

The Influence of Entrepreneurial Ecosystem on SMEs Industry in Malaysia

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ABSTRACT

The rise of Small Medium Enterprise (SMEs) businesses leads to the dynamic and competitive environment. To excel in the market, companies have spent a substantial amount of money, time and resources by designing right strategies to sustain. However, this SMEs businesses faces few challenges such as small capital investment, short of talent, limited access to infrastructure and support mechanism. Despite the government's several institutional and policy support for enhancing the capacity of this Small Medium scale enterprises, the results have fallen short of expectations. Given the increased demand for Small Medium Enterprise's products, creating a viable entrepreneurial ecosystem model for SMEs in Malaysia is critical. This is because the entrepreneurial ecosystem is a system of interrelated components that influence the speed and ability with which entrepreneurs, particularly SMEs can create and scale new ventures in a sustainable manner. As a result, this study seeks (1) to analyse the demographic profile of Malaysian small and medium enterprise and (2), determine the extent at which entrepreneurial ecosystem affect the Small Medium Enterprise in Malaysia. This study is important to investors, the ministry, the government, academics and even business owners because it provides a comprehensive model for understanding the SMEs entrepreneurial processes and how ecosystems emerge, change and influence entrepreneurship activities.

Keywords: Entrepreneur; entrepreneurial ecosystem; finance; talent.

INTRODUCTION

Entrepreneurial ecosystems are dynamic and evolving [1]. In order for entrepreneurs to succeed, there must be a supportive environment, which is now widely acknowledged among policymakers [2]. Scholars, practitioners, and policymakers are all interested in the new notion of entrepreneurial ecosystems. Despite the fact that studies on entrepreneurial ecosystems is growing, their contributions are still fragmented. Although recent studies have explored general variables affecting the formation of business ecosystems (e.g A. Kapturkiewicz [3]) only few studies focus on the small medium enterprise businesses (SMEs) and most of the studies have been conducted in the United States and European countries. Only five (5) studies were conducted in Asian countries [4]. Thus, it is important to conduct the study on the SMEs standpoint of business ecosystems since it contributes to the gross domestic product (GDP) and creates employments specifically in Malaysia.

The major aim of this study is therefore to identify the combinations of variables that will lead to increased growth in the small medium enterprise firms (SMEs) in Malaysia. The issues mentioned above leads to the purpose of this study; (1) to analyse the demographic profile of Malaysian small and medium enterprise (SMEs) and (2), determine the extent at which entrepreneurial ecosystem influence the Small Medium Enterprise (SMEs) in Malaysia. To fulfil the objectives, this study created a framework that incorporates items from a variety of sources such as Saad [5], Khadhraoui, Plaisent, Lakhal and Prosper [6] and Grohmarm and Kauffeld [7], Ngah [8], and Surin [9], The findings of this study may contributes firstly to entrepreneurs to understand the key influence of entrepreneurial ecosystem on SMEs growth and secondly assists the policymakers to design the right policy once they able to grasp the valuable insight conforming entrepreneurial ecosystems.

LITERATURE REVIEW

Entrepreneurial Ecosystem

Various definitions have been given to the notion of entrepreneurial ecosystems. According to Spigel and Harrison [1], the definition of an entrepreneurial ecosystem is a grouping of social, political, economic and cultural factors present in a setting that promotes the formation, expansion and sustainability of entrepreneurial initiatives. An entrepreneurial ecosystem consists of series of interconnected players and elements, which are regulated in such a way that allows productive entrepreneurship on a given region Stam [10]; Stam and Spigel [11]. There are ten (10) key components of an entrepreneurial ecosystem; (1) Physical infrastructure, (2) Demand, (3) Intermediaries, (4) Talent, (5) Knowledge, (6) Leadership, (7) Finance, (8) Formal Institutions, (9), Culture and (10) Networks. All these ten (10) components should be able to represent the most crucial conditions for entrepreneurship to thrive. Moreover, an integration of social, political, network's leadership, capital markets, economic, open- minded customers and cultural characteristics in an area that supporting the establishment and expansion of the creative start-ups as well as promoting the risks of establishing, investing and supporting high risk businesses provides both social and economic resources to entrepreneurs [12]

According to Spigel and Harisson [1], the components are suggested to be split into high priority and medium priority qualities as displayed in Table 1. It enables a better comprehension of how entrepreneurial ecosystems function and how they impact entrepreneurial processes, thus enabling more effective policy interventions. In this study, three key components of

entrepreneurial ecosystem were used; talent (education and training; regional culture), finance and business performance.

