

JAPANESE SME INTERNATIONALIZATION IN HALAL FOOD INDUSTRY: A PRELIMINARY STUDY

Tatsuya Fujiwara

Postdoctoral Researcher, Reitaku University Graduate School of Economics and Business Administration, Japan; Visiting Fellow, Center for Global Initiatives, Osaka University, Japan.
a12024t@reitaku.jp

ABSTRACT

Recently, Japanese small and medium-sized enterprises (SMEs) have faced a shrinking domestic market due to a declining population in Japan. In contrast, the global Muslim population has been drastically increasing, which is attractive to Japanese SMEs, especially food manufacturers. Despite the situation, there has been little empirical research on the internationalization of Japanese SMEs in the halal food industry. With this in mind, this study explores it by adopting an existing framework of SME internationalization. The main aims are to describe the process of how one Japanese small food manufacturer has entered a foreign Muslim market by starting and expanding its halal food business and to identify the role of international entrepreneurial orientation (IEO) in this specific field. By analyzing this case, the findings show the following things. First, IEO is considered an important factor to lead to the internationalization of Japanese SMEs in the halal food industry because the president of the manufacturer actively collected information on the halal food business and built an appropriate organizational structure. Second, since the halal industry in Japan has obstacles to SME internationalization, Original Equipment Manufacturing (OEM) is an effective form of entry into foreign Muslim markets, which gave the president opportunities to collect market information and build a network in the market. Third, procurement innovation is imperative to receive foreign halal certification and break down a cultural barrier based on food habits since ingredients Japanese manufacturers procure possibly contain non-halal materials at the level of not only first-tier suppliers but second and third-tier suppliers.

Keywords: *Halal certification, Halal food, Internationalization, International entrepreneurial orientation, SMEs*

1. Introduction

Recently, Japanese small and medium-sized enterprises (SMEs) have faced a shrinking domestic market. This is because the population in Japan has been decreasing, which is estimated to be 86.737 million in 2060 from 128.057 million in 2010 (National Institute of Population and Social Security Research, 2012). This would especially give an adverse impact on the size of the domestic food market strongly depending on the population. In contrast, the Muslim population in the world has been drastically increasing. The number of Muslims is estimated to be 2.99 billion in 2060, which makes up 31.1 % of the population in the world (Pew Research Center, 2017). Therefore, the size of foreign food markets for Muslims is expected to grow up continuously. According to DinarStandard (2020), spending on food and beverage by Muslims in the world is estimated to reach \$1.38 trillion by 2024. For this reason, foreign Muslim markets are considered attractive to Japanese SMEs facing the shrinking domestic market. In this situation, the Japanese government has set targets to achieve 2 trillion yen in total exports of agricultural, forestry, fishery, and food products by 2025, and 5 trillion yen by 2030. As of 2020, however, most countries where Japanese companies exported such products were non-Muslim countries (Food Industry Affairs Bureau, 2021). To achieve the targets, it is imperative to export the products to Muslim countries by Japanese SMEs, which account for 99.7% of enterprises in Japan (The Small and Medium Enterprise Agency, 2021).

SMEs, however, are required to change some parts of their operations and products to break into Muslim food markets due to concepts of halal (lawful or permitted) and haram

(unlawful or prohibited) in Islamic teaching (Shariah law). Muslims can consume only halal foods that do not contain prohibited materials such as porcine materials, alcohol, and materials derived from animals not slaughtered in the Islamic way and that are not contaminated by those materials. Accordingly, some Japanese SMEs have already received halal certification that guarantees halal food products and started halal food businesses from a domestic market (Mitsubishi UFJ Research and Consulting, 2015). Yet, the number of Muslims who live in Japan is a small amount, which was about 200,000 people in 2017 (Tanada, 2019). Indeed, foreign tourists travelling to Japan from Muslim countries such as Indonesia and Malaysia had increased before the Covid-19 pandemic, but it did not mean that just Muslim tourists had increased among all foreign tourists (Japan National Tourism Organization, 2018; Pew Research Center, 2015). Furthermore, the Olympic and Paralympic Games in Tokyo were expected to boost more Muslim tourists to come to Japan (Fukushima, 2015). But this expectation did not come true since audiences from foreign countries were not allowed to participate in the event due to the pandemic all over the world. In this situation, the domestic Muslim market in Japan is considered not to have sufficient market potential for Japanese SMEs. For these reasons, it is meaningful for them, especially food manufacturers, to tap into foreign Muslim markets.

With this in mind, it is important to research Japanese SMEs' internationalization in the halal food industry. However, there has been little empirical research on this field while empirical studies of SME internationalization have been conducted in other fields. Therefore, it is useful to explore it based on an existing framework of SME internationalization. As a preliminary attempt, this study explores the internationalization of Japanese SMEs in the halal food industry by adopting the existing framework. This would practically and academically contribute to understanding how Japanese SMEs have entered foreign Muslim markets.

