

Impediments and Resolutions to Innovation in a Chinese Food Manufacturer: A Case Study

The food industry is a major industry in China consisting of both local Chinese owned and managed firms, and foreign ventures, often operating in competitive environments. This paper examines the case of a family owned Chinese food manufacturer in Beijing. The need to innovate is clear from the challenges faced by the firm such as changing consumer preferences; and competition from local and foreign firms. This paper finds that impediments to innovate include a deep rooted inward favouring tradition; a reliance on the use of experience rather than on analytical techniques; a hierarchical and controlling management structure and style that discourage deviations from established practices; and low absorptive capacity. The resolutions include adjusting the firm's organisational structure and management style; introducing more qualified and innovative favouring staffs; formalising research and development; and implementing structured and formal training.

Keywords: China; Food Manufacturer; Innovation

INTRODUCTION

China has been developing at an unprecedented rate since the opening up of the country to foreign investments in 1978, the result of China's open-door policy. The country has seen vast areas of agricultural land developed into industrial strongholds, one of which, in the Pearl River Delta, is now the largest manufacturing base in the world. The Pearl River Delta is home to Chinese and foreign manufacturers for the home and export markets and has benefitted from not only Chinese and foreign investments but also from favourable business environments.

Amidst all these manufacturers is the Chinese food manufacturing industry, one of the main and most important industries in China. In China, the industry has seen three key period of change since the Chinese government implemented the open economic policy in 1978. The first is characterised by a period of food shortages that favours manufacturers in the late 1970s and early 1980s. Food manufacturers in this period were either large scale State Owned enterprises (SOEs) or very small companies, but both were inefficient, low-yielding enterprises producing simple products. The second period, in the early 1990s was an equilibrium period of supply and demand where the effects of the open-door policy of 1978 began to filter through Chinese owned enterprises, and food manufacturers began adopting new technologies and manufacturing techniques to improve production. The final period, since the turn of the century, is a competitive period where consumers have ever increasing demands of quality and especially variety, requiring manufacturers to be innovative in their products. At the same time, Chinese manufacturers have seen an increasing number of foreign competitors in the form of Nissin Foods, Danone, Nabisco, and Nestle.

This paper examines the case of a family owned Chinese food manufacturer in Beijing, in the difficulties and impediments to innovation the company faced, and the actions taken to overcome this.

LITERATURE REVIEW

There are many definitions of innovations from different researchers and writers in the subject including Cumming (1998), Porter (1990), Rogers (1995), Loewe and Dominiquini (2006), but one of the oldest, and possibly

most comprehensive definition of innovation is from Schumpeter (1934). In essence, Schumpeter (1934) suggests that innovation involves the introduction of new to customer products, produced by new or improved methods of production, the innovative products allowing the innovator to open new markets. Product innovation (or service innovation in the case of the service sector) is one of the most important activities for companies wishing to be competitive (Fritz, 1989; Johne, 1999; Goffin and Mitchell, 2005; Trott, 2008). Product innovation involves successfully exploiting new ideas through a process of research and development, manufacturing management and new product development (Myer and Marquis, 1969; Abou-zeid and Cheng, 2004; and Alegre, Lapiedra ad Chiva, 2006).

„This paper examines the case of a family owned Chinese food manufacturer in Beijing, in the difficulties and impediments to innovation the company faced, and the actions taken to overcome this.”

In terms of the mechanisms needed to support product innovation in companies, different researchers and writers in the subject have different emphasis on what they consider as more important, but have a general agreement on the requirements.

Goffin and Mitchell (2005), Ahmed (1998) and Leavy (2005) suggest that companies need to have an organisational culture that encourages and inspires creativity. Barret (1997) and George and Jo-

nes (2006) suggest that open, timely and effective communication in organisations can encourage creativity and innovation. Leadership is also an area that are important in encouraging innovation because of the role that leaders can play in encouraging or hindering innovation (Ahmed, 1998; and George and Jones, 2006). Robbins (1997), Martensen and Dahlgaard (1999), Judge, Fryxell and Dooley (1997) suggest that an innovation strategy is needed to guide and provide focus.

THE CASE COMPANY

BiscuitCo is a young, family owned and run company with about 2,000 employees located just outside Beijing. Established in the late 1990s, their main products are biscuits and cookies. The company has built up a loyal customer base using recipes created by the families of owners, and produced using traditional methods.

