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DOES SUPPORT PREDICTIVE OF START-UP SUCCESS?

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Abstract

This paper aims to answer this question “Does support necessarily predictive of the success of a start-up?” This paper conceptualizes support into four key dimensions: finance, soft, technology, and market-related. This paper conducts a qualitative approach based on the practical experiences of the CEOs of SMEs. An in-depth interview with 20 successful SMEs CEOs who have run their businesses for more than five years in Malaysia was carried out. The CEOs were being asked about the success of their start-up and how support (finance, soft, technology, and market-related support) helped in their start-up success. This paper provides evidence that i) support matters to start-up success, ii) finance-related support is the critical resources for start-up growth and survival. Finance-related support can provide particular interventions that effectively protect start-up. It acts as a buffer, allows the start-up to engage in developmental activities without having to confront directly to the potential threats; iii) soft-related support is increasingly important to better performance of start-up, and iv) start-up have had low accessibility to technology and market-related support due to lack of expertise and knowledge. The research on start-up is still in the infancy stage. This paper provides insights that support can potentially increase or decrease the success rate among start-up, and these effects are contingent on the type of support or resources received by the start-up. This paper also suggests that there is a need that attends to mechanism and conditions by which support is likely to alter the start-up success rate.

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Keywords: Start-up success, Technology-related support, Financial-related support, Market-related support, Soft-related support.



1. Introduction

Today, entrepreneurship and start-up growth contribute substantially to the net and gross job growth. Start-up is effective boosters for economic growth, incubators for eco-innovation, and it creates employment opportunity and new market. The term “start-up” which refers to the early stage of entrepreneurship has gain popularity in the field of entrepreneurship. Many researchers have widely employed Blank and Dorf (2012)’s definition of a start-up as an organization formed to search for a repeatable and scalable business model. However, in this paper, a start-up is defined as a young and new venture that operates five years or less in operation. The term of start-up is based on a firm’s maturity rather than firm size. SME Corp Malaysia (2018) defined start-up as business that is less than six months in operations while Organization for Economic Co-operation and Development (OECD) referred start-up as a subset of young businesses within the first three years of operation. The OECD (2018) distinguishes between young firms (5 years and less) and mature firms (more than 5 years). Based on OECD’s definition of start-up, OECD considered a business that is over three years is no longer a start-up. It is not uncommon in Malaysia that firms that are more than three years old are in start-up mode and still struggling to find their business model. The researcher of the present study took OECD’s definition of young and mature firms and defined a start-up as “a young and new venture that operates five years or less in operation”. While start-up success refers to the ability of a business to run the operation and survive in the market for more than five years.

In the global industry, start-up contributed 39 percent of the total revenue. However, start-up faces challenges and difficulties in sustaining and surviving as the failure rate range between 50 percent to 95 percent, especially in emerging countries such as Malaysia. OECD (2000) reported that less than 50% of the start-up survive for more than five years. According to Giardino et al. (2014), start-up is known for its high risks and failure rates. They argued that approximately 60 percent of start-up businesses fail in their first five years of businesses. This is further supported by Arasti, Zandi, and Bahmani (2014) who pointed out the failure rate among start-up within the first five years is more than 50 percent. Hence, this paper considers the first five years is the most vulnerable period for a start-up business. Start-up is facing with key challenges and obstacles such as lack of awareness in terms of resources, lack of information in terms of business opportunities, inadequate networking, and absence of business supports (Aggarwal, 2012; Kee, Effendi, Talib, & Rani, 2011). Additionally, the start-up is categorized by the insufficiency of resources and are regularly failing to perform or growth (Cohan, 2012).

Start-up support has not received deserving research attention although it is an integral element of the start-up ecosystem that provides resources and services in the form of various supports to start-up. There is still a need to explore the effectiveness of various start-up supports because the question as to whether such supports contribute to start-up success remains unanswered. Hence, this paper aims to answer this question “Does support necessarily predictive of the success of a start-up?”

