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An Analysis of Entrepreneurial Ecosystem Among Small Medium Industries (SMEs) in Malaysia: A Proposed Model

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Abstract: Small and Medium Enterprises (SMEs) play a vital role in the Malaysian economy and are considered as the backbone of industrial development in the country. However, Malaysian SMEs' value added is very much lower than that of large-scale enterprises. The low productivity of physical inputs or factors efficiency may be attributed to the low level of value added. A first step to stimulating entrepreneurship is mapping and measuring the existing entrepreneurial ecosystem. This analysis allows for diagnosis of potential challenges and opportunities that can be addressed through specific interventions. Therefore, the main objective of the study is to explore what and how entrepreneurial ecosystem among SMEs in Malaysia contributes to the development particularly on wealth creation, employment and poverty eradication. Based on previous study six main entrepreneurial ecosystem variables will be explored (the government policy, finance, culture, support, markets and human capital) in relation to their impact on business performance of Malaysian SMEs. This conceptual paper is expected to contribute a theoretical development/model of the ecosystem of SMEs in Malaysia and to justify the need for the enhancement of SMEs entrepreneurship policy. The second phase of this research is expected to provide further feedback to enhance SMEs and entrepreneurship policy and to give some suggestions for SMEs in enhancing their business performance. Finally, it is hoped that this study can produce a segment in a more inclusive global picture of the entrepreneurial ecosystem of SMEs in Malaysia.

Key words: Entrepreneurship, entrepreneurial ecosystem, small medium industry, enhancement, inclusive global picture

INTRODUCTION

The existence of Small and Medium Enterprises (SMEs) in every country all over the world proves that they play important roles in the economic development of the nation. Globally, notable scholars have acknowledged positive contributions of SMEs to the development of nations' economy, social responsibility and tax collection (Haug *et al*., 2013). As a matter of fact, the rapidly growing SMEs are the engine and driver for the efficient and competitive market that support the nation's economy worldwide.

Acknowledging the significant role of SMEs in the nations' economic development, the Malaysian government has showed commitment to the SMEs development after post-independent. For instance, New Economic Policy was established in 1971 which was intended to improve Malaysian citizen's empowerment, particularly for wealth redistribution among the ethnic groups. Also, 1996 witnessed the establishment of a particular agency that is Small and Medium Industries Development Corporation (SMIDEC). In essence, SMIDEC was founded to encourage the growth of SMEs by rendering supportive infrastructural facilities, loans and tax leverage, consultative services, market accessibility and many other initiatives programs. The aim was to develop capable and resilient Malaysian SMEs that were competitive in the global market. Furthermore, a highest policy-making body called National SME Development Council (NSDC) was instituted in 2004, practically to develop strategic guidelines for SME growth in every quarter of the national economy. Hence, the council's responsible covered coordination of the Associated Ministries and Agencies, promotion of cooperation within the private sector and facilitation of efficient implementation plan for the SME development in Malaysia (Corp, 2012).

The holistic unrelenting government's efforts produced the incorporation of the Small and Medium Enterprise Corporation Malaysia (SME Corp. Malaysia) in 2007. The institution is currently the principal custodian of the necessary information and advisory services for

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Malaysian SMEs advancement. Thereafter, second Industrial Master Plan (IMP2) was formulated as a policy to support further SMEs, though terminated in 2005. Not too long, the third Industrial Master Plan (IMP3) for 2006-2020 was launched. Till dates is under this development master plan that Malaysian government has been able to execute the substantial policies and strategies to promote the growth and progress of the industrial sector across the entire value chain. Hence, this has increased cluster-based industrial expansion and advancement in the Malaysian production-based economy.

Regardless of potential growth experienced, SMEs have encountered few obstacles (internal and external factors) that have hindered their overall entrepreneurial ecosystem success. However, the majority of past studies on SMEs from developing nations focused on the SMEs manufacturing sector challenges. In this regard, researches on the overall ecosystem of the SMEs especially in the rural areas are rather limited. Therefore, this study aspires to set out some of the issues encountered by rural SMEs from emerging countries in the overall ecosystem.

