other hand, Francis & Bessant (2005) have identified four categories of innovation namely position, process, product and paradigm innovation. There are also hidden innovations that refer to innovation activities that do not involve traditional indicators such as investments in research and development or patents.

Product innovations including new product offerings or improvements in existing products are the most common types of innovations (Kanter 1985). Product innovation will help businesses to stay and grow towards a competitive position. A product needs to be updated and refined to remain in the current challenging marketplace (Johns 1999). Hence, to survive in a difficult and ever-tough environment, many companies are constantly investing in their resources and administration to implement product innovations. Pressure to increase the frequency of new product generation led to product innovation to be carried out regularly and this effort involved cooperation with outsiders (Boer et al 2001) .

Service innovation is also increasingly important as it can be described as a new development in the activities carried out to deliver core products and make them more attractive to consumers. It includes process innovation that involves the creation and improvement of production methods, services or administrative operations (Khazanchi et al. 2007). This type of innovation includes the development of processes, systems and re-engineering in activities undertaken to develop new products. Organizational innovation can also take place where this innovation focuses on initiatives implemented at management level. However, the study on management innovation at the SME level is still less than the research conducted at big firms (Chagliano & Spina 2002). Organizational innovation can also be seen in terms of business model, techniques and management strategies and organizational structure (Hamel 2006).

Marketing innovation is about improving the target market and how selected markets are used optimally. This is to identify better potential and appropriate ways to benefit into the target market (Johns 1999). Marketing innovation is a significant change in the design or packaging of goods or services and also changes or renewals in the methods of sale or distribution such as online sales, franchise, direct selling or licensed distribution.

### **Methodology**

This study adopts a qualitative case study on halal food and beverages of small and medium enterprise by engaging in a purposive sampling method. This sampling method would help to provide the data related to the phenomena to be studied in order to achieve the objective of the research (Silverman 2000). Hence, for this study, a total of 12 Halal food and beverages entrepreneurs have been interviewed to get information on the business background and innovation effort they have and are currently doing. This study uses qualitative thematic data analysis method. It is a method of viewing the entire qualitative data to identify common issues and themes that represent the opinions or views that were obtained through the data collection process. Qualitative data analysis is also defined as the process of searching and managing transcripts of interviews, observation notes or systematic non-textual materials acquired by researchers to enhance understanding of a phenomenon (Hancock et al. 2007). This process involves encoding or classifying data followed by the identification of significant patterns, thereby placing the meaning of the data and building a logical chain of evidence (Patton & Cochran 2002, Sarmila et al. 2015). The analysis starts by rewriting the entire source of information obtained from the interviews that have been recorded. Code is assigned to significant statements to the objective of the study. The codes are combined to produce

the basic theme (BT). The emergence of basic themes from the coded significant statements will help to explain the phenomena being studied (Patton & Cochran 2002, Sarmila et al. 2013).

### Result of Study

The results of the thematic analysis have identified 7 basic themes (BT), which describe the innovation efforts conducted by the 12 entrepreneurs of the SME halal food enterprise being interviewed. The themes are BT-1: Enhancing quality, BT-2: Conducting Research & Development, BT-3: Management strategy, BT-4: Source of Material, BT-5: Improve of equipment and technology, BT-6 Improve of product values and BT-7: Improved of product design (refer to table 1)

Table 1: The Themes for Small and Medium Enterprise Innovation

Coded Narratives	Basic themes (BT)
<p><b>E1:</b> <i>If you want to compete, first is to maintain our quality.</i></p> <p><b>E8:</b> <i>We need to ensure quality in our products as customers expect health products that enter the market are of high quality</i></p> <p>.</p>	<p><b>BT-1:</b> Enhancing quality</p>
<p><b>E4:</b> <i>We need to enforce R &amp; D in the clinical aspects as needed.</i></p> <p><b>E9:</b> <i>Until now I am creating through R &amp; D relating to this aloe Vera plus juice</i></p> <p><b>E11:</b> <i>I also have other products that are still in my R &amp; D for the future.</i></p>	<p><b>BT2:</b> Enforcing R&amp;D in the products</p>
<p><b>E5:</b> <i>I'm lucky enough to have a partner who joined me. He is the one who managed the factory because he has working experience with a cosmetics factory. We have schedule on the board. It became a system in the company. When an employee comes to work, they will take a look and read the board first. By having this employee are more efficient.</i></p> <p><b>E8:</b> <i>Here, we will produce according to what best according to our religion. The employees need to take ablution and during the production process, they need to listen to the holy verses of the Koran. That is our way here.</i></p>	<p><b>BT-3:</b> Management strategy</p>
<p><b>E7:</b> <i>We are using local resources. We will only take resources from neighboring countries if there are no local resources</i></p> <p><b>E8:</b> <i>We are very delicate in terms of resources. We want to ensure that our products are easy to get halal recognition. Whenever we wanted to select supplier for our product materials, we will make sure that these resources are already recognized as halal. This way, our products will be able to get halal-certification easily. By doing this, no need for halal-authority to take a long period of time to investigate on the material sources of our product to ensure whether it is halal or not.</i></p> <p>.</p>	<p><b>BT-4:</b> Source of materials</p>