2. Literature Review and Conceptual Framework

Research on internationalization has focused more on large companies than SMEs. A traditional model of internationalization showed development stages such as no regular export activities, export via an independent agent, sales subsidiary, and manufacturing plant in a target country (Johanson & Wiedersheim-Paul, 1975). In addition, it is important to observe the relationship between experiential knowledge and uncertainty associated with decisions to internationalize in the model (Andersen, 1993). Market knowledge, information about markets and operations in those markets, declines the uncertainty of a specific market while experiential knowledge is one of the most crucial components of it (Johanson & Vahlne, 1977). Companies can achieve a stepwise increase in the scale of their operations by accumulating market knowledge through their experience, which leads to the progression of their internationalization. Yet, the analytical perspective of the development stage model alone does not sufficiently explain the internationalization of SMEs in particular, partly because companies do not necessarily internationalize incrementally, partly because various forms of internationalization by SMEs can be observed (Bell et al., 2001).

To date, several studies have focused on the internationalization of Japanese SMEs. Indeed, many Japanese SMEs are still in the early stage in terms of the development stage model but Japanese SMEs that have already started their internationalization have better performance than SMEs operating just in domestic markets (Tohara, 2012). Historically, the internationalization of Japanese companies has been mainly developed in the manufacturing industries such as the engineering and metalworking industries. In this context, Japanese SMEs were positioned as suppliers of Japanese large companies (Seki, 2015). Because of that, although some studies focused on the internationalization of Japanese SMEs in the food

industry (Chou, 2012; Yamamoto, 2017), research on this field has not been sufficiently conducted (Yamamoto, 2020). Consequently, there are few studies on the internationalization of Japanese SMEs in the halal food industry.

In the field of the halal industry, several studies have targeted SMEs located in Muslim countries such as Malaysia (Chelliah et al., 2010; Ismail et al., 2013; Senik et al., 2010). According to Fukushima (2015), unlike large companies, it is hard for Japanese SMEs to internationalization in the halal food industry because they have no capital for local production in foreign countries. However, because it is assumed that the process of internationalization is different depending on the size of companies and the type of products and services, it is meant to clarify the process of internationalization of Japanese SMEs in the halal food industry.

To analyze internationalization in the halal food industry, cultural barriers should be taken into consideration. When companies tap into foreign markets, they need to consider cultural barriers (Barkema et al., 1996). Due to the close integration of food and culture, companies that have advanced their internationalization need to pay close attention to dissimilarities in food culture (Azar, 2011). It is deemed that religion is one of the most important factors to form culture and food habits in certain areas and countries. In the case of Islam, as aforementioned, Islamic teaching requires Muslims to only eat halal foods, which directly affects their food habits. In Japan, however, the majority of people do not have restrictions caused by religious to eat foods. Moreover, Islam has been an unfamiliar religion in Japan. Hence, it is assumed that a cultural barrier that emerged from Islamic teaching can prevent Japanese SMEs from doing their food business in foreign Muslim markets.

This cultural barrier can be observed even in Japan. Fujiwara & Ismail (2017) showed several issues in the halal industry in Japan. In the corporate sector, there were issues with the establishment of a dedicated production line for halal foods and the development of know-how to produce Japanese halal foods since Japanese foods often use haram materials such as pork and alcohol. In the market sector, there were issues with numerous halal certification bodies and non-disclosure of their halal certification standards. Under the situation, the halal certification bodies competed with each other and some of them irresponsibly issued halal certifications. Fujiwara & Ismail (2017) concluded that the issues in the market sector would more adversely influence Japanese SMEs to accumulate their experimental knowledge of halal food business, which led them to get prejudiced knowledge of Islam. It is deemed that these issues have been caused by the cultural barrier that emerged from religion.

In the field of internationalization research, the entrepreneurship of top managers has played a crucial role to advance the internationalization process as born-global firms, international new ventures, and born-again global firms have done (Bell et al., 2001; Gabrielsson et al., 2014; Knight & Cavusgil, 2004). According to Yamamoto (2020), in the context of the internationalization of food manufacturers, the entrepreneurship of top managers helps overcome the cultural barrier. With this in mind, this study adopts a conceptual framework of Yamamoto & Natori (2014b) that focused on entrepreneurship in analysing the internationalization of Japanese SMEs.

Yamamoto & Natori (2014b) utilized a construct of international entrepreneurial orientation (IEO) as the driving force to accelerate the internationalization of SMEs. IEO is a concept that expands entrepreneurial orientation (EO) in the context of internationalization (Covin & Miller, 2013). EO, a driver of entrepreneurial activities, consists of three sub-

