

A CONCEPTUAL MODEL OF QUALITY MANAGEMENT EXCELLENCE, VALUE INNOVATION AND ORGANIZATIONAL PERFORMANCE AT SMALL AND MEDIUM ENTERPRISES IN MALAYSIA

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ABSTRACT

This study aims to define the underlying elements of quality management excellence (QME) that is the best predictors of value innovation and organizational performance. Quality management excellence practices and organizational performance have effectively linking to innovation as suggested by many researchers. Due to the variance phenomenon industries in Malaysia, the questions still remain whether a relationship exists between QME practices and organizational performance, specifically in Small and Medium Enterprises (SMEs) in halal market. A survey questionnaire will be used to collect the data and the managerial officers who involved in strategic decision making will be a respondent in the study. The population will be the SMEs in halal market that awarded Quality Management Excellence Award (QMEA) by Malaysian Productivity Corporation under the Ministry of International Trade and Industry (MITI). The main purposes of this paper are to review the literature the relationship between quality management excellence, value innovation and organizational performance and also to develop a research conceptual framework on this relationship. The most recent studies have been reviewed in TQM and innovation relationship in the manufacturing and service organizations. QME practices are discussed more and the conceptual framework is proposed.

Keywords: *Quality management excellence, total quality management, value innovation, organization performance.*

1. Introduction

Most scholars have stated that the total quality management (TQM) strategy is a potentially valuable tool for fostering learning, increasing a company's competitive advantage and promoting excellence in organization. TQM provides a set of practices that emphasizes, among other continuous improvement, meeting customers' requirements, reducing rework, long-range thinking, increased employee involvement and teamwork, process redesign, competitive benchmarking, team-based problem-solving, constant measurement of results, and closer relationships with suppliers (Agus and Hassan, 2011). The emergence of TQM has been one of the development practice in organization, thus, it began to introduce in around the globe include Malaysia. With the tremendous growth of literature in both academic and practitioner-oriented outlets, the term TQM has been diluted to mean different things and over time the term has gained consistency in its meaning with other comparable strategy models. Besides TQM, there is a recognized quality and business excellence model that similar with such as Malcolm Bridge National Quality Award (MBNQA), European Foundation Quality Management (EFQM) and this well-known business excellence model is Malaysian Management Excellence Award (QMEA) (Bon and Mustafa, 2013).

The main objectives of quality management excellence (QME) is to promote quality awareness among various organizations in the private sector, to promote the adoption of quality values in organizations, to encourage healthy competition among organizations towards continuous improvement of quality and to encourage information sharing on successful performance strategies and the benefits derived from using these strategies. QME is an important role to expand the development in organizations. This business model is based on the Business Excellence Framework (BEF), which incorporates the necessary elements to attain excellence and serves as guidance for organization to enhance their company's growth and performance (MPC, 2011). The elements to access QME is similar with TQM practices, thus it will discuss more in the literature review session.

2. Literature Review

Small and Medium Enterprises (SMEs)

SMEs plays a very important role in the national economics by providing job opportunities, enhancing exports of the country and also supplying goods to other manufacturing industries (Technology *et al.*, 2013). Malaysia is bound to face difficulties in competing in the global trade economy which mostly dominated by the larger economies, in addition to a complex process developing adequate resources in the development of the food industry and trading by Malaysia. In 2013, a Malaysian total halal export has stood at RM32.84 billion, comprising processed food and beverages at RM13.02 billion (39.8 percent), ingredients at RM10.62 billion (32.5 percent), palm oil derivatives at RM4.83 billion (14.8 percent), cosmetic and personal care products at RM2.03 billion (6.2 percent) industrial chemicals at RM1.69 billion (5.3 per cent) and pharmaceuticals at RM407.15 million (1.4 percent) (MITI, 2014).

As mentioned by Minister of International Trade and Industry (MITI), Datuk Seri Mustapa Mohamed recently, the greater efforts should be taken to tackle the shortage of raw materials

such as halal meat and ingredients by emphasizing research and development (R&D) by SMEs (MITI, 2014). It shows urgency need of trends in food industry of SMEs to create opportunities for investments in the expansion of the market and the development of food products to Malaysian halal food industry.