The company had a bureaucratic culture with a strong emphasis on formalisation, regulations and standards. The company had procedures for every aspect of work and employees are required to follow these without deviation. There was little room for employees to be creative and innovative. The leadership style of the company was centralised, built around absolute authority and communication from top down, and relied on the experience of the owners and senior managers. A bonus system existed to motivate employees, but this was generally in the

PAPER FROM INCODE 2008

An international conference on co-operation development in innovation (InCoDe 2008) was held on 16-18 October, 2008 at the University of Pécs, sponsored by National Office for Research and Technology of Hungary. The conference was attended by nearly a hundred and fifty registered participants including both academic researchers and practitioners from 14 countries like Austria, Croatia, Hungary, Israel, Italy, UK, and US. After welcome speeches Professor Gábor Rekettye, Chair of the InCoDe 2008, in his opening address told among others that “InCoDe has grown out of thought that Europe, especially CEE are in need to increase their share in R&D, in successful innovation. ... I am convinced that the success of innovation is not only the question of money we spend, it is also directly related to the effort expended to align R&D with marketing knowledge and to manage the entire process of co-operation and development with discipline and mutual understanding.”

Mr H.S. Woo presented a case study on impediments and resolutions to innovation in a Chinese food manufacturer. The paper examined the case of a family owned Chinese food manufacturer in Beijing. It was found in this case that impediments to innovate include a deep rooted inward favouring tradition; a reliance on the use of experience rather than on analytical techniques; a hierarchical and controlling management structure and style that discourage deviations from established practices; and low absorptive capacity. The resolutions include adjusting the firm’s organisational structure and management style; introducing more qualified and innovative favouring staffs; formalising research and development; and implementing structured and formal training.

form of rewarding position rather than performance of shop-floor employees, and very few shop-floor employees ever received bonuses. Furthermore, managers were afraid to make changes or suggestions for fear these did not match those of their superiors, and were not encouraged seeking product ideas or production techniques from outside the company. As a result, employees and managers carried out their task based on experience, rather than scientifically proven knowledge.

„BiscuitCo is a young, family owned and run company with about 2,000 employees located just outside Beijing. Established in the late 1990s, their main products are biscuits and cookies. The company has built up a loyal customer base using recipes created by the families of owners, and produced using traditional methods.”

BiscuitCo has been facing many challenges in recent years, and are continuing to face many, a summary of these are as follows:

1. Changing tastes and preferences. The Chinese consumers have been more demanding in recent years, to tastes and quality. With access to greater choice of manufacturers from China and from abroad, there is a need for BiscuitCo be more innovative in its products.
2. BiscuitCo has had to compete with larger and better funded competitors, mainly from overseas, that have entered the Chinese market with well known brands.
3. BiscuitCo is a small sized company, and even amongst the Chinese competitors, it has a smaller market share and penetration, less access to development funding.

Significantly for the company, these challenges have led to a rapid decrease in sales and profit, and by the end of 2005, the company had failed to make a profit at all. The company felt that they had to take actions to rectify the decline. What initially appeared to be a 'scapegoat' hunt when the owner of the company replaced half his senior managers including family members with experienced external recruits, turned out to be a 'master-stroke' that would save the company.

There was immediate recognition that the company lacked innovativeness in both its products and in the

way the products were produced. The following were quickly put in place:

1. Adjusting the company's organisational culture to encourage innovation. A number of action points were put in place. Senior managers began the process of looking outward for ideas and best practice and employees were actively encouraged to do the same. Implementing a training scheme that focused on product innovation, attended firstly by senior managers and quickly extended to all employees. Formalising a reward scheme that does not merely reward 'position' but to reward performance.
2. Replacing 'slow-to-change' staff with those who are more innovative and inclined to change. The company felt that they had to be prepared for change and that staff who are unwilling to would hold them back.
3. Opening up communication to enable bottom-up as well as top-down communication. The company started with an anonymous suggestion box followed, followed by formal small group meetings to generate ideas to present to senior managers.
4. Setting up a formal research and development (R&D) department to develop new products, initially led by the owner to ensure that this department works with the marketing department, and with any departments needed to ensure products are developed that can be produced and are marketable. As the company never had such a department, this was difficult to set up, is costly, but provided a focus for the company. For the first time, ideas for products and their demand are based on research knowledge rather than on experience.