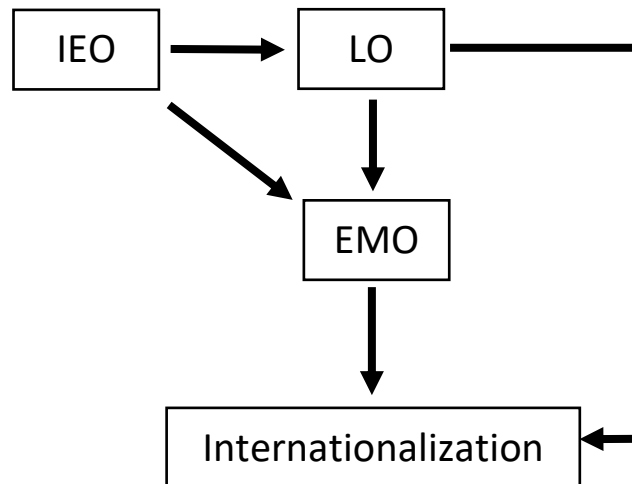
indicators: proactiveness, innovativeness, and risk-taking. Proactiveness is the willingness to engage in bold moves such as introducing new products or services and acting in anticipation of future demands. Innovativeness is the tendency to experiment, promote novel ideas, and depart from established practices, which fosters new products and technologies. Risk-taking is the willingness to depart from tried-and-true paths and undertake initiatives with uncertain outcomes (Dai et al., 2014). Yamamoto & Natori (2014b) defined IEO as “EO utilized in the process of orientation and realization of corporate internationalization.” The framework of Yamamoto & Natori (2014b) started from EO, but this study starts from IEO because it focuses on the internationalization process.

In addition, the framework of Yamamoto & Natori (2014b) utilized constructs of export market orientation (EMO) and learning orientation (LO). MO is a process in which companies create and enhance their value, which is positively affected by EO (Matsuno et al., 2002). MO consists of three sub-indicators: customer orientation, competitor orientation, and inter-functional coordination. Customer orientation is a sufficient understanding of one’s target buyers. Competitor orientation means that a seller understands strengths and weaknesses as well as the capabilities and strategies of current and potential competitors. Inter-functional coordination is to coordinate company resources in creating superior value for target customers. This is closely tied to both customer and competitor orientation (Narver & Slater, 1990). According to Yamamoto & Natori (2014b), one of the key analytical perspectives in the various studies on MO is the collection of customer and market information. The act of collecting such information promotes understanding of the market environment and quickly responding to the changes, thereby improving customer value. Therefore, the collection of customer and market information is closely related to the sub-indicators of MO. EMO is presented by relating MO to internationalization (Cadogan et al., 2001). The collection of customer and market information is also considered a core element in EMO. Harmancioglu et al. (2010) showed that the more involved the management team was in collecting customer and market information in SMEs, the better the performance of the company got. Yamamoto & Natori (2014b) showed that it was necessary to pay close attention to how top managers collect information on overseas customers and markets.

The collection of customer and market information as a concrete action of MO is also enhanced by LO (Sinkula et al., 1997). LO is a concept that expresses the ability and extent to which companies interpret and evaluate customer and market information and decide whether to accept it. LO is composed of three sub-indicators: commitment to learning, open-mindedness, and shared vision. Commitment to learning is to place value on learning. Open-mindedness is to unlearn outdated market information and practices. The shared vision is to determine the direction of learning, whereas commitment to learning and open-mindedness influence the intensity of learning (Sinkula et al., 1997). LO has a positive effect on MO (Baker & Sinkula, 1999) while LO is positively affected by EO (Ma’atoofti & Tajeddini, 2010).

In summary, EMO and LO are driven by IEO, which can progress internationalization (see Figure 1). With the framework, Yamamoto & Natori (2014b) conducted case studies of Japanese SMEs manufacturing machinery components and showed that top managers directly visited foreign markets and customers to collect information. Additionally, they built the appropriate organizational structure to promote their collecting information. Based on the findings, this study adopts this conceptual framework to clarify the internationalization process of Japanese SMEs in the in-halal food industry.

Fig. 1: Conceptual framework of this study



Source: Adapted from Yamamoto & Natori (2014b).

3. Methodology

This study adopts a case study method, which focuses on gaining an in-depth understanding of the dynamics of specific phenomena (Eisenhardt, 1989). In this study, the case study method is primarily influenced by Yin (1994). Unlike Glaser & Strauss (1967) or Eisenhardt (1989), Yin's (1994) method premises a framework before analyzing data. Hence, this method is compatible with this study based on the existing conceptual framework.

This study conducts the case study by using one of the cases in Fujiwara (2020) as a preliminary study. Fujiwara (2020) conducted multiple case studies of seven companies operating halal food businesses with halal certification to analyze their supplier management. Three of the companies were Japanese companies and the others were Malaysian companies. Although the aim of Fujiwara (2020) was to analyze supplier management of the halal food business and build a theoretical framework for it, it showed detailed descriptions of each case. Particularly, the descriptions of the Japanese companies included processes of how they had developed their halal food business. For this reason, the cases of Japanese companies are appropriate for this study. However, this study cannot adopt all the cases of Japanese companies since, in the two cases, top managers were not actively involved in the halal food business. Accordingly, this study just focuses on the one Japanese SME operating a halal food business. The president of this company has been fully involved in the halal food business, and it already tapped into the foreign Muslim market. Because this study tries to clarify the internationalization process of Japanese SMEs in the halal food industry by focusing on the entrepreneurship of top managers, this case is suitable for this study. In this study, we call this Japanese SME Company X.