Quality Management Excellence (QME)

Many organizations implement TQM to raise the competitive advantage, increase the profits and become innovative (Bon and Mustafa, 2013). Soltani *et al.* (2008) analyzed the literature to identify the elements that affect the implementation of TQM. Each of integration in everyday business system and TQM systems are top management commitment, human resource involvement in business processes, and top management's knowledge of TQM to be the most factors that influence of TQM results. Based on deeper analysis of data collected from eight countries, Lewis *et al.* (2006) have pointed out 12 most critical elements of TQM implementation results; quality data and reporting, customer satisfaction, human resource utilization, management of process control, training and education, management commitment, continuous improvement, leadership, strategic quality planning, performance measurement, customer focus, and contact with suppliers and professionals associates. However, different researchers have adopted different TQM activities to test its effect on other outcomes. The findings ultimately contribute to the importance TQM with significance results.

In this study, the researchers focus to other business excellence model that associates with TQM which is Quality Management Excellence (QME). QME is adapted from Malaysia Productivity Corporation that administered by the Ministry of International Trade and Industry (MITI).

Table 1: TQM Practices from Previous Authors Include with QMEA

Flynn et al. (1995)	Kaynak (2003)	MBNQA (2007)	QMEA (2011)
Top management support	Management leadership	Leadership	Top management leadership
Customer relationship		Customer and market focus	Customer focus
Supplier relationship	Supplier quality management		Quality assurance of external suppliers
Workforce management	Training employee relations	Workforce focus	Human resource management
Work attitudes		Strategic planning	
Process flow management	Process management	Process management	Process management
Statistical and reporting control and feedback	Quality data and reporting	Information and analysis	Use of quality data and information
Process design control process	Product/service design	Business performance	Business results

Value Innovation

Most organizations look for innovation for different motivations and reasons. In order to achieve high performance, organizations need to adopt both quality and innovation. The main drives for both are to develop and to strengthen their competitive advantage (Bon and Mustafa, 2013). Crossan and Apaydin (2010) stated the most comprehensive and understandable innovation definition as “Innovation is production of adoption, assimilation, and exploitation of a value-added novelty in economic and social spheres; renewal and enlargement of products, services and markets; development of new methods of production; and establishment of new management systems. It has both a process and an outcome”.

Similar with the main ideas by Kim and Mauborgne (2005), value innovation is a leap or the cornerstone of new perspective to represent a new logic for strategic development. Value innovation is a fragment of blue ocean strategy as a radical departure from conventional ideas in strategic growth. It focuses on creating a leap in value for both buyers and the company by opening up new and uncontested market space. Value innovation can occur anywhere in the entire range of firm’s activities such as product, service, costs, pricing and the business model.

Through this literature, it emphasizes the strong suggestion to conduct a research study in halal SMEs in Malaysia as well as been stated by former Deputy Minister of the Malaysian Ministry of International Trade and Industry (MITI), YB Dato’ Mukhriz bin Tun Dr. Mahathir in International Halal SME Directory: 2011-2011:

“Halal opens up more avenues for business and trade – it is a typical blue ocean strategy. Halal industry is the epitome of the Blue Ocean Strategy. When a market seems saturated, the next best thing to do is to create a new market. The Halal industry is exactly that.” (Abdul-, 2012).

To understand innovation types are essential for any organizations. Each type of innovation needs a specific treatment and response from organization (Hurmelinna-Laukkhanen *et al.* (2012). The topology of innovation may vary between research studies. Quality management excellence and innovation have the same purposes to bring the importance in organization performance especially in manufacturing and service industry. Both of them seek to integrate organization objectives and functions to satisfy customers and increase competitive advantage (Kaynak, 2003).

In this study, the researchers focus on product innovation and process innovation which are under technological innovation type. Both types of innovation are under value innovation that mediating QME and organizational performance of this study. Product innovation is to create a new good or service or improved existing goods or services (Burgelman *et al.*, 2009). While, process innovation is to improve the effectiveness and efficiencies of production (Tarafdar and Gordon, 2007).

Organization Performance

The links between TQM and performance have been investigated by numerous scholars. While examining the relationship, different scholars have used different performance types such as financial, innovative, customer satisfaction, operational and quality performance. A

study by Hung *et al.*, (2011) on TQM has generated high-quality products, reduces costs, increases customer and employee satisfaction, and improves financial performance.

There is a study showed by Parvinen *et al.*, (2011) that blue ocean strategy has linked to companies performance and it is definitely one of the first empirical supports for BOS globally. BOS shows companies not only how to create and capture blue oceans but also how to monitor when it is time to reach out for a new blue ocean. Numerous studies have shown a positive relationship between organizational outcomes and TQM. In this way, BOS presents a dynamic iterative process to create uncontested market space across time (Kim and Mauborgne, 2005) by unrestricted anatomy equally as the organizational performance.