<p><b>E1:</b> <i>Previously, we manually made the juice. We heated it in a pot of 100kg for about 3 days. However today, we are using semi-auto machines. As our production increases, we also increase the types of machines used. This is to ensure that we can achieve our targeted customers.</i></p> <p><b>E4:</b> <i>Unless it is from the aspect of beverages-based products for example. Then, we will classify it as a specialized project where there will be a need for a machine for every project renewal.</i></p> <p><b>E8:</b> <i>So we are now changing the machine. We buy machine mixers from the size of small to large as we follow the demand to follow the requirements.</i></p>	<p><b>BT-5:</b> Improve of equipment and Technology</p>
<p><b>E4:</b> <i>We improved our existing products by adding berries and other ingredients which are famous in current millennial years.</i></p> <p><b>E5:</b> <i>In my opinion, why not we try to create vanilla coffee. You can find vanilla cakes, vanilla chocolates but not yet vanilla coffee.</i></p>	<p><b>BT-6:</b> Improve of product values</p>
<p><b>E6:</b> <i>we need to think of what kind of design for our bottles. We need to visit the bottle factory, and see the types of bottles that they offer. We need to choose the design that is the best for us.</i></p> <p><b>E7:</b> <i>We need to change the pattern of our existing design. At least for the packaging as packaging is the most important. Sometimes, the products are similar however the packaging and patterns are different. We need to improve ours.</i></p> <p><b>E9:</b> <i>Packaging will always need improvements, so does the bottling.</i></p> <p><b>E11:</b> <i>If we wanted to penetrate into international markets, my efforts and innovation must be able to satisfy international tastes.</i></p>	<p><b>BT-7:</b> Product Design improvement</p>

The study shows that the efforts and initiative being exercised by entrepreneurs are driven towards product innovations that focus on quality enhancement, finding a better alternative for the sources of raw materials of the products, improvements on values of the existing products, improvements on technology and the types of equipment used in production process besides improvements on existing product design. According to John (1999) these types of innovations are implemented by entrepreneurs as an effort to ensure their competitiveness in the industry. The study also discovered an innovation effort on research and development (R&D) of the existing products (refer to BT-2). These efforts are carried out with the aim of releasing additional new products to the existing products being offered. According to Kanter (1985) new product offerings are a common practice among SMEs. However, there is no information obtained in this study on the collaboration efforts undertaken by entrepreneurs with outsiders in the process of implementing R&D efforts.

In addition to product innovation, the outcome of the analysis also shows innovation efforts related to management strategies (refer to BT-3) that have been implemented by the entrepreneurs. This innovation refers to the process of managing the operation of the enterprise in the production of the product. However, when referred to the discussions related to organization innovation by

Cagliano & Spina (2002) and Hamel (2006), the innovations that are undertaken within the organization by the entrepreneur can be categorized as innovation on the aspects of management techniques and strategies. The marketing innovations effort are also being undertaken by the entrepreneur in this study (refer to BT-7). This innovation refers to the enhancement of product designs in order to meet international preference. This innovation was normally undertaken as an effort to penetrate the international market as stated by Jankowski (2006) through the improvement of product design and packaging that could help in increasing the target market.

### **Conclusion**

The overall outcome of this study gives understanding on the innovation efforts that has been implemented by SME entrepreneurs on Halal food and beverages products in Malaysia. These efforts include product innovation, organizational innovation and also market innovation. It is obvious that the innovation effort focused towards product innovation in comparison to the other two innovation efforts. The focus on products innovation are being implemented by improving the quality of the products, its raw materials, the technology engaged, the equipment on producing the products, and the design used on the products. However, there is no narrative from this study that can be categorized as service innovations being implemented by the entrepreneurs even though in previous studies this type of innovation is increasingly important in making a product more attractive to consumers. Therefore, future study that investigate on the factors that influence the types of innovations being implemented by entrepreneurs will help in giving clearer picture of understanding on this matter.

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