Fujiwara (2020) mainly collected data about Company X through interviews with the president and public information. Questions of the interviews included the history of Muslim market entry, halal management system, ingredient procurement strategy, and risk perception. The number of regular employees in Company X was 12 (as of February 25, 2019). It is a small company because a company with less than 20 employees is classified as a small company in Japan (Small and Medium Enterprise Agency, 2021). As Company X collaborated with an Original Equipment Manufacturing (OEM) company in its internationalization, the case included the description related to the OEM company. Fujiwara (2020) also collected data from the OEM company in the same way as it did for Company X. The OEM company is a small company because the number of regular employees was 20

(as of February 17, 2019). In this study, supplemental information is referred to describe the case. Since the case description was conducted on an anonymous basis in Fujiwara (2020), this study does not show the supplemental information in the references.

4. Case

Company X which mainly manufactures confectionery was established in January 2012. It has Malaysian halal certification as well as HACCP for food safety. At first, Company X entered a Muslim market in Malaysia by collaborating with the OEM company (Phase I). After that, it started exporting halal products produced in Japan to Malaysia by receiving Malaysian halal certification (Phase II). This case describes how Company X has progressed its internationalization through Phase I and II in detail.

4.1 Phase I: Collaboration with the OEM company in Malaysia

Previously, the president of Company X was concerned about the shrinking domestic market in Japan due to the declining population and its dependence on transactions with major domestic companies. For these reasons, the president was considering expanding its business in overseas markets.

In 2012, the president visited Southeast Asian countries including Malaysia and Indonesia. During these visits, he learned that there was a recognition of Japanese confectionery in the countries and that there was potential for overseas markets. One way of internationalization was to establish a local factory in a foreign country, but Company X could not choose this option due to a lack of capital and human resources. In this situation, the president met the OEM company located in Malaysia through a project funded by the Japan International Cooperation Agency (JICA).

The OEM company that mainly manufactures confectionery was established in 1996. The OEM company has obtained Malaysian halal certification as well as GMP and HACCP for food safety. In the OEM company, all employees were Muslim.

The OEM company was invited by SME Corporation Malaysia to attend the project funded by JICA. As the OEM company was promoting exports, it decided to participate in the project as well as investigate the Japanese market. As the result, the interaction between Company X and the OEM company began during the project in Japan. In July 2014, Company X received a request from the OEM company to produce products of Company X in Malaysia. The president of Company X visited the OEM company located in Malaysia for the first time in November 2014, and he held a workshop on Japanese confectionery in December 2014.

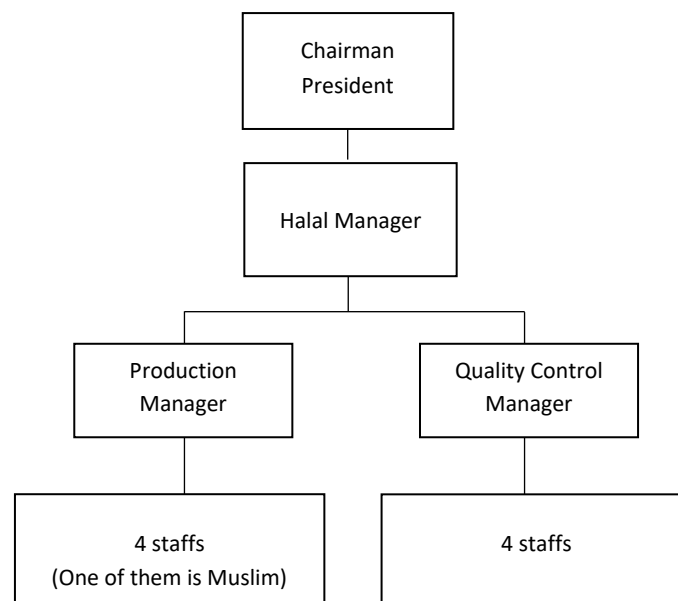
Finally, in May 2015, Company X signed an OEM contract with the OEM company. Because the OEM company also had the same facilities as Company X to manufacture its confectioneries, Company X did not have any problem with capital investment. In addition, the president learned that Muslims in Malaysia were concerned about halal certification in Japan when he visited Malaysia. Therefore, the fact that the OEM company had already obtained Malaysian halal certification was also a decisive factor in making the OEM contract with it. In December 2015, Company X established a local subsidiary in Malaysia and started selling halal-certified confectioneries manufactured by the OEM company using the brand of Company X.

4.2 Phase II: Exporting halal-certified products to Malaysia

Company X started the halal food business in Malaysia through collaboration with the OEM company, but at the same time, the president was also considering that Company X would obtain halal certification by itself in Japan. The reason for this was the hosting of the Tokyo Olympic and Paralympic Games in 2020. As aforementioned, there were Muslims who were concerned about Japanese halal certification. Therefore, the president thought that obtaining Malaysian halal certification in Japan would be a competitive advantage when Muslims travel to Japan. The president also wanted to change the situation of the halal industry in Japan because he saw that the Muslim staff of the OEM company had a hard time finding halal products when they visited Japan. In addition, the president felt uneasy about halal certification bodies in Japan because he heard that some of them issued halal certification just for monetary purposes. The president believed that domestic halal certification bodies were inferior to overseas halal certification bodies in terms of international recognition. For these reasons, the president decided to obtain Malaysian halal certification through a Japanese consultancy company.

