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**THE ECOSYSTEM FOR MALAYSIA START-UP FIRMS: THE  
ROLE OF SUPPORT SYSTEM**

Daisy Mui Hung Kee (a), Yusmani Mohd Yusoff (b)\*, Sabai Khin (c)

\*Corresponding author

(a) School of Management, Universiti Sains Malaysia, Penang, Malaysia, daisy@usm.my

(b) School of Business Management, College of Business, Universiti Utara Malaysia, Kedah, Malaysia,  
yusmani@uum.edu.my

(c) School of Management, Universiti Sains Malaysia, Penang, Malaysia, Khin@usm.my

***Abstract***

Start-up businesses are becoming very significant to the economic growth and the Malaysian government has embarked on numerous programs to promote start-up business such as introduce subsidized or partly subsidized programs. Unfortunately, the failure rate of start-up businesses ranges between 50 percent and 95 percent especially in emerging countries such as Malaysia. Therefore, start-up businesses need to understand and aware of the support system for a start-up business to help them succeed. The purpose of this paper is to examine the determining factors of start-up success in Malaysia from the perspective of established small and medium enterprises (SMEs). This paper examined the importance of technology-related services, finance-related services, market-related services and soft-related services for the start-up success. Based on the results, it reveals that in Malaysia context, the important support services need by SMEs are finance-related and soft-related support services. It provides a better understanding of the criteria of start-up success; the importance of these support services and the availability of these support services in the context of Malaysia.

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**Keywords:** Start-up success, technology-related support services, financial-related support service, market-related support services, soft-related support services, Malaysia.



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## 1. Introduction

Numerous researchers are focusing on the issue of the effect of start-up business on job creation, wealth creation and economic development (Acs, Desai, & Hessels, 2008; Carree & Thurik, 2003; Ahmad & Xavier, 2012). In developing countries such as Malaysia, there is a scarcity of empirical evidence that analyses the determinants of a start-up business, even though abundant amounts of research; theoretically and descriptively have been conducted on the issues of how entrepreneurship, especially during their start-up stage, affects the economy (Iakovleva, Kolvereid, & Stephan, 2011).

According to Salleh, Arshad, Mastuki, Aris and Janom (2013), start-up businesses contributed 39 percent of the total revenue globally. Along with the importance of the start-up businesses toward the economy development, it is important to determine the success factors of the start-up business especially in developing countries. Therefore, understanding the ecosystem of the start-up business in developing countries such as Malaysia would permit the policymakers to use this information to formulate policies that are custom made for the foundation of national economic growth (Abu Bakar, Ahmad, Wright, & Skoko, 2017).

Start-up businesses are temporary organizations designed to evolve into large firms (Blank, 2012) and considered as the emergence stage from one to five years of business life (Durda & Krajcik 2016). In addition, Pickernell, Senyard, Jones, Gary and Ramsey, (2013) defined start-up businesses as young and new businesses as exist under four years. Most of the governments in developed countries hold a significant place for start-up businesses especially when they formulate a policy because they realize the fact that start-up businesses contribute a major portion of the country economic growth (Abu Bakar et al., 2017). Furthermore, the main purposes of encouraging start-up businesses in developing countries are to solve employment issues, enhance economic stability and balance income distribution among the society (Giardino, Unterkalmsteiner, Paternoster, Gorschek, & Abrahamsson, 2014). Therefore, it is important to understand what are the specific success factors that determine the successful of start-up businesses in developing countries? To determine the success factors of the start-up business, the understanding of the ecosystem especially the support system for the start-up success is very important. Especially on identifying the role of support systems such as technology-related support services, market-related support services, finance-related support services and soft-related support services (Heydebreck, Klofsten, & Maier, 2000).

## 2. Problem Statement

Some extensive studies about the factors that influence the start-up business success has been developed because start-up businesses contribute to the significant effect on society such as solve employment issues, enhance economic stability and balance income distribution among the society (Hashim, 1999). However, identifying and measuring start-up business success is quite difficult as it is a relative measure. Start-up business success can be measured in various ways such as financial, non-financial or hybrid method (Lussier & Pfeifer, 2001; Yaacob, Mahmood, Mat Zin, & Puteh, 2014; Durda & Krajcik, 2016). According to Lussier and Halabi (2010), to measure the performance of start-up business, it is more appropriate to use non-financial measurement, because, for a start-up business, they do not have proper financial accounting data. However, in the study by Omri, Frikha and Bouraoui (2015), they measured

business performance based on profitability. Hence, profitability is one of the major performance measures for business especially for a start-up business. While the study by Fisher, Maritz, and Lobo (2014); showed that the entrepreneur measures their business success based on their continued business growth.

On the other hand, Gerba and Viswanadham (2016) suggested using hybrid approach when to measure the successfulness of start-up businesses. Hybrid measures include the financial and non-financial measure of performance usually incorporate multi-dimensional aspect to overcome drawbacks of a single measure of performance. Therefore, Gerba and Viswanadham (2016) proposed the financial and non-financial measures of start-up business performance comprise: total assets, profitability, sales volume, return on investment (ROI), capital employed, market share, the total number of employees, employees' turnover, customer satisfaction, productivity, and delivery time. This study defines start-up success as the ability of a firm to survive or to sustain in business based on financial and non-financial performance for the past five years (Lussier & Pfeifer, 2001; Yaacob et al., 2014; Durda & Krajcik, 2016).

In start-up businesses ecosystem, one dominant stakeholder that plays an important role in start-up business success is the government (Brooksbank, 2008). The example of the government support services is direct advice services by the government (Curran & Storey, 2002) and formal support such as training, market research, advertising, new technology and identifying business activities (Bennett & Robson, 2003). However, according to Audretsch (2004), currently, there is limited understanding on how, whether and which programs and policies from government help for promoting and supporting the start-up businesses.

In the context of Malaysia, a study by Saleh and Ndubisi, (2006) found that the lack of government support become one of the main factors contributing to the failure of start-up businesses as most of the entrepreneurs must depend on private sponsors or own self-funding to get financial support, to get access to new markets and searching for customers. Malaysia has limitations in dealing finance in start-up businesses, and this will affect the performance of start-up business (Kiatgan & Almsafir, 2013). According to Haron, Said, Jayaraman, and Ismail (2013), small medium enterprises (SMEs) in Malaysia especially start-up commonly face difficulties in gaining financial supports due to lack of collateral and inadequate documents to support a loan application. Most of the start-up businesses in Malaysia commence through borrowing from relatives and friends and using own savings, and some of them are not attracted to borrow from banks because to the difficulties of the procedural process and the length of time to obtain the loan (Haron et al., 2013). Therefore, the financial-related support services are important to determine the performance of start-up businesses in Malaysia.

There are many of support services provided by government to promote the start-up businesses, however, statistic shows that start-up businesses hardly survive as a study by