Malaysian Food Processing Industry: Strategies for Growth

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Abstract

Choosing the correct strategy is crucial for the success of any business ventures, and this is even more so for small firms that have limited resources. Thus, this study involved empirical analysis of the growth strategy adopted by firms within the food processing industry which mainly consist of small & medium sized enterprises. The food industry was selected because of its importance to the Malaysia's economy and also because of its dynamic internal and external environment. For instance, in 2011, processed foods from Malaysia are exported to more than 200 countries, producing an annual export value of more than RM13billion (Malaysian Investment Development Authority, 2012).A representative sample consisting of fifteen firms located in Kuching, Sarawak was used for this study. Results indicated that majority of the firms adopted market penetration strategy due to its perceived low-risks and ease of implementation that do not overstrain organizational resources. Notwithstanding the type of strategies adopted, the most crucial success factors was found to be firm's ability to respond to market signals, personal networking and systematic operational management of the firm.

Key Words: Business growth, food processing industry, strategies.

1. Introduction

Following the government's focus on the agriculture sector, the Malaysian food processing industry has become an important part of the agro-based industry. In the Industrial Malaysian Plan 2006-2020 (IMP3) period, the food processing industry's investment target have been set at RM24.6 billion (Ministry of International Trade and Industry, 2012) . In terms of the business environment, the Malaysian food industry is dominated by small and medium scale firms. (Malaysian Investment Development Authority, 2012).Currently, the industry's key growth areas are functional food, health food, convenience food, food ingredients and halal food. In terms of external environment, the industry is also undergoing numerous changes brought about by factors such as rising production costs, technological developments, shifting demand patterns, changes in competitive groupings, etc.

By examining the Kuching small firms' growth strategies and clustering them based on their performance and growth, the study aims to increase our understanding about the growth strategies within the context of small business operating in the food processing industry. The study examined whether the firms (using Kuching as a case study) focus more on intensive, integration or diversification strategies. If certain patterns of antecedents are identified as being linked to improved growth performance, owners/managers might change their strategizing to incorporate these patterns.

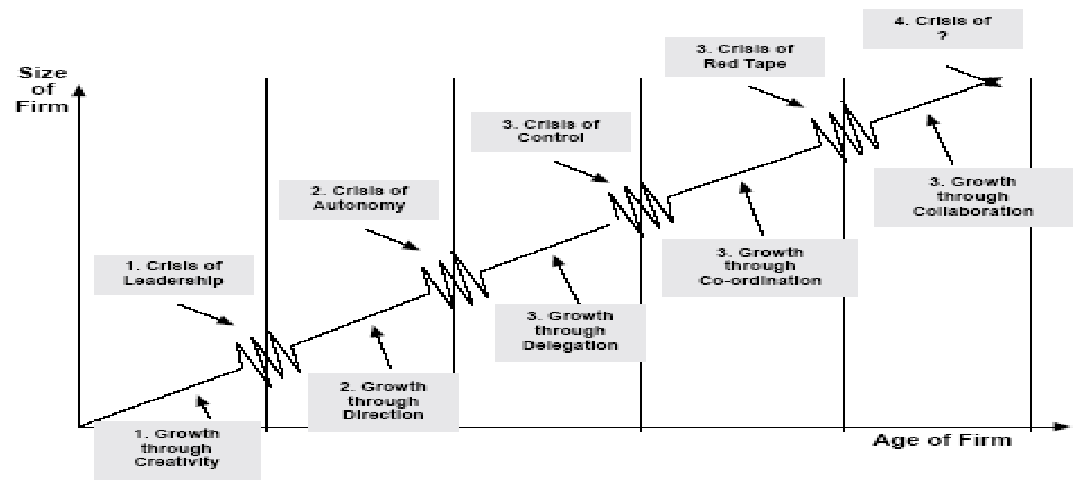
2. Literature Review

Business growth can be defined as the increase in a firm's capital or expansion of its size and capability (McNamee, 1999; Ghalayin and Noble, 1996; Meyer and Gupta, 1994; Dixon *et al*., 1990; Bititci*et al.*, 2000).