The Malaysian halal certification body visited Company X and audited its halal management system. But Company X did not always contact the halal certification body directly. Normally, Company X contacted and consulted with the consultancy company. And then, the consultancy company contacted the halal certification body. In the process to receive Malaysian halal certification, Company X needed to establish a halal management system and reform its procurement strategy.

Fig. 2: Halal committee of Company X



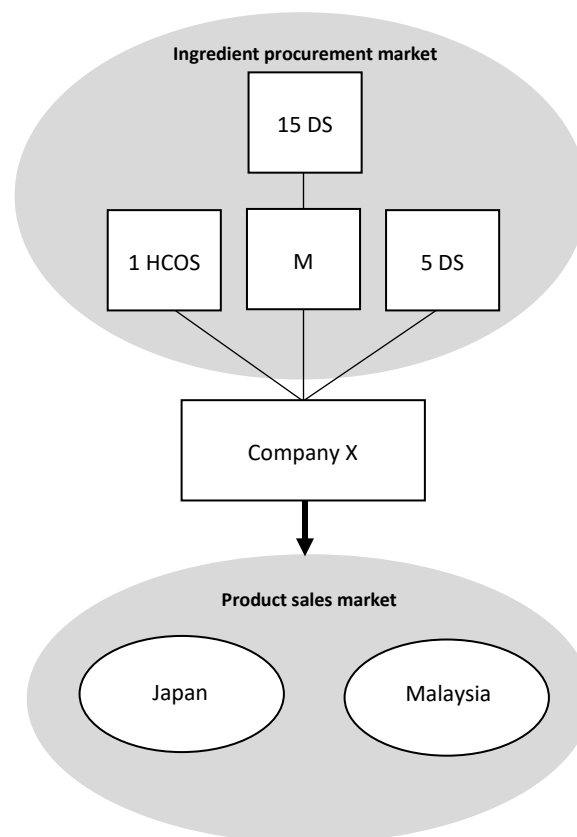
Source: Fujiwara (2020). Based on information as of February 25, 2019.

Company X was required to organize a halal committee. This committee consisted of 12 members, which means that all the regular employees in Company X belonged to the committee (as of February 25, 2019). The committee was chaired by the president, under which a halal manager was positioned. Under the halal manager, there were two separate departments, one in charge of manufacturing and the other in charge of quality control. Each department had operating staff (see Figure 2). Every year, the 12 members received training

on halal management. As aforementioned, because there was a consultancy company between Company X and the halal certification body, the consultancy company not only served to confirm the halal management system in Company X but also periodically conducted training on halal management for the committee. But, as halal management training was divided into different levels, the president and the halal manager were the only two qualified managers for halal management.

Regarding procurement strategy, Company X had 20 domestic suppliers and one overseas supplier (as of February 25, 2019). Company X dealt with five domestic suppliers (DS) directly and the other domestic suppliers through middlemen (M). Some of the domestic suppliers obtained halal certification, but their products were not used in halal-certified products of Company X. In other words, the 20 domestic suppliers did not have halal certification. Company X directly dealt with a halal-certified overseas supplier (HCOS) located in a non-Muslim country. Its halal certification had mutual recognition with the Malaysian halal certification body (see Figure 3).

Fig. 3: Supplier chart of Company X



Source: Fujiwara (2020). Based on information as of February 25, 2019.

The food safety aspect was not a challenge for Company X because the system was already in place. As for ingredients, however, Company X had to develop its halal-certified products since it had been left to the OEM company. The Malaysian halal certification body required Company X to identify and disclose ingredients of second and third-tier suppliers. The requirement of the halal certification body was not to utilize ingredients procured from halal-certified suppliers but to utilize halal ingredients. Therefore, Company X asked its

first-tier suppliers and middlemen to identify and disclose the ingredients of second and third-tier suppliers. Tracing back to the ingredients, Company X found that some of them were derived from pigs so the suppliers changed the ingredients to halal ones for halal products. Company X identified the status of ingredients through documents given by its suppliers. Specifically, Company X collected product specifications and process flow charts as well as detailed information on product specifications indicating where the ingredients were derived from. The documents collected from suppliers were surely checked by the Malaysian halal certification body. As the result, it took Company X about two years to establish the supply system for its halal products.

Although Company X had suppliers without halal certification, it was not able to collect a document pledging not to use haram or non-halal materials from its suppliers. Company X asked its suppliers to submit such a document in the past, but they did not agree with that. The president was concerned about the domestic suppliers because they were not located in Muslim countries. Particularly, the suppliers might change their ingredients without reporting it to Company X. According to the president, in Japan, when the product specifications are changed, the labelling of the products is also changed. It is usually assumed that any change in ingredients is reported to Company X by its suppliers. However, since the suppliers did not have halal certification and Islam was an unfamiliar religion in Japan, the suppliers had little awareness that their products were used in halal-certified products of Company X. If the suppliers had been in Muslim countries, they could have understood halal products. For this reason, the president felt uneasy about the ingredients from the suppliers in Japan.