This paper conceptualizes support into four key dimensions: finance, soft, technology, and market-related. Technology-related support refers to the availability of technology support for execution and management of research and development (R&D), technological consultancy, search for R&D cooperation partners and availability of providing infrastructure to create a conducive environment for the growth of

the start-up business (Heydebreck, Klofsten, & Maier, 2000; Akinruwa, Awolusi, & Ibojo, 2013). Market-related support is defined as the assistance in the marketing of products and technologies, a search for customers and suppliers, and assistance with new products launches (Heydebreck et al., 2000). Finance-related support refers to the support in accessing external financing sources like venture capital funds and direct financial support and many more (Heydebreck et al., 2000; Dwivedi & Mishra, 2013). Lastly, soft-related support is identified as networking, mentoring, raising awareness, education, training, consultancy, problem-solving skills and acquiring learning capabilities (Heydebreck et al., 2000; Falk, 2007). This soft-related support typically assists the start-up businesses in developing a network and enhancing their know-how (Heydebreck et al., 2000).

Concurrently, with this recognition of the economic importance of start-up, are findings that start-up is fragile. Therefore, it is important for start-up in developing countries to identify if support is necessarily predictive of their success. To achieve start-up success, the start-up would require to carefully assess their decision and options to identify what is critical for the survival of the businesses. With this, the goal of this paper is three-fold: (a) to examine the relationship between the support and start-up success; (b) to gain a better understanding of the types of support (finance, soft, market and technology) within start-up setting in order to recommend the effective application of support to bring out the best in start-up success; and (c) to draw conclusions on the possible implications of the relationships established through this research specifically for the young entrepreneurs in Malaysia.

2. Problem Statement

In entrepreneurship literature, entrepreneurial support could be found as institutional supports, professional support or start-up support that would enable young entrepreneurs to develop their business ventures by endowing them with resources necessary for a successful venture. Support may take many forms such as mentoring programs, incubation facilities, research support for product or technology, and financial support such as funding, loans, and venture capitals and so on. Generally, many governmental or private agencies provide support to start-up by providing both financial and non-financial resources, advice in the form of coaching, mentoring, and training, professional assistance, accelerating programs and sharing sessions by successful entrepreneurs. Yusof (2014) suggested that an evaluation of the impact of assistance programs is an important contribution to the practice of and research on entrepreneurship policy. Henry and Treanor (2013) argued that current support for new venture creation continues to be under-utilized, under-evaluated and not entirely aligned to the needs of aspiring and existing new ventures and calls for academics to be involved in objectively evaluating the effectiveness of existing initiatives. Hence, this paper focuses on understanding the contribution of start-up support initiatives on start-up success. It is important for start-up in developing countries to identify specific support that matters to their success. To achieve start-up success, start-up entrepreneurs would require to carefully assess their decision and options to identify what is critical for the survival of the businesses. They should be aware of the support in the ecosystem.

3. Research Questions

The paper aims to answer the research questions as follows:

- 3.1. Does finance-related support is positively predictive of start-up success?
- 3.2. Does soft-related support is positively predictive of start-up success?
- 3.3. Does technology-related support is positively predictive of start-up success?
- 3.4. Does market-related support is positively predictive of start-up success?

4. Purpose of the Study

This paper aims to answer this question “Does support necessarily predictive of the success of a start-up?” This study attempts to seek empirical evidence on the relationships between support and start-up success. The researcher of the present study believes that support is an important factor and is critical for the survival of the businesses. Young entrepreneurs or CEOs who intend to do their business successfully can work on their resources such as identifying the availability and accessibility of the support provided by government or private agencies. Figure 1 presents the research framework of the paper.