However, there is a least evidence in Malaysia to show the relevancy value innovation practices to its organization performance. Prior to that, this research generally to encourage the BOS initiatives which as value innovation to be implemented and at the same time to identify the effect and the level of relationship of organization to be able linking them to performance standards through value innovation practices.

In this study, the researchers focus organizational performance in two constructs which are quality performance and financial performance. The findings from previous studies will discuss more on next chapter.

3. DISCUSSION

Total Quality Management and Innovation

TQM and innovation relationship may vary and not comprehensive in the past literature. This complexity is due to the variance of TQM practices and diversity of constructs in typology innovation. TQM and innovation relationship is also subjected to the market turbulence which means it is characterized by various attributes in the study (Santos-Vijande, 2007). Nevertheless, the significance relationship between TQM constructs and innovation still presence.

Table 2: Summary of the Previous Studies on TQM-Innovation Relationship in Service and Manufacturing Firms

Author	Sample size/Country	Analysis	Findings
Leavengood and Anderson (2011)	215 firms, USA	Data envelopment analysis	TQM with customer focus oriented approach has negative relationship with innovation in quality oriented firms
Sadikoglu and Zehir (2010)	373 firms in different industries, Turkey	Structural equation modeling	TQM has a positive influence on innovation performance in directly or through mediating role of employee

Martinez-Costa and Martinez-Lorente (2008)	451 manufacturing and non-manufacturing firms, Spain	Structural equation model	performance TQM has a positive impact on product and process innovation and on the company performance
Santos-Vijande and Alvarez-Gonzales (2007)	93 ISO 9000 certified firms, Spain	Structural equation modeling	TQM has a significant positive with administration innovation
Hong <i>et al.</i> (2006)	204 manufacturing and service firms, Vietnam	Structural equation modeling	TQM has a positive relationship with innovation but not all in TQM constructs

Total Quality Management and Organizational Performance

Despite the importance of implementing TQM in organization, there is still little systematic evidence in the literature TQM and organizational performance relationship in food industry. This is due to the different approaches, analytical models and measures. Thus, the results are difficult to assess. However, there is existence studies show a positive relationship between both of them. These past literatures may support the researchers to conduct a research study in various industries.

Table 3: Summary of the Previous Studies on TQM-Organizational Performance Relationship in Firms

Author	Sample size/Country	Analysis	Findings
Habibah <i>et al.</i> (2014)	207 firms, Malaysia	Structural equation modeling	TQM has significant positive impact with operational performance and business performance
Zehir <i>et al.</i> (2012)	261 firms, Turkey	SPSS 18.0 Factor Analysis and Correlation	TQM has significant positive impact with innovation performance and quality performance
Feng <i>et al.</i> (2006)	58 firms, Singapore 194 firms, Australia	Structural equation modeling	TQM has a significant impact with product quality and product innovation in both countries
Sila (2007)	286 firms, Canada	Structural equation modeling	TQM has a significant impact with human results,

			customer results, organizational effectiveness and financial and market results
Kaynak (2003)	382 firms, US	Structural equation modeling	TQM has a significant impact with inventory management performance, quality performance and financial and market performance