Problem statement: Small and Medium-sized Enterprises (SMEs) are a very heterogeneous group. SMEs are found in a wide array of business activities, ranging from the single artisan producing agricultural implements for the village market, the coffee shop at the corner, the internet cafe in a small town. Hence, small sophisticated SMEs could be engineering or software firm selling in overseas markets while a medium-sized could range from automotive parts manufacturer selling to multinational automakers in the domestic and foreign markets. In fact, Hashim (2012) stated that SMEs are the largest provider of employment and also a major source of technological innovation and new products in many countries. In the same perspective, SMEs have provided opportunities for many low-income employees to be hired which has practically reduce the poverty level in the rural areas and poor region (Luen *et al*., 2013).

Regardless of their laudable roles and contributions to exports, employmentand economic growth, there is wide recognition in past studies that examined and described the challenges and barriers faced by Malaysian SMEs. Daud and Yusoff (2010) and Wang (2003) highlighted the challenges as lack offinancing; low productivity; lack of managerial capabilities; access to management and technology and heavy regulatory burdens among many others. Likewise, Muhammad *et al*. (2010) reported that major factors that impede the growth of Malaysian SMEs are low technological capability and lack of business and financial advisory services. In the same report, it was suggested that SMEs require advisory services in the capacities of accounting, finance, auditing and marketing. In fact, it has been reported that about three-quarters (75.6%) of SMEs financing was for working capital. The financing needs were similar across all sizes, namely microenterprise-74.6%, small-sized firms-77.8% and medium-sized firms-74.2%. As a matter of fact, majority of Malaysian SMEs struggle to obtain funding due to a variety of factors such as non-existent track record, weak credit rating, lack of collateral as well as documentation required by most banking and financial institutions. In more recent study Hashim (2012) analysed the nature of the business problems faced by SMEs in the manufacturing sector. This study revealed six problems that are commonly faced by Malaysian SMEs including human resource management, marketing, production, financial management, strategic management and general management.

In regard to the use of information technology, a study by Tan *et al*. (2009) revealed that Malaysian SMEs faced dilemma when it comes to ICT adoption. They realise ICT can create new business opportunities, access information and expedite business communications. However, they dare not venture into it because of ICT security. Moreover, they feel that investment in ICT hardware and software are expensive. Due to that the barriers faced by SMEs, they tend to undermine their performances. Thegrowing number of challenges as outlined above may contribute to the low level of efficiency among the SMEs in Malaysia. A previous research found that a low level of productivity and input quality may attribute to lack of value added in SMEs which further retard the optimum level of efficiency in the development process (Saleh and Ndubisi, 2006). Hence, Luen *et al*. (2013) suggested that Malaysian SMEs need to have proper strategic planning and management in order to achieve business success and profitability.

To ensure the positive development of SMEs, there are many initiatives and programs launched. For example the government through the various ministries and agencies has prioritised access to financing by supplanting private sector funding with government funds, schemes and guarantees especially for businesses in early stage of their growth cycle, addressing information asymmetry and enhancing financial inclusion to cover the rural and excluded segment. Moreover, despite extensive study of SMEs in Malaysia, there is no study yet measuring the overall Ecosystem of the SMEs. Hence, until today the performance of Malaysian SMEs