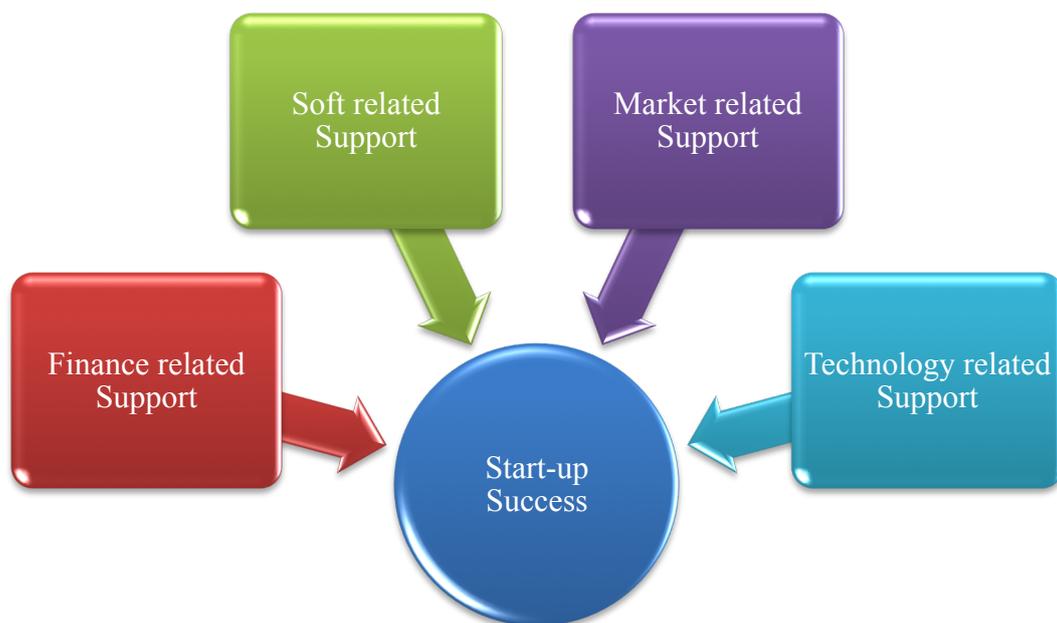


Figure 01. Research Framework

5. Research Methods

An in-depth interview with 20 successful SMEs CEOs who have run their businesses for more than five years in Malaysia was carried out. The sample of SMEs was selected from the list of SME Corp. This paper mainly focuses on the practical experiences of the CEOs of SMEs. The CEOs were being interviewed individually about the success of their start-up and how to support (finance, technology, market and soft-related support) helped in their start-up success. The standard format set of questions were used in the interview. The key findings of this paper are herewith reported.

6. Findings

The research on start-up is still in the infancy stage. To the understanding of the researcher, this is the first qualitative research that involved SMEs CEOs who provided comments on their experiences on start-up. This paper provides meaningful insights that support can potentially increase or decrease the success rate among start-up. These effects are contingent on the type of support or resources received by the start-up. The findings of the interview were summarized below.

6.1. Finance-related Support

Compared with large corporations, a start-up needs to adjust and adapt to environmental dynamism. Start-up is more vulnerable and particularly to the unfavourable economic situation. Apart from building up its core competencies, start-up requires continuous financial support to face the challenges of a highly dynamic economy. According to the CEOs:

- finance-related support is the critical resources for start-up growth and survival;
- most of the entrepreneurs at the start-up stage rely on private sponsors or self-funding to penetrate new markets and seek for customers;
- inadequate access to finance-related support or a lack of funding and working capital is a common reason why a start-up fails;
- it is essential for a start-up to identify alternatives to traditional funding;
- start-up can also identify with the government or government-related agencies regarding the numerous finance-related support for start-up;
- a start-up should figure out the available programs and prepare appropriate documents for a loan or financing scheme application; and
- to survive and grow, the ability to access the funding resources or finance-related support is critical to a start-up.

The interview findings suggest that finance-related support can provide particular interventions that effectively protect start-up. In other words, finance-related support acts as a buffer, allows the start-up to engage in developmental activities without having to confront directly to the potential threats.