Growth is crucial for a firm in order to ensure at the very least, its ability to maintain a competitive position within a business environment (Kartinah Ayupp, 2012; Wheelen and Hunger, 2004).From a viewpoint of SMEs, sales are the crucial indicator of the firm overall success and longevity (Heinonen et al., 2004; Smallbone and North, 1995; Smallbone and Wyer, 2000). It is generally recognized that organizational size influences the type of strategies and approaches adopted within an organization. Unfortunately, there is still a lack of research addressing the strategic planning process and type of strategies adopted by small and medium organizations compared to large-sized organizations (O'Regan and Ghobadian, 2002), and this deficiency is even more apparent pertaining to the Asian business environment. Large organizations usually rely on bureaucratic management systems to achieve co-ordination. Small and mediums enterprises (SMEs), on the other hand, are more likely to have an organic structure. Small firm owners mainly focus on short-term operational over long-term strategic issues, with decision-making that leans towards reactive and intuitive rather than proactive or deliberate (Stonehouse and Pemberton, 2002).

In terms of growth, organizations have a number of strategies that they could adopt to achieve organizational expansion. Wheelen and Hunger (2004), David (2003) and Hill *et al*. (2007) have broadly categorized these growth strategies as either intensive, integration or diversification strategies. Firstly, with intensive strategies, the firm attempts to achieve greater sales through intensive marketing efforts in present markets for existing products (market penetration); introduction of present products into new geographical areas (market development); or the use of R&D to increase sales through improvement of products (product development). Secondly, with integration strategies, the firm could either take over business activities formerly performed by its suppliers (backward integration) or its distributors (forward integration); or it could opt to reduce competition through mergers, acquisitions, takeovers, or strategic alliances (horizontal integration). Lastly, with diversification strategies, growth is achieved through operating in different markets or adding different products to its mix. Through diversification, the firm can either choose to add new but related products/services (concentric diversification) or expand by focusing on products/services that are unrelated to the firm's existing business (conglomerate diversification).

Notwithstanding the above, the firm's capabilities and resources also influence the types of growth strategies that can be adopted. For instance, using Ansoff's Matrix as framework, Perry (1987) identified organizational size as an important factor in determining growth strategies being pursued. He suggested that SMEs adopt strategies of product development and market penetration for growth. This involved either making use of R&D to increase sales through modification/improvement of products or marketing efforts in present markets to increase market share for existing products. This view is supported by North andSmallbone (2000) and Pena (2002), whose studies show that small firms achieving high growth are those that have been adopting a product development strategy. According to Holm and Poulfelt, 2002; and O'Gorman, 2001, this phenomenon might be due to the fact that compared to large firms, smaller firms do not have the same economies of scale and thus, they have to compete mainly on innovation rather than price. Pavia (1990), on the other hand, recommended that at the early stages of small firms, because their customers' needs and the company's product characteristics are likely to be changing, that a "broad, flexible strategy with a focus on short-range market responsiveness" may be most suitable. Other researchers (such as Brau and Osteryoung, 2001; Beverland and Lock-shin, 2001; Masurel and DeMontfort, 2006; Scott and Bruce, 1987; Kolvereid and Bullvag, 1996; Goffee and Scase 1995; Hisrich and Peters, 2002) conceptualized the pattern of a firm's growth and size, along with appropriate growth strategies at different stages, as the business life cycle. Greiner's (1972) work gives us the basic foundations of a theory on firm growth (both evolution and revolution) where growth phases start with a period of evolution:



(Source: Greiner, L.E. (1972), Evolution and revolution as organizations grow, *Harvard Business Review*, (July-August), pp.37-46)

In terms of the food processing industry, there are more than 9000 firms in Malaysia, of which 95% are classified as small-scale (Ghani, 1995). These small-scale food processing enterprises exhibit certain characteristics distinguishing them from large-scale. Apart from being family-based or single proprietorship type of ownership, the majority of these SMEs tend to operate under a simple organizational structure (Chee 1986). Notwithstanding the above, the food processing industry is generally driven by consumers' retail pull. For instance, a study by Connor (1988) on the US food processing industry have found that increasing variety of consumer demand as being the norm for this industry. Studies conducted in the West have also shown that innovation, high rate of new food product development and exploration of new markets are effective ways for SMEs to gain competitive advantage (Rudder et al, 2001; Avermaeteet. Al., 2003). Ability to respond to market signals is crucial (Kartinah Ayupp and Roseniza Ismail, 2011). Thus, flexible organizational structures that can change at various stages of the production processes to accommodate consumer demand are better suited for the food processing industry (Bogue and Ryan, 2000). This industry is also characterized by a strong backward linkage, whereby factors such as availability of raw materials and supplies can contribute considerably towards the firm's competitive advantage (McMaster, 1992; Jarrett, 1996). In terms of international expansion, Leibold (1989) and Aaby and Slater (1989) have identified government assistance as vital. Thus it could be seen that the success of the food processing industry, in both domestic and international markets, depends on a broad range of factors. Accordingly, this research aims to fill the knowledge gap in this field since little is known about the influence of growth and expansion strategies adopted in the Malaysian food processing industry.