Company X obtained Malaysian halal certification in April 2017, and then, it started selling products with halal certification in Japan in April 2018. Unexpectedly, because the halal-certified products were made in Japan, Company X was able to gain a good reputation from Malaysian retailers. As the result, since September 2018, Company X has been exporting Japanese confectionaries with Malaysian halal certification to the retailers in Malaysia. Furthermore, Company X newly hired a Muslim employee who was a Malaysian in 2018. Initially, there were no Muslims in Company X because the Malaysian halal certification body did not require Company X to hire Muslim employees. Rather, the halal certification body requested that Company X needed to increase the number of qualified employees by taking the training on halal management. Therefore, the Muslim employee was hired with the expectation that she would develop halal products and promote sales in overseas Muslim markets.

For the past seven years since Company X was established, the president has been in charge of overseas operations alone and travelled to Malaysia around 50 times to hold monthly business meetings to build the relationship with the OEM company and the network including the retailers in Malaysia, which has advanced the internationalization of Company X. Currently, all products of Company X are halal compliant, but not all the products have halal certification due to the cost of obtaining the certification. Company X is ready to immediately receive halal certification for its products when receiving an offer for halal-certified products. As of February 2019, halal-certified products accounted for about 3% of total sales in Company X. Recently, Company X has had an issue with the selling price. For the products made in Japan to be sold in Malaysia, the selling price must be lowered to a level that consumers in Malaysia can afford. Hence, Company X intends to promote its export business of halal food products by increasing the sales volume to lower the price. Specifically, Company X has been developing sales channels by itself to avoid depending on trading companies that make higher selling prices.

5. Discussion

Company X has progressed its internationalization through Phase I and II. The conceptual framework of this study can analyze the case of Company X as follows.

In Phase I, the president's actions can be classified into the three sub-indicators of IEO: proactiveness, innovativeness, and risk-taking. For example, the president began to explore Southeast Asian countries to solve the issues of facing the shrinking domestic market in Japan and depending on transactions with major domestic companies, which is regarded as proactiveness. However, the president did not select an option of exporting the existing products to foreign markets but decided to develop halal products of Japanese confectionaries to enter the halal food business in foreign Muslim markets despite the lack of knowledge, experience, capital, and human resources. This decision can be categorized into innovativeness as well as risk-taking. Thus, IEO can be observed from the president's actions.

LO is composed of the three sub-indicators: commitment to learning, open-mindedness, and shared vision. What the president decided to enter foreign Muslim markets is considered open-mindedness. And then, Company X joined the project funded by JICA to build the network and collect information. This action shows commitment to learning for initiating the halal food business. Through the project, Company X began the collaboration with the OEM company, which led the president to travel to Malaysia more often than before. As the number of employees was limited, it is deemed that the president played an important role in Company X. But business activities could be carried on without the president when he went to Malaysia. It is assumed that the vision of learning was sufficiently shared within Company X and that the organization helped the president learn the new business. Thus, Company X meets the sub-indicators of LO, which has accelerated EMO.

The key analytical perspective of EMO is the collection of customer and market information, especially by top managers. In this case, the president actively collected customer and market information. The collection of customer and market information enhanced the sub-indicators of EMO: customer orientation, competitor orientation, and inter-functional coordination. For instance, as for customer orientation, the president learned that Muslims in Malaysia were concerned about halal certification in Japan, which led to the OEM contract with the OEM company. As for competitor orientation, it is assumed that the president built the network, especially with the retailers in Malaysia. Without the network, Company X might not have gotten the offer from the retailers to export its halal-certified products in Phase II. As a retailer in general deals with various kinds of products, the president could collect more market information through this network. Based on the collected information, inter-functional coordination is important. To produce halal Japanese confectionaries, coordinating the know-how of Company X with the OEM company was imperative. Indeed, Company X and the OEM company had similar facilities, but the OEM company had not ever produced the same quality products as Company X since available ingredients and consumer perceptions were different between Japan and Malaysia. Hence, holding workshops seen in the case is crucial in terms of inter-functional coordination.

In Phase I, IEO could trigger LO and EMO so that Company X established the local subsidiary in Malaysia and started to sell halal-certified confectioneries manufactured by the OEM company using the brand of Company X.

In Phase II, IEO could be observed from the president's actions again. The president decided to obtain Malaysian halal certification in Japan, although there were several halal certification bodies in Japan. This is regarded as an innovative idea. Based on this idea, the

president began communication with the Malaysian halal certification body through a Japanese consultancy company because the certification body was not located in Japan. This action is classified into proactiveness. Although at first, the president tried to sell halal-certified products produced by Company X in Japan, the president decided to export the products to Malaysia because Company X got an offer from the Malaysian retailers to sell them in Malaysia. However, unlike in Japan, there are regulations for halal certification in Malaysia since the Malaysian government manages the halal certification system (Department of Islamic Development Malaysia, 2014). It is possible that Company X would lose the trust of consumers and retailers in Malaysia if some problems occurred with its products with halal certification. Therefore, exporting halal-certified products manufactured in Japan to Malaysia is considered a risk-taking action.