6.2. Soft-related Support

Soft-related support such as networking, mentoring, raising awareness, education, training, consultancy, problem-solving skills and acquiring learning capabilities are significant factors for start-up success. According to the CEOs:

- soft-related support is one critical factor in start-up success especially in the culturally diverse Malaysia context;
- business networking or “guanxi” allows the start-up to meet up with potential investors or customers from different background and experience;
- networking helps start-up to obtain resources relatively cheaper;
- networking creates opportunities to gain intangible resources such as reputation and potential customers;

- lack of networking skills is frequently associated with start-up failure; and
- the ability to acquire networking skills and develop a network of trading partners is vital to maximize the opportunity to enhance start-up success. Networking skills are one critical component of entrepreneurial skills.

The interview findings suggest that soft-related support is increasingly important to the better performance of the start-up. Soft-related support such as business networking or “guanxi” is an integral part of the start-up success, particularly in Malaysia context. This is in line with Dickel, Horisch and Ritter (2018) who argued that network is both vital for the success of start-up and resource demanding.

6.3. Technology-related Support

This is a general problem underlined by many CEOs. The CEOs are aware of the technology is extremely important for innovation and better product development and therefore the survival of the start-up. Technology transfer can help to improve innovations among start-up businesses. Technology-related support through the collaboration among private agencies, public agencies, industry and universities help to enhance processes and method of the operation and business activities (SME Corp. Malaysia Annual Report, 2014). However, the CEOs admitted that the start-up had had low accessibility to technology-related support due to lack of expertise and knowledge. CEOs reported:

- a start-up requires higher accessibility to technology-related support such as assistance to execute innovation projects, assistance in protecting innovation, and assistance in developing a new product or application;
- majority of the start-up is unaware of the technology related support. This could be possibly due to technology is not necessary to start a business, the entrepreneurs are usually more focused on the working capital and finance-related support;
- start-up needs to identify the types of technology needed for the business operation. For example, the technology-related support includes foster technology collaboration to form research and development (R&D) that focused on promoting the business network, commercialization of knowledge, financial incentives such as R&D grants and levies for technology development and promoting technology distribution; and
- Lack of innovations may constrain the growth of a start-up.

The interview findings suggest that the culture of innovation, risk-taking, entrepreneurship is still not fully ingrained in the DNA of Malaysian entrepreneurs. Hence, the government agencies can and should improve what they are doing by increasing the awareness as well as accessibilities related to technology support. The young entrepreneurs should be equipped with the right information, access and skills to take on the Internet of things and Big Data, to embrace new technology and collaborate with experts. The role of technology-related support is critical to help Malaysian entrepreneurs to step up and face the Industrial Revolution of 4.0.

6.4. Market-related Support

Market-related support helps the start-up to commercialize their products or services. The CEOs commented:

- start-up needs to meet some criteria such as good customer service, an adequate proper study in the marketing process and analysis on demand and supply to succeed;
- a start-up must have ample business and market-related knowledge and often need consultancy in marketing, searching and analysing the potential market, and seeking for business partners; and
- start-up needs to increase the knowledge about the accessibility of the assistance in the search for business partners and the assistance in the internationalization of products or services.

The interview findings suggest that market-related support is relevant for start-up success, however, most of the start-up has limited access to market-related support.

7. Conclusion

In conclusion, this paper provides insights that support can potentially increase or decrease the success rate among start-up and these effects are contingent on the type of support or resources received by the start-up. This paper also suggests that there is a need that attends to mechanism and conditions by which support is likely to alter the start-up success rate. Hence, this paper calls for further research that continues to examine the conditions by which support is likely to alter the start-up success rate. Since support can potentially predictive of start-up success, the government should extend their efforts to more complex and made support accessible to the start-up. While the start-up should increase their expertise and knowledge about the accessibility and make full use of this support.

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