2. Methodology

In terms of the research variables, empirical studies in the field of growth strategies have generally employed a multidimensional view (Davidsson, 1991; Whetten, 1987; and Kazanjian, 1990). For example, researchers such as Feeser and Willard (1990), Mitchell (2006), Gupta (1984), Hambrick and Mason (1984), Norburn and Birley (1988), and Eisenhardt and Schoonhoven (1990) used the characteristics of top management in studying firms' growth strategies; while McDougall *et al*. (1992), Hamilton and Shergill (1992) and Romanelli (1989) looked at the industry characteristics. Following the work mentioned above, three sets of determinants have been identified and were used for this study, namely: the management approach, firm's attributes and sales performance. Once the relevant variables from the ongoing literature reviews are identified, data collection was conducted through in-depth interviews with top management teams of 15 food processing firms located in Kuching, Sarawak, Malaysia. Kuching is the capital city of Sarawak with a fast-growing economy. Kuching's food processing industry has become a significant socio-economic contributor of the state's overall economy plus an important source of employment. It is considered that this location will provide rich, and relatively unexplored research data for understanding aspects of business growth strategies in an industry such as food processing.

3. Data Analysis

The respondents were interviewed using an interview guide to initiate the questioning and to ensure the information flow was within the research objectives. The stages in processing the quantitative data were firstly the coding process, followed by data entry using Microsoft Excel. Qualitative data was analyzed manually by transcribing all conversations directly into Microsoft Word, where data was edited and separated into several identified variables. Next was the data analysis stage. The analysis was done by determining consistent patterns and summarizing the appropriate details revealed in the data. The unit of analysis for this study is the organization.

3.1. Firms Background

Table 1: Firms Background

Operating Years	Frequency	Percentage
1 – 5 years	10	67%
6 – 10 years	2	13%
11 – 15 years	1	7%
16 – 20 years	1	7%
21 – 25 years	1	7%
Management	Frequency	Percentage
Owner cum manager	12	80%
Manager	3	20%
No. of Employees	Frequency	Percentage
1 - 10	10	67%
11 – 50	3	20%
51 – 100	1	7%
More than 100	1	7%
Sales in Year 2009 (RM)	Frequency	Percentage
0 - 1000 >	3	20%
20,000 - 50,000	5	33%
50,001 - 100,000	2	13%
100,001 – 500,000	3	20%
More than 500,000	2	13%

Year 2010 was taken as the based year of calculating the operating period of the firms under investigation. The majority of the firms are relatively new with ten of them having been in operation for one to five years, indicating they are roughly in the middle of their growth phase of their organizational life cycle. Two firms had operated between six to ten years, while three firms have operated for more than 10 years. Out of this, twelve firms were managed by the owner who acted as the manager while three other firms were managed by the hired manager. Majority of the food processing firms in Malaysia are either micro or small-sized, and this is reflected in the study where ten firms were found to have employed not more than ten employees (other than the manager). For three other firms, their maximum manpower was not more than fifty employees. While only firm were found to have more than 100 employees, with total staff numbering about two-hundred and four.

By the end of 2009, firms' sale ranges widely from five hundred to seven million. One firm claimed that it didn't know the sales total for 2009. Two firms experienced total sales between 500 and 1000. Five firms total sales from 20,000 to 40,000 while another two firms sold between 56,000 to 84,000. Three firms sold from 378,000 to 420,000. One firm sold 720,000 while another firm sold for a total of 7 million in 2009.

Thus, based on the demographic of the respondents, it is found to reflect the general trend of the food industry in Malaysia in terms of number of employees, with most of these firms are managed by the owners themselves rather than using managers.