Innovation and Organizational Performance

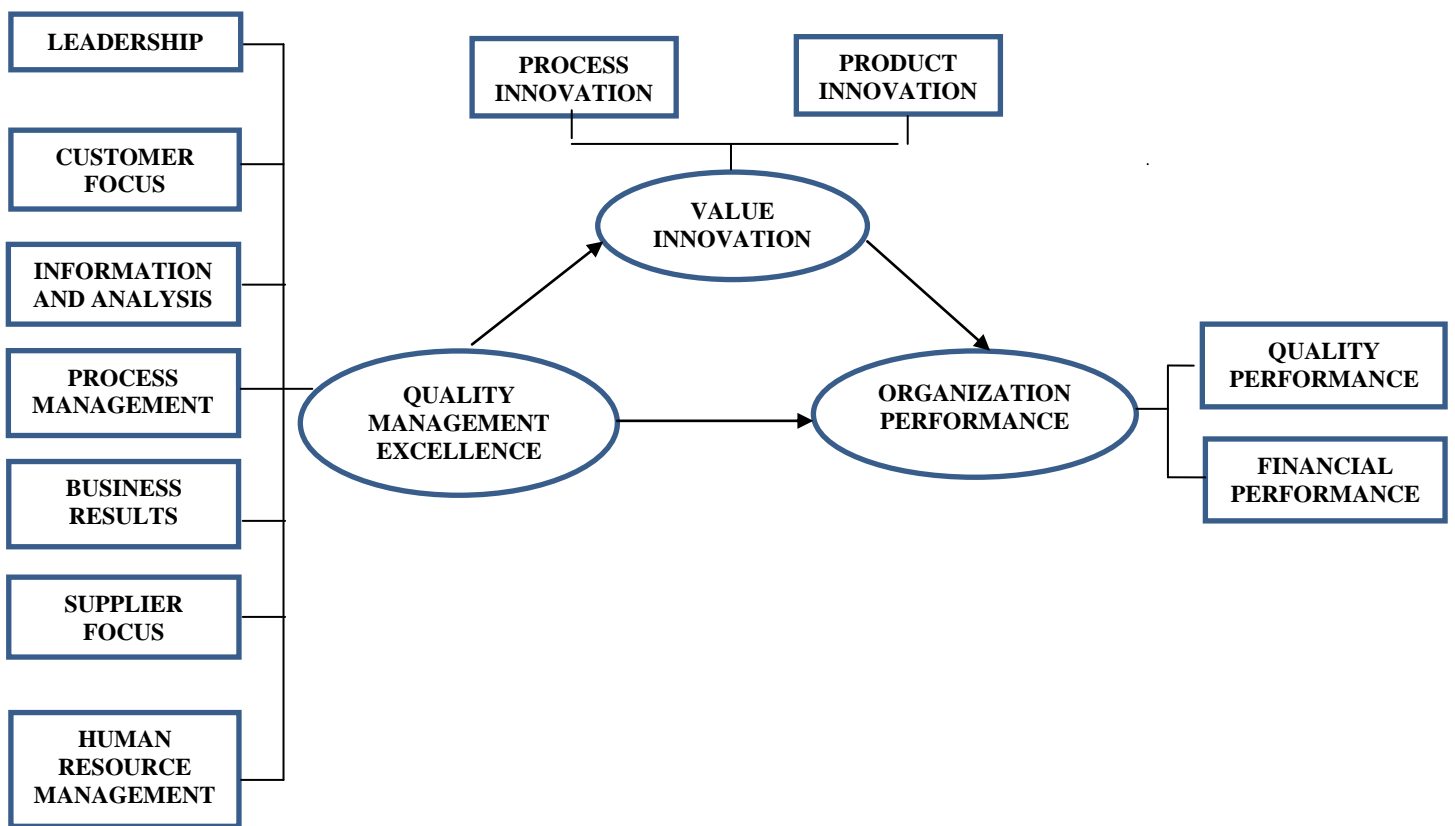
The direct linking innovation and organizational performance relationship is not numerously discussed in past literature. There are as many definitions of innovation as there are of TQM and organizational performance. However, different judgments and applications make it difficult to find common grounds. To generate the findings for of innovation and organizational performance relationship is lack of data.

According to Calantone *et al.* (2002), innovativeness is the most important determinant of an organization’s performance. Innovations have a strong effect on financial success. The study done by Chapman (2006) found a strong link between collaboration and financial performance in which organizations using external sources achieve higher revenue growth than others. Klomp and Van Leeuwen (2001) discovered that innovations and innovativeness have an impact on sales performance and productivity (measured sales/employee). Subramanian and Nilakanta (1996) found that different kind of innovations have an impact on different fields of performance. Due to deficiency of finding, the researchers will conduct a study as proposed on the conceptual model. The value innovation and organizational performance relationship at SMEs will be established once the research is completed.

Conceptual Model Framework

Figure 1.0 is the conceptual model of quality management excellence, value innovation and organizational performance as guidance for researchers to conduct the research. The theoretical base of the study framed the conceptual model comprise of QME practices which are leadership, customer focus, information and analysis, process management, business results, supplier focus and human resource management (MITI, 2014). Value innovation as mediating factor contains process innovation and product innovation. The independent variable is organizational performance which is quality performance and financial performance.

Figure 1.0: Conceptual Framework of Quality Management Excellence and Organization Performance: Value Innovation as Mediator



4. Conclusion

The purpose of this paper is to review the literature of the relationship between quality management excellence, value innovation and organizational performance and to develop a research conceptual framework. Studies on value innovation and organizational performance are still scarce in the literature. Thus, this gap will be fulfilled as the researchers will conduct the study until the final finding and framework established. Most of studies investigated the link between TQM and performance on service and manufacturing firms. Therefore, to further the investigation, the researchers will conduct the study on halal industry at SMEs in Malaysia.

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