CONCLUSION

BiscuitCo started making changes to the way they managed the company, out of necessity at the start of 2006. By early 2008, the company have introduced three new products, and although it does not expect to return to profitability until the end of 2009 largely due to making large investments in training, hiring new staff, and new production equipment. The company is certain that the reason for its decline has been

its inability to innovate, and this has much to do with an inward looking, hierarchical and controlling management, a company culture that does not encourage creativity and innovation, and one that does not reward performance. Though this is not a new phenomenon in China, and many companies survive and are profitable without being innovative, this does not work in an industry with high competition and choice, and one where consumer preferences changes frequently. Addressing this requires support from the very highest level to make changes to the culture and management styles, implementing formal training for all employees, and to involve different departments in developing new products.

REFERENCES

ABOU-ZEID, E. AND CHENG, Q. (2004), "The Effectiveness of Innovation: A Knowledge Management Approach", *International Journal of Innovation Management*, 8(3), 261-74
 AHMED, P.K. (1998), "Culture and climate for innovation", *European Journal of Innovation Management*, 1(1), 30-43
 ALEGRE, J., LAPIEDRA, R. AND CHIVA, R. (2006), "A Measurement Scale for Product Innovation Performance", *European Journal of Innovation Management*, 9(4), 333-46
 BARRET, R. (1997), "Liberating the corporate soul", *HR Focus*, 74(4), 15-6
 CUMMING, B.S. (1998), "Innovation overview and future challenges", *European Journal of Innovation Management*, 1(1), 21-9
 FRITZ, W. (1989), "Determinants of Product Innovation Activities", *European Journal of Marketing*, 23(10), 32-43

GEORGE, J.M. AND JONES, G.R. (2006), *Contemporary Management – Creating Value in Organisations*, New York: McGraw-Hill/Irwin
 GOFFIN, K. AND MITCHELL, R. (2005), *Innovation Management-Strategy and Implementation Using the Pentathlon Framework*, Basingstoke: Palgrave Macmillan
 JUDGE, W.Q., FRYXELL, G.E. AND DOOLEY, R.S. (1997), "The new task of R&D management: creating goal-directed communities for innovation", *California Management Review*, 39(3), 72-85
 JOHNE, A. (1999) "Successful market innovation", *European Journal of Innovation Management*, 2(1), 6-11
 LEAVY, B. (2005), "A leader's guide to creating an innovation culture", *Strategy & Leadership*, 33(4), 38-45
 LOEWE, P. AND DOMINQUINI, J. (2006), "Overcoming the barriers to effective innovation", *Strategy & Leadership*, 34(1), 24-31
 MARTENSEN, A. AND DAHLGAARD, J.J. (1999), "Strategy and planning for innovation management – a business excellence approach", *International Journal of Quality & Reliability Management*, 16(8), 734-55
 MYERS, S. AND MARQUIS, D.G. (1969), *Successful Industrial Innovations*, Washington, DC: National Science Foundation
 Porter, M.E. (1990), *The Competitive Advantage of Nations*, London: Macmillan
 ROBBINS, S.P. (1997), *Essential of Organisational Behaviour*, Upper Saddle River, NJ: Prentice-Hall
 ROGERS, E.M. (1995), *Diffusions of Innovations*, New York: The Free Press
 SCHUMPETER, J.A. (1934), *The Theory of Economic Development*, Cambridge, MA: Harvard University Press
 TROTT, P. (2008), *Innovation Management and New Product Development*, Harlow: FT Prentice-Hall

Hong S. Woo is a Senior Lecturer in Management, Middlesex University Business School, London, UK



Milyen alkalmazásokat használnak, milyen témák iránt érdeklődnek az internethasználók?

Milyen FMCG termékekről, tartós fogyasztási cikkekről, pénzügyi és telekommunikációs szolgáltatásokról tájékozódnak online, és miket vásárolnak?

Milyen korlátokkal szembesül az online kereskedelem?

A GfK Hungária Internet Insight Report kutatása általános és specifikus riportokban, illetve interaktív online chartokon ad választ a fenti kérdésekre. Emellett az Ön igényei szerint további elemzések készítését is vállaljuk.

További tájékoztatás: Nagy István • Tel.: 06-1/452-3091
 E-mail: istvan.nagy@gfk.com • www.gfk.tanulmanysop.hu

GfK Internet Insight Report – Képhe hozzuk a netről