In this situation, EMO is more crucial in Phase II than Phase I. As for customer orientation, it is assumed that the president tried to understand Muslims' perception in Malaysia more deeply because he already acquired certain knowledge and experience related to halal business in Malaysia in Phase I. As for competitor orientation, learning the price range of Malaysia was a critical matter for Company X since the selling price of the products made in Japan was needed to lower to the level that consumers in Malaysia could afford. In addition, Company X also needed to consider competitors' prices. Regarding inter-functional coordination, unlike Phase I, the know-how of the halal food business needed to be incorporated into Company X itself. As a part of this effort, Company X hired a Muslim employee. This recruitment aimed to develop products and promote sales in Muslim markets, which enables Company X to respond better to the markets.

LO is also important to obtain Malaysian halal certification because Japanese companies are unfamiliar with the halal management system. Company X needed open-mindedness when it established the halal committee that took responsibility for halal management based on Islamic teaching. The members of the halal committee in Company X have taken the training in halal management regularly, which has promoted commitment to learning. As the Malaysian halal certification body said, it is more important that the members have a sufficient knowledge of halal management than that they are Muslim. This situation would strengthen the shared vision within the organization since divergent vision undermines the ability of the halal committee to manage halal products.

Additionally, it is deemed that EMO can enhance LO based on the analysis of the case. The conceptual framework of this study does not assume that EMO positively impacts LO. However, as Keskin (2006) showed that MO has a positive impact on LO, EMO positively affected LO in the case. For instance, as for inter-functional coordination, hiring a Muslim employee could directly affect open-mindedness and commitment to learning because the non-Muslim committee members could learn Islamic teaching more concretely through communication with the Muslim employee. Thus, it is assumed that LO and EMO have interactions in this case.

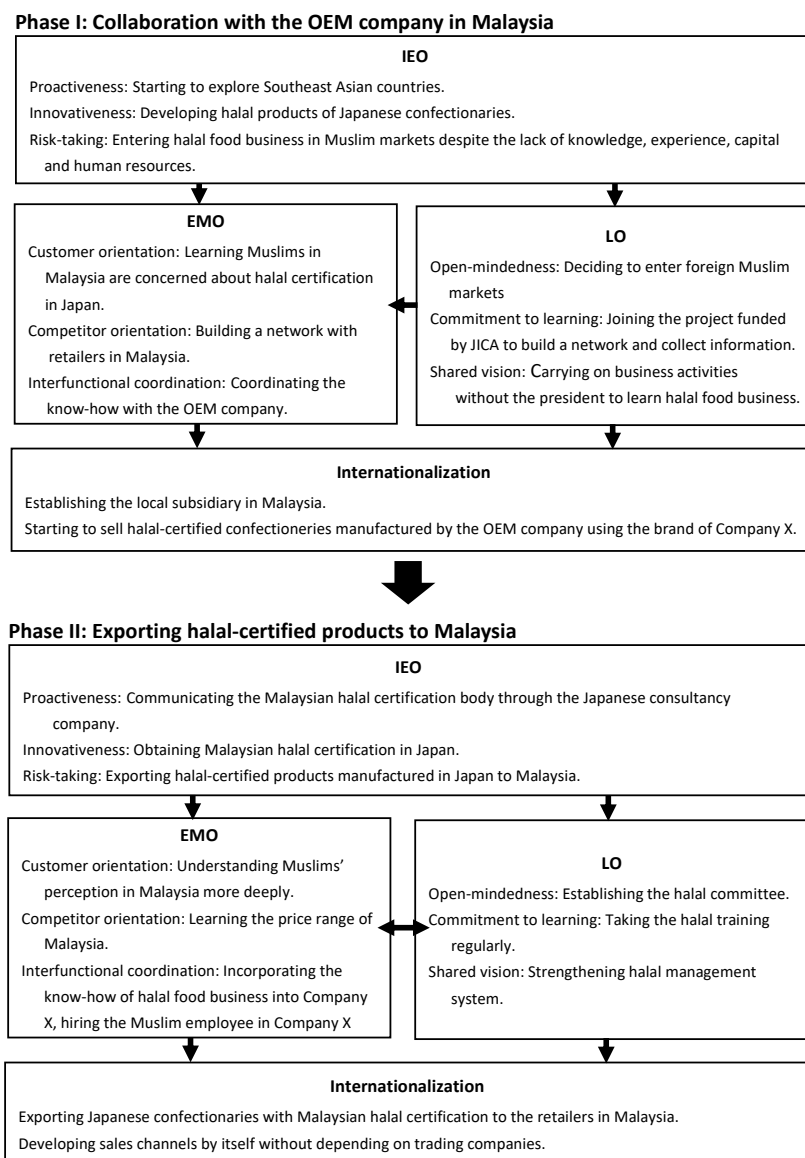
As Phase I showed, Phase II also showed that IEO could accelerate LO and EMO. As the result, Company X expanded its business to exporting Japanese confectionaries with Malaysian halal certification to the retailers in Malaysia while it has developed sales channels by itself without depending on trading companies to lower the selling price. Furthermore, by obtaining Malaysian halal certification in Japan, Company X established competitive advantages over Japanese and Malaysian competitors. As Malaysian halal certification is one of the strictest halal certifications in the world (Latif et al., 2014), Company X gained a competitive advantage in terms of the reliability of its halal products over Japanese competitors that have a domestic halal certification. On the other hand, as the

product quality manufactured in Japan has a good reputation globally, Company X gained a competitive advantage over Malaysian competitors that produce their products in Malaysia.