Table 1: Proposed attributes of the SMEs Entrepreneurial Ecosystem based on various literature (eg; Saad [5], Spiegel [13])

HIGH PRIORITY ATTRIBUTES		MEDIUM PRIORITY ATTRIBUTES	
MARKET	The capacity to locate, contact, and sell to a market or market segment as well as its availability.	Network and Engagement	The chance to meet, connect and form new contacts as well as the entrepreneurial community's extensive and vibrant networks and interrelationships. This component also has governance issues for the ecosystem as a whole.
		Support Services	The accessibility to the availability of mentorship, role models and associated services in the legal, financial, real estate and consulting fields.
TALENT	The availability of highly competent individuals with the appropriate attitude for entrepreneurial activity as well as the capacity to recruit and keep them.	Education and Training	The accessibility and ease of obtaining entrepreneurial education, associated training, and skills development, as well as the efficiency of technology transfer procedures and the quality of the pipeline for the labour force.
		Regional Culture	The region's mindset and cultural propensity for entrepreneurship; tolerance for risk and failure; and stories of success that serve as an inspiration to others
FINANCE	Access to and availability of grants, venture capital, angel investments, seed funds, and other types of finance required for beginning and growing	Physical Infrastructure	The accessibility of real estate, internet, and transportation infrastructure to support start-up and expansion. This includes "third places" like technology parks, makerspaces, and co-working facilities.
		Government and Regulatory Framework	The extent to which governmental structures, laws, and incentives encourage or discourage the start-up and growth of entrepreneurial activity.

Previous research has shown that the performance of small and medium size enterprise (SMEs) has been linked to various factors. For instance, according to Rajah and Wan Fauziah [14], six elements of the entrepreneurial ecosystem are positively correlated to business performance with human capital being the most important of the six factors. Meanwhile, Study done by Pergelova and Angulo-Ruiz [15], found that government financial support such as government guarantees, and government equity have a significant impact on the overall competitiveness business and only a marginally positive impact on performance for new businesses in the USA.

RESEARCH METHODOLOGY

A quantitative research design was used in this study. Malaysian were surveyed utilizing a personally conducted questionnaire survey. Moreover, this study used purposive sampling to represent specific characteristics that were of interest. To capture the respondent's respond, items introduced by Saad (2014) [5] were used to gauge the first variable; market, which is divided into two dimensions: network and engagement and support service. Next, two dimensions, education and training, and regional culture were utilised to describe second variable; talent. The variable was measured using 10 questions modified from Khadhraoui, Plaisent, Lakhal and Prosper [16] and Grohmarm and Kauffeld [7]. Physical infrastructure as well as political and regulatory framework were used to assess third variable; finance. 10 items were adopted from Saad [5]. Respondents answered to items on a 7-point Likert scale ranging from 1= Never to 7 = Always to measure these three main variables (market, talent and finance). Finally, 10 items from Ngah [8] and Surin [9] were used to assess business performance. All of these items were rated on a 7 -point Likert scale with 1 indicating strong disagreement and 7 indicating strong agreement.

RESULTS

Data Analysis

To better comprehend the purpose of the study, this part shows and examines the results of the demographic profiles as well as the objectives of the study in detail. The survey received responses from SMEs business owners in Malaysia. The majority of respondents are Malay (42%) and 88% of the respondents run their business as a sole proprietorship. They are running a family business (66%) and 42% of these entrepreneurs are the second generation that focus on textile (38%) and forestry based products (28%). The businesses operated 6-10 years (15%) and some of it less than 5 years (14%). The businesses (74% of respondents) hired 1 to 5 staffs 62%) and able to generate monthly gross revenue of RM10 000 (62%).

Table 2: Demographic profile of respondents

Demographic Variables		Frequency	(%)
Form of Business	Sole Proprietorship	44	88
	Partnership	1	2
	Private Limited	5	10
Family Business	Yes	33	66
	No	17	34
Generation No	1st generation	3	6.0
	2nd generation	21	42.0
	3rd generation	9	18.0
Ethnicity of the Business Owner	Melayu	42	84.0
	Cina	2	4.0
	Iban	1	2.0
	Penan	1	2.0
	Orang Ulu	1	2.0
	Dusun	1	2.0
	Rungus	1	2.0
	Bajau	1	2.0
No of Employee	1-5 employees	37	74
	6-10 employees	11	22
	11-15 employees	2	4
Age of Business	1-5 years	14	28.0
	6-10 years	15	30.0
	11-15 years	8	16.0
	16-20 years	7	14.0
	21-25 years	3	6.0
	26 - 30 years	3	6.0
Monthly Gross Revenue	RM0 - RM9,999	31	62.0
	RM10K - RM19,999	12	24.0
	RM20K-RM29,999	2	4.0
	RM30K-RM39,999	3	6.0
	More than RM50K	2	4.0

The mean score for talent, finance and business performance that influence the success and growth of SMEs businesses are summarized in Table 3 below. The findings shows that the business growth and success of SMEs were influenced by talent, one of the major components of entrepreneurial ecosystems. The highest mean score was talent with 6.58. Majority of the entrepreneur confessed, when they are setting up the business, it will allow them to achieve success. The impact of talent on business activities was therefore deemed to be significant.