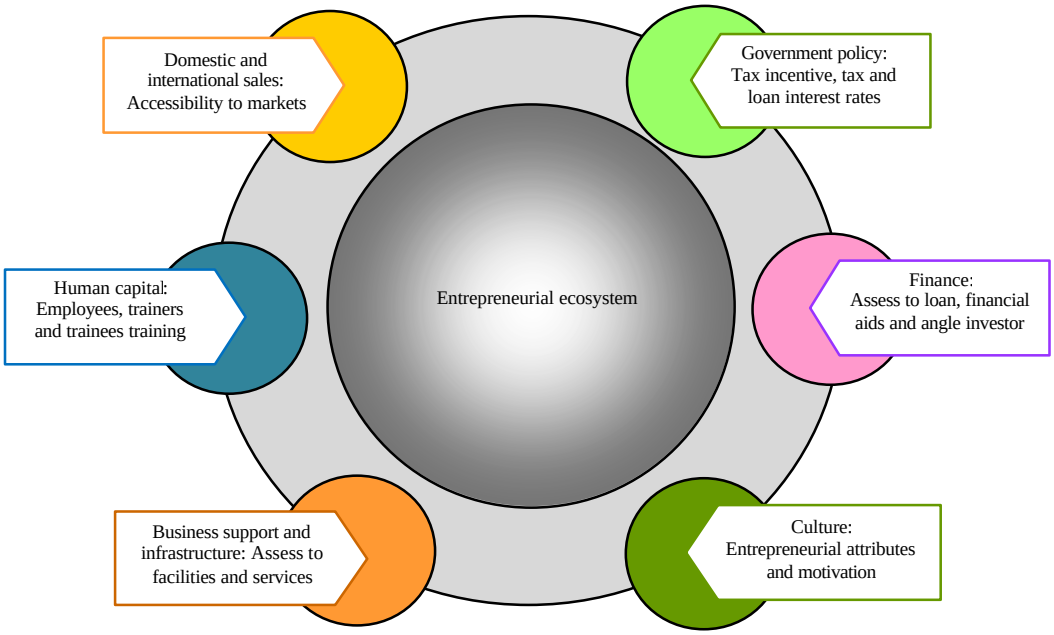

Fig. 1: Entrepreneurial ecosystem measurement

are still behind the SMEs in most developed countries. Therefore, this study is essential to identify whether the entrepreneurial ecosystem such as government's initiatives and support, culture, human capital, technology and market have been successful in helping the development of SMEs in reaching the objectives of transformational economics of the country specifically in achieving the high income society by year 2020.

Literature review

Entrepreneurial ecosystem: An ecosystem is a community of living organisms (plants, animals and microbes) in conjunction with the nonliving components of their environment (things like air, water and mineral soil), interacting as a system. An ecosystem is defined by three key components: the population or various stakeholders that have both developed and are the results of the ecosystem the location where the ecosystem exists and the broader interdependency and interaction between the various populations that constitute the ecosystem. Therefore, the network of interactions among and between organisms and their environment defines concept of ecosystems as they are all linked together through the nutrient cycle and energy flow. A new term "entrepreneurship ecosystem" which is defined as the elements-individuals, organizations or institutions apart from the individual entrepreneur that are conducive to or inhibitive of the choice of a person to become an entrepreneur. The process of developing an enabling ecosystem for entrepreneurship has received considerable attention from governments, development agencies and academics. Much of the research on entrepreneurial ecosystems in developed and developing countries emphasizes the need to take a multi-dimensional approach to measurement, taking into account all the various domains that can affect entrepreneurship in a region and how they interact with one another. For example organizations like the Council on Competitiveness (CoC) in the United States, the GSM association, the Organization for Economic Co-operation and Development (OECD), the World Bank and the World Economic Forum have developed diagnostic tools for assessing and tracking the development of the ecosystem. Additionally, there have been similar evaluative frameworks developed by successful venture capitalists, development consultants and higher learning institutions. Hence, there are now a number of models of entrepreneurial ecosystems. In this regards, six entrepreneurial ecosystem's mechanism such as the legal and regulatory framework; culture; finance; human capital and markets were outlined in previous researchers' researches. In summary, the interconnectivity of entrepreneurial ecosystem measurement is presented in Fig. 1. On the account of aforementioned entrepreneurial ecosystem measurement, their role is briefly discussed as follows.

Government policy: The policy and regulatory framework of an entrepreneurship ecosystem must include laws and regulations friendly and supportive to entrepreneurs

which protect intellectual property, facilitate access to capital and human capital development (Erhurun, 2007).

Finance: The fundamental driver of the economic growth of entrepreneurial activity is private equity and venture capital. Private equity is equity capital that is not quoted on a public exchange. There are six stages of venture round financing offered in venture capital and they roughly correspond to the key stages of a company's development.