In summary, the above analysis showed that IEO played the main driver to trigger and accelerate EMO and LO. Specifically, the proactiveness, innovativeness, and risk-taking of the president led to the collection of customer and market information and the establishment of the organizational structure for halal food business in foreign Muslim markets. Through this process, Company X has progressed its internationalization in the halal food industry step by step (see Figure 4).

Based on the analysis, it is also deemed that a collaboration with an OEM company located in a target market is a key phenomenon for the internationalization of SMEs in the halal food industry. As Fujiwara & Ismail (2017) showed, the halal industry in Japan has obstacles to the internationalization of SMEs. Especially, the issues in the market sector could prevent Japanese SMEs from accumulating experimental knowledge of the halal food business. For this reason, collaborating with an OEM company doing halal business in a Muslim market could help Japanese SMEs accumulate their knowledge and collect information. According to Tohara (2012), Japanese SMEs have tended to progress their internationalization by using an OEM company due to a lack of resources. This strategy is also likely to be effective in the halal food industry. In this case, establishing a good relationship between Company X and the OEM company is also a crucial reason to succeed in its internationalization. The president of Company X and the staff of the OEM company visited each place several times. Through this mutual communication, they understood not only their business but also their culture including food habits. As described above, the cultural barrier to food habits, especially those derived from religion, can be a critical obstacle to internationalization. Thus, establishing a trusting relationship with an OEM company would contribute to overcoming the cultural barrier in the halal food industry.

Concerning the cultural barrier, procurement innovation is imperative in the halal food industry. As the case showed, Muslims in Malaysia were concerned about halal certification in Japan. Hence, receiving foreign halal certification could be a critical factor to enter Muslim markets. However, to receive halal certification, a company needs to change not only its production process but also the ingredients for its products. Company X identified and disclosed the ingredients of second and third-tier suppliers to receive Malaysian halal certification. Since Japanese foods often use haram materials such as pork and alcohol, it becomes a huge burden to start a halal food business in Muslim markets. But, if some violations of halal requirements occur in halal-certified products including the procurement stage, this manufacturer would face difficulty. For instance, Ajinomoto, a Japanese multinational company, suffered from a recall and boycott of its halal-certified products in Indonesia in 2001 due to the usage of porcine enzyme in its supplier's operation (Itou, 2002). In the food industry, it is deemed that procurement innovation is more important than in other industries in terms of the cultural barrier. According to Yamamoto (2020), the tea manufacturing industry in Japan has an obstacle to internationalization. While consumers in Japan prefer tea manufactured in Japan, consumers in some foreign countries prefer organically grown tea because there are regulations on pesticide residues in tea. For this reason, it is essential for tea companies in Japan to procure pesticide-free tea leaves from organic tea farmers if they try to export their products overseas. In the halal food industry, Japanese SMEs need to change their production lines as well as their procurement strategies to produce products with halal certification. Also, they need to build a network to sell the products in foreign Muslim markets. Thus, it is necessary to achieve innovation at the level of their entire supply chain eventually.

Fig. 4: Internationalization process of Company X

6. Conclusion

This study explored the internationalization of Japanese SMEs in the halal food industry by adopting the existing framework focusing on entrepreneurship. Based on the analysis of the case of Company X, this study mainly showed three findings. First, IEO can be an important factor to lead to the internationalization of Japanese SMEs in the halal food industry. In this case, IEO triggered the internationalization of Company X, which affected EMO and LO. Specifically, the president actively collected information related to the halal food business and built the appropriate organizational structure. Eventually, Company X achieved to enter Muslim markets by exporting its halal-certified confectioneries manufactured in Japan. Second, a collaboration with an OEM company is an effective form of entry into foreign Muslim markets since it is not easy for Japanese SMEs to accumulate experimental knowledge related to halal business in Japan. Company X tapped into the foreign Muslim market by closely communicating with its OEM company. This communication enabled the president of Company X to collect customer and market information and build the network

in Malaysia and helped Company X and the OEM company understand their culture with each other. Third, procurement innovation is crucial to progress internationalization in the halal food industry. Company X needed to identify and disclose its ingredients at the level of second and third-tier suppliers to receive Malaysian halal certification. Muslims cannot eat haram materials so the cultural barrier that emerged from Islam teaching requires Japanese SMEs to achieve procurement innovation.

Future studies should look at more cases and improve the framework. Cases, however, should not be randomly selected. The case selection should be designed to compare both similar and different cases to clarify the conditions when a particular phenomenon is to be found or not to be found (Yin, 1994). For this reason, future study needs to adopt cases similar to and different from Company X. Furthermore, this study did not analyze the effect of third parties. According to Yamamoto & Natori (2014a), a social network with external entities influences forming of IEO. This study just focused on the relationship between Company X and the OEM company. However, the function of third parties such as JICA and SME Corporation Malaysia is considered important in the internationalization of Company X. Therefore, future studies should analyze networks with third parties to clarify the internationalization of SMEs in the halal food industry.

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