3.2. Types of Growth Strategies Adopted

Table 2: Types of Growth Strategies Adopted

Product	Market		Total
	Existing Market	New Market	
Existing Product	8	2	**10**
New Product	4	1	**5**
Total	**12**	**3**	**15**

Eight firms sold existing products in their existing market while four firms sold new product in their existing market. On the other hand, two firms sold existing product in a new market while one firm sold new product in its new market. In business strategic terms, eight firms practices Market Penetration, two firms practice Market Development, four firms exercise Product Development and one firm practice Diversification. This indicates that Kuching food processing firms are relatively responsive to the changing needs of their external environment and are willing to position their firms accordingly. Although they might be small, these firms show an ability to differentiate themselves and not rely solely on price to compete. For majority of these firms, market penetration is the most popular strategy adopted to increase their market share. Market penetration is viewed as the least risky of all the other growth strategy because it focuses on selling existing products to the current markets it is serving. That is, the firms rely on their knowledge of their existing markets to increase sales, by focusing on enhancing the sales force, improving product distribution and promotion, and spending more in marketing and advertising. Within the food processing industry, different group of customers might have different purchasing habits and motivation to buy the various food items. Thus, by concentrating on existing market, the odd of success is deemed higher given the firms' knowledge of the market and the relatively lower investment cost involved.

4.3 Growth Strategies and Sales Performance

Table 3: Relationship between Growth Strategies and Sales Performance

Sales (Year 2009)	Growth Strategy				Total
	Market Penetration	Market Development	Product Development	Diversification	
0 – 50,000	5	1	2	0	**8**
50,001 – 100,000	0	0	2	0	**2**
100,001 – 150,000	0	0	0	0	**0**
150,001 – 200,000	0	0	0	0	**0**
200,001 – 250,000	0	0	0	0	**0**
250,001 – 300,000	0	0	0	0	**0**
300,001 –350,000	0	0	0	0	**0**
350,001 – 400,000	1	0	0	1	**2**
400,001 – 450,000	0	1	0	0	**1**
450,001 – 500,000	0	0	0	0	**0**
500,001 – 1,000,000	1	0	0	0	**1**
➢ 1 Million	1	0	0	0	**1**
Total	**8**	**2**	**4**	**1**	**15**

Eight firms having sales from RM500 to RM32,000, RM378,000, RM720,000 and RM7 million practiced market penetration strategy. Two firms practicing market development strategy experienced sales worth RM40,000 and RM420,000 respectively. Four firms practicing product development strategy have sales figures from RM36,000 to RM84,000. The remaining one firm practicing diversification have sales averaging RM380,000 in year 2009. The respondents mostly agreed that market penetration is the most favored strategy to increase market share because being a small firm, their market is less secure and thus they feel that they need to continuously rely on marketing efforts to boost sales.

The result shows that there is no individual strategy that has a strong determining influence on sales performance. That is, even within those firms that adopted the same type of growth strategy, there is a mixed performance results that ranges from sales below RM50,000 to as a high as RM7 million (i.e. in the case of those adopting the market penetration strategy).

4.4 . Relationship between management approach and growth strategy

Table 4: Relationship between management approach and growth strategy

			Growth Strategy				
Management			MP	MD	PD	D	Total
owner cum manager	Sales 2009	0	0	0	1	0	1
		500	1	0	0	0	1
		1000	1	0	0	0	1
		20000	1	0	0	0	1
		25000	1	0	0	0	1
		32000	1	0	0	0	1
		36000	0	0	1	0	1
		40000	0	1	0	0	1
		56000	0	0	1	0	1
		84000	0	0	1	0	1
		380000	0	0	0	1	1
		720000	1	0	0	0	1
	Total		**6**	**1**	**4**	**1**	**12**
manager	Sales 2009	378000	1	0	0	0	1
		420000	0	1	0	0	1
		7000000	1	0	0	0	1
	Total		**2**	**1**	**0**	**0**	**3**

The way that the firms are managed is found to be an important factor driving the growth of these small firms. When sales (2009) and growth strategy were analyzed together with management variable, the figures show that twelve firms experience sales from RM500 to RM720,000 are run by the owner of the firm. In these firms the operational aspects and decision-making process was firmly controlled by the owners. That is, there is no distinction between private and business assets, with subjective and personal factors playing a large role in decision-making. Meanwhile, three firms that were run by employed manager experiencing sales from RM378,000 to RM7 million. This shows that as business grows, owner tend to recruit managers who are likely to devote more time and specialized attention to managing the firm. Furthermore, most of the respondents agreed that as the firm grows (as per the sales figures), the management aspect becomes more complex and this required an effective delegation, and varied managerial skills to push for further growth. The study also shows that there is tendency to increase sales through current market or new market rather than developing new products. That is, notwithstanding who managed the firms, strategies such as market development and diversification is not a popular option because most of the respondents feel that this strategy places a heavy strain on their limited resources. Furthermore, they feared losing focus and making a mistake in new and possibly unfamiliar areas.