- Seed money: initial financing needed to prove a new idea, often provided by angel investors
- Crowd funding is also emerging as an option for seed funding
- Start-up stage firms that need funding for expenses associated with marketing and product development
- Growth (series a round): funds for manufacturing and early sales second-round: (series B round) working capital for early stage companies that are selling product but not yet turning a profit
- Expansion: also called mezzanine financing, this is expansion money for a newly profitable company and
- The exit of the venture capitalist: also called bridge financing, 4th round is intended to finance the "going public" process

Culture: A culture that fosters entrepreneurship is characterized by innovative and disruptive ideas, accepts failure and encourages calculated risk taking, sees entrepreneurs favorably, gives failed entrepreneurs a second chance and encourages the feasibility of their aspirations (Klamer, 2006).

Business support and infrastructure: Refers to those services, originating in a public policy initiative that aim to assist enterprises or entrepreneurs to successfully develop their business activity and to respond effectively to the challenges of their business, social and physical environment. Support services can be provided either by public or private organizations or indeed, by individuals. In all cases, though, those concerned would be acting in pursuit of public policy objectives, usually as agents for the public authorities.

Human capital development: Human capital development as a process of increasing human knowledge, enhance skills in vocational and technical education for an increase in productivity and stimulate resourcefulness of trainees should be systematic, sustainable and strategic. The process should be systematic to the extent that there should be a plan for which previous activities and must make desired and enduring impact on the organization or society (Erhurun, 2007).

Dometic and international sales: The start-ups which grow within an entrepreneurship ecosystem, need access to markets and most importantly customers to flourish. Hence, the ecosystem must facilitate such access with laws, regulations and agreements relating to ease of doing business, free trade, taxation and infrastructural development. Today with the power of the internet has created unlimited access to the borderless customers/clientele/consumers through a virtual-reality markets places, specifically and instantaneously.

Small medium industries: There are many definitions of SMEs and currently no standardize definition have been provided by International bodies. As a result, every country has different definitions and criteria for a company to be classified as an SME. The statistical definition of SMEs varies by country and is usually based on the number of employees and value of sales and value of assets. Due to its ease of collection, the most commonly used variable is the number of employees. An SME in the manufacturing sector is defined as an enterprise with full-time employees not exceeding 150 employees or with an annual turnover not exceeding RM25 million. On the other hand, SMEs in the service and primary agricultural sector and ICT are enterprises with full-time employees not exceeding 50 or annual turnover not exceeding RM5 million (Saleh and Ndubisi, 2006). The SMEs in both sectors are further categorized as micro, small and medium enterprises and their developmental projection shown in Fig. 2.

Measuring entrepreneurial performance: Globally, performance measures have been employed to assess the attainment and success of business organizations. More so, the contemporary accounting models evolved from the middle ages. Since that time assessment of performance has predominantly been established on financial benchmarks/criteria. By the 1980s, there was a growing realization that the traditional performance measures do not provide reliability and viability sufficient to manage organizations competing in prevailing competitive markets (Johnson and Kaplan, 1987; Rogers and Wright, 1998). With more demanding customers and more competitive markets came the need for greater responsiveness and external focus for activities. Hence,

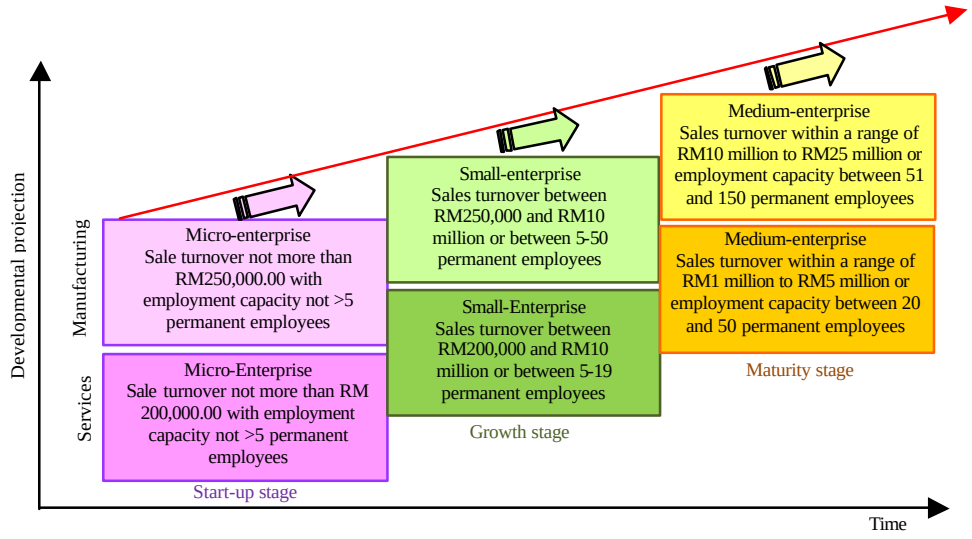

Fig. 2: Classification of enterprises development (Corp, 2012)

in recent years have seen the development of new approaches to measuring performance such as activity-based costing (Cooper and Kaplan, 1997) and shareholder value (Rappaport, 1986; Blyth *et al*., 1986). The new measurement frameworks are most notably the Balanced Scorecard (BSC) (Kaplan and Norton, 2001, 1993) and assessment frameworks such as the business excellence model.

For example, the balanced scorecard approach developed by Kaplan and Norton has four important measurement perspectives; financial, customer, internal business and innovation and learning perspectives (Fig. 3). The key goals that are identified as being critical to the success of the business are based on the performance measurement framework.

In the 21st century, the essential elements of a real performance measurement activity are very similar to those required for a total quality improvement activity. These critical elements are as follows: leadership and commitment; good planning and a sound implementation strategy; appropriate employee involvement; simple measurement and evaluation and control and improvement.

Currently, nations' entrepreneurial performance assessment is a complex process. In fact, no consensus has been reach on individuals' entrepreneurial performance indicators whether it should be base on self-employment or the creation of new SMEs (Gafar *et al*., 2014), more so at a national level. The simple reason is that the national economic level is even more complicated.

Regardless of these technical, economic complexities, it is only by measuring national entrepreneurial performance particularly Malaysia that we can establish

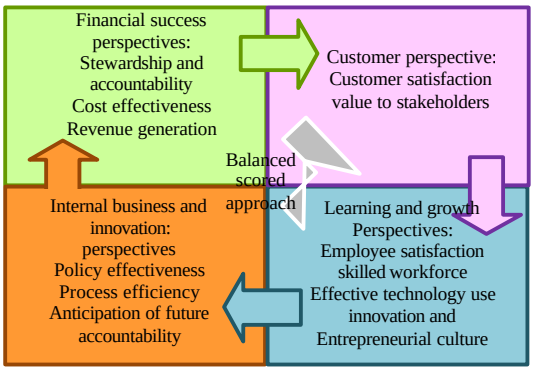

Fig. 3: Balanced scorecard performance measurement (Kaplan and Norton, 2001)

where entrepreneurship is working/not working and begin to understand the reasons for non-performance indexes.

The clear understanding is to identify areas that need improvement within the national entrepreneurial ecosystem, particularly, barriers that could impede the development of future and existing entrepreneurs and the attainment of national vision 2020.

Regarding this research, analysis of Malaysia entrepreneurial ecosystem is required to measure the impact of entrepreneurship and compare performance across some variables and between comparator countries. To date, there has been no acceptance of a dominant variable or index to measure entrepreneurial ecosystem in Malaysia in which this research aimed to establish.

MATERIALS AND METHODS

This study will employ mix method approaches. The first stage will involve a qualitative approach specifically

interviews that to be conducted with selected SMEs owners and policy makers. The purpose of interviews is to pinpoint the exact entrepreneurial ecosystem elements that influence their business performances. The findings then will be used as a basis for instrument development. The second stage of the study will involve quantitative survey using structured questionnaire (a cross-sectional study) throughout four regions of Peninsular Malaysia. The combination source of data will provide an overall spectrum of the entrepreneurial ecosystem in Malaysia.

RESULTS AND DISCUSSION

Proposed research framework: The intended research framework was based on the established components of the entrepreneurial ecosystem in the literature. For the purpose of this study, the model selected is adapted from the World Economic Forum as shown in Fig. 4. The six components practically relate to the government policy settings for the local and national economy. More so, the proposed entrepreneurial ecosystem assessment framework developed from the existing SMEs performance variables within the national economic policies.

When it comes to creating the ecosystem for fostering entrepreneurship, there are some important factors to consider. Cultural norms and education systems have a major effect on the entrepreneurial drive of individuals while the legal and regulatory system can create barriers to starting a business. The policy and financial environment is also an important aspect to consider since without sufficient capital, new ventures struggle to thrive. The human capacity development that is the transporter and transformer of the remaining components of the entrepreneurial ecosystem will be accord it's vital role in which other nations' entrepreneurial ecosystem value are deficient.

In fact, some countries have published their entrepreneurship ecosystem indexes. Despite, they are imperfect in value because they focused on quantity, not quality. Hence, their applicability in the different geographical setting is questionable which a gap worth to explore. More so, till date little or none is known of the Malaysian entrepreneurial ecosystem among the SMEs or a comprehensive national position on this subject matter. In this proposed research framework, extensive consideration would be giving to the assessment of the contextual background of entrepreneurship ecosystem to fit in element (s) of added values. Therefore, Malaysia entrepreneurial performance would be established by way of the cross-examination of entrepreneurial ecosystem indexes and SMEs' performance on the Malaysian economic growth, job creation and poverty reduction.

In this regard, this set forth the questions of what environment can entrepreneurship flourish? Can entrepreneurs in emerging nations innovate and create wealth as other entrepreneurs in developed countries? What determines a strong and healthy entrepreneurship ecosystem achievable? In sum, it is a comprehensive research framework of this nature that could provide in-depth diagnosis, understanding and answers required to develop a vibrant Malaysian entrepreneurial ecosystem. The principle is central to the emergence of a sustainable response to vision 2020 aspiration. To be

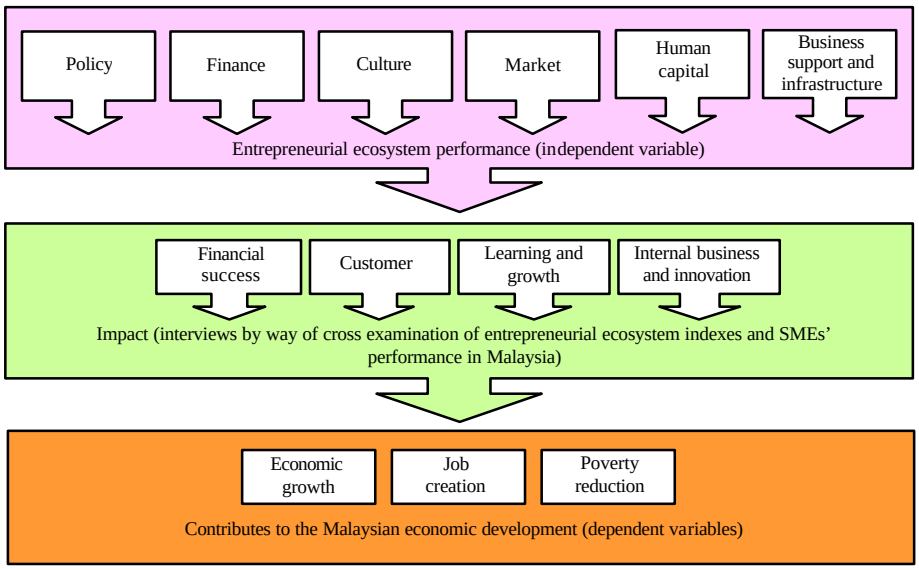

Fig. 4: Proposed research framework

specific, the biosphere and landscape for entrepreneurial success demands more than the core elements of technology, infrastructure and finance. It requires systems that provide catalysts and opportunities for entrepreneurs to create and take risks. These systems evolve through dialogue, experimentation and a combination of grassroots and high-level reform initiatives.

Moreover, studies have showed positive contributions of entrepreneurship to the economic development of nations. For instance, several policies such as New Economic Model (NEM); Economic Transformation Plan (ETP); Government Transformation Plan (GTP); National Higher Education Strategic Plan (NHEAP 2007-2010) and National Higher Education Action Plan (NHESP beyond 2020) were formulated in an effort to reposition Malaysia from a production-based to knowledge-based economy (Grapragasem *et al*., 2014). The fact remains that economic and education policies are vital components of the entrepreneurial ecosystem but the two are not enough. Therefore to develop detail analysis of the government initiatives towards entrepreneurial development, there are needs to provide perspicacity into the strengths, weaknesses, opportunities and threats of the national entrepreneurial ecosystem. In essence, this research could offer a clear indulgent of how Malaysia is performing comparative to other countries in Asia and beyond.

CONCLUSION

An analysis of entrepreneurial ecosystem among the Malaysian small industries believed to develop national strategic approaches that are organic, original and broad-based for energizing economic prosperity. In fact, it is a foundation for collective strategies, innovation and value changer mechanism for national SMEs knowledge-based competitive guidelines. The results-oriented entrepreneurship ecosystem strategies to be proposed upon completion of this study are to address some of the past policies oversights resulting from the way they were conceived and executed.

In summary, entrepreneurship is about a value added aspiration and when successful, distinctively improves the overall economy of nations. On this account, the responsibility of the policymaker is to create a valuable sequence of entrepreneurship development. The direct channel to creating this priceless cycle is to enhance, cultivate and evolve a regional ecosystem that is to encourage to entrepreneurial success. To achieve this it demands an independent team with the training, power, mandate, capacity and resources to sufficiently and holistically impact the ecosystem.

Hence, developing Malaysian entrepreneurship ecosystems is unrealistic exclusive of input from the private sector, particularly, small and medium enterprise performance indexes. In fact, entrepreneurial resourcefulness is not limited to edifice of tangible/physical companies but depends on capacity building in human capital. For instance, entrepreneurs intertwine exchange of ideas (networking), solve resource constraints (effective utilization of scares resources) and fill institutional gaps in the entrepreneurship reorientation. These collectively could provide the desirable and holistic reform and educate government policymakers about real entrepreneurial ecosystem require to enhance the actual SMEs development in Malaysia.

More so, economic reforms that are devoid of existing SMEs input and implemented, there productivity and sustainability is doubtful. In the past, notable attempts have been made to improve unilaterally the economic landscape and business environment by way of investment in entrepreneurial programs. The outcomes too often are cosmetic and not satisfactory. Therefore, a comprehensive national entrepreneurial ecosystem needs to be constructed through rigorous and robust research process of this nature.

To get the appropriate institutional framework in place that will encourage creation of more entrepreneurs is to invest in knowledge, innovation and higher productivity enhancer in both the public and private sectors of the national economy. To get it right is by supporting the realization of this kind of ecosystem which could provide, enable and facilitate the widest possible of openings for creative entrepreneurship. This study could provide mechanism on how to catalyze change and advocate for pragmatic business ecosystem reforms that could reduce the stumbling block to starting, operating and managing as well as growing borderless entrepreneurial exposure in Malaysia.

On a final note, ecosystem entrepreneurial model is to derive it forces of change from a holistic perspectives of variables that impact individual SMEs entrepreneurs and synergies that boost entrepreneurship as a realistic paradigm rather than an idealistic trend. Nevertheless, for the macro-ecosystem as an entity to function, the micro-components must play their role appropriately and fit together. Knowledge (policy), resources (human and capital), motivations (training), rules (internal and external) and opportunities (markets, culture and infrastructure) all must be developed to fuel entrepreneurship ecosystem.

Conclusively, this study proposed a set of measures to develop Malaysian entrepreneurial ecosystem with a focus on research innovation. The set of actions refers to an overview of top-down mechanism for the

entrepreneurial re-orientation approach as a process to support the entrepreneurial ecosystem. The anticipation is that this study could provide new directions for research related to studying the extent in which the Malaysian government policymakers comprehend and adopt/adapt new concept in the entrepreneurial ecosystem development for the attainment of Vision 2020.

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