The first three form of talent that give impact on business activities are: (1) I consider that by setting up the business, it will allow me to achieve success ($\mu=6.58$, $SD=0.835$) followed by (2) I consider that by setting up the business, it allows me to implement my idea ($\mu=6.38$,

SD=1.323) and I consider that by setting up in the business and (3) I consider that investing in the business is a desirable career choice ($\mu=6.16$, $SD=1.448$). Meanwhile, the three lowest form of entrepreneurial ecosystem that influenced the business activities are: (1) It is easy for my employees to have a continuous training programs provided by external parties ($\mu=3.64$, $SD=1.935$), (2) My business received substantial subsidies from the government to assist my business operation ($\mu=3.16$, $SD=1.942$) and (3) My business received substantial tax subsidies from the government to assist my business expansion ($\mu=2.74$, $SD=1.651$)

Table 3: Attributes of Entrepreneurial Ecosystems that influence the SMEs businesses in Malaysia

	Mean (μ)	Standard Deviation (SD)
<u>Talent</u>		
It is easy for my employees to have a continuous training programs provided by external parties.	3.64	1.935
It is easy for my employees to continuously learn from others.	4.12	1.780
The training is very beneficial to my work	5.14	1.938
The training provider provides enough knowledge	4.60	1.761
I learned a lot of new things in the training	4.88	1.891
I consider that investing in the business is a desirable career choice	6.16	1.448
I consider that by setting up the business, it allows me to implement my idea.	6.38	1.323
I consider that by setting up the business, it will allow me to achieve success.	6.58	.835
<u>Finance</u>		
The road is accessible to my business area.	5.82	1.792
The telecommunication network is available in my business area.	5.90	1.568
It is easy to get a business premise.	5.02	1.696
The bank service is available in my business area.	4.66	2.191
The infrastructure to do business such as facilities to conduct meeting is provided by the government.	4.58	1.739
My business received substantial subsidies from the government to assist my business operation	3.16	1.942
My business received substantial tax subsidies from the government to assist my business expansion.	2.74	1.651
The concentration given by government towards my business industry allows my business to sustain until now.	4.94	2.084
Policy from the government for not allowing the competitors' products in entering local market allows my business to increase the sales.	4.28	2.304

The Government's initiative to further improve our product quality is a good move.	5.58	1.774
<u>Business Performance</u>		
My business's profit has been improved	5.04	1.564
My business has successfully implemented product innovation.	5.68	1.377
My business has been consistently making profit	5.26	1.382
My business has been growing fast.	4.94	1.331
My business has made more sales.	5.10	1.403
My business is successfully to increase employee productivity	5.18	1.320
My business is successfully in keeping the consistency of product quality.	5.88	1.154
My business is successfully in cutting production time of a product.	5.54	1.092
My business has the capability to produce product variety.	5.72	1.371
My business has the capability to increase production rate quickly.	5.56	1.264

DISCUSSION

This study aimed to examine how entrepreneurial ecosystem attributes; the talent, finance and business performance influence the SMEs businesses in Malaysia. The results shows that talent constitute as the most significant attribute that influence the SME business in Malaysia. Most entrepreneurs perceived that by setting up the business, it allows them to achieve success. It perhaps due to the influence of entrepreneurial ecosystem that make entrepreneur have more self-confident and thus value their work more [17]. Furthermore, findings reveals that entrepreneur feels that by setting up the business, it allows them to implement the idea, hence affecting their businesses' success and growth. Thirdly ranked as indicated in the study is that entrepreneurial ecosystem influences the way entrepreneurs perceived investing in the business is a desirable career choice. A.,A. Lux et al.[18] also mentioned that entrepreneurs' mental resources such as their hope, optimism, resilience and self-efficacy have a bigger impact on the success of their businesses.

Then, the lowest ranked as perceived by entrepreneurs is associated with finance. The entrepreneur responded that their business very rare to received substantial tax subsidies from the government to assist the business expansion. This showed that government assistants is prominent in the business expansion. Study done by Keuschigg and Nielsen [19] [20] also found that increase in taxation will negatively affect the development and expansion of the entrepreneurship activities. In the context of SME industry, SMEs are said to be financially constrained if they have been denied loans, received less than they requested or were deterred from applying because it was too expensive or they expected to be turned down [21].

CONCLUSION

Identifying the significant components in entrepreneurial ecosystem provides a comprehensive view in which SMEs businesses operate. The ability to examine the influence of entrepreneurial ecosystem offers practical implications for entrepreneurs and policy makers. Entrepreneurs are encouraged to consider talents components when deciding to start a new business in SMEs industry. This includes seeking for settings where easy access to talent and financing through a coordinated process controlled by supporting organizations and local government. On the other side, policy makers are able to offer the necessary stable regulatory environment as well as long terms plans and efforts for the success and sustainability of the SMEs businesses.

Based on the findings, talents are the most dominant form of entrepreneurial ecosystem that influence the SMEs businesses. In order to grow and success in the businesses, the accessibility and ease of obtaining entrepreneurial education, associated training, and skills development, as well as the efficiency of technology transfer procedures are needed. In addition, governmental policies, regulations, financial incentives, accessibility of real estate and any other physical infrastructure such as internet, real estate and transportation can also support or hinder the emergence and expansion of entrepreneurial activity.

Additional future research is also suggested for this study. The future research should utilize other methodologies as a key tool for assessing the dynamic attributes of entrepreneurial ecosystems that foster the development and success of SMEs businesses in Malaysia. Next future study should identify and explore the roles and relationship of entrepreneurial ecosystem's attributes that contributes to the sustainability of SMEs businesses.

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