4. Analysis and Conclusion

The results of the study show that majority of the firms adopted market penetration strategy as a means for business growth. They mostly opted for target marketing of specific segments in order to not to over-strain their resources and also to avoid competing heads-on with major food firms in big segments. This strategy is especially important to small firms that have limited resources to invest in elaborate marketing strategy or new distribution channel to attract new type of customers. The significant links between market penetration strategy and small firm have been highlighted by authors such as Kotler (1996), Carson (1990), Kerby and Wallis (1983), and Guiltinan (1997), and Perry (1987). For the food processing industry in this study, it shows that niche strategy works very well in those firms that have a sustainable competitive advantage such as brand equity, customer goodwill and relationships, distribution networks, and business contacts. Additionally, even when these firms have come up with new products, majority of them choose to sell to existing markets.

Their reasoning is that retaining existing customers and increasing sales in current market is cheaper and less risky than attracting new ones. This risk-adverse attitude is not surprising because as observed by Schindehutte and Morris (2001), small firms are more vulnerable to environmental forces compared to large firms due to their limited liquidity and debt capacity, their frequent over-dependence on a limited products/service line, and limitation in raising capital.

New products and product developments in the food processing industry could range from introducing new flavors, expanding their existing product lines, to changing the product's packaging to give it more appeal to current customer base. Contrary to what was expected, product development did not by itself a superior strategy for growth compared to market penetration or market development. This tally with the work of Littunen and Tohmo (2003) who found that "*growth could not be explained by any single type of strategy. The most successful firms were characterized by an ability to make changes in their production process to complement an active market development strategy*" (p.197). Indeed this study proves that the impact of growth strategy on sales performance may be contingent on other firms or environmental factors. That is, the unique characteristics of the firm and the external environmental factors would determine for each firm what is best strategy to ensure growth for that firm. Thus, to be successful in the food processing industry, the firm needs to rely on localized and tacit knowledge that can respond quickly to market signals such as changing customers' preferences that is the need to cater to diverse taste from original traditional foods, price issues, cost inequities, legislative compliance, competition restrictions etc. Notwithstanding whether the firm is owner- or manager-managed, the management's direct contact with customers and the ability to be flexible offers a unique advantage to these firms.

For a start-up business or when the company is still struggling to attain sufficient sales, majority of the respondents prefer to maintain a hands-on approach in the running of the business. Most of them agreed that starting a business is relatively easy compare to sustaining it. Thus, decision-making in most of these firms was firmly controlled by the owners. They mainly focus on personal relationship in identifying who the target customers are and how their products can meet customer needs. This finding tally with the work of Culkin and Smith (2000) and Stonehouse and Pemberton (2002) who discovered that in small-size organizations, the owners' personality tends to dominate the culture and their strategic decision-making is often based on experience or intuition. But the study show that as the firm grows, the owner tend to delegate more of the operational aspects to manager and to involve them in the decision-making.

This is because the owners are focusing more on building personal networks to identify opportunities in the business environment and to gather information for strategizing. The owners' main tasks during this expansion stage are mostly to identify who the customers are and where to locate them most easily, monitor competitors to identify strengths and weaknesses, ascertain how the product lines can grow to meet customer's needs, then arriving at reasonable prices and developing promotional material. Thus, for the firm to grow, the role of the owner is very important in recognizing when to start delegating and using systematic rather than intuitive strategizing. That is, as the sales grow, the owner's focus should shift from short-term operational focus to long-term strategic focus. This is consistent with previous researches that suggest formal strategic planner will lead to a more formal operational management. Furthermore, this can help these firms to grow as it instill confident in financial institutions to help them access resources and secure financial help (Mazzarol, Reboud, and Soutar, 2009). Thus, it can be concluded that the owner/manager's willingness to delegate and allow participatory decision making process is considered important to facilitate high growth.

5. Recommendation for Future Research

Due to the limited sample and variables being studied, the purpose of this study does not lie in generalization of growth strategies every food-processing firm in Malaysia should take, rather in suggesting broad directions for the industry in terms of where the opportunity lies for business growth.

This study adopted the focus on a single industry in order to eliminate problems associated with inter- and intra-industry differences (Hartline and Ferrell, 1996). However, it is recommended that future research be conducted in different types of industries, different geographic locations and with larger sample sizes to provide empirical support for the generalizability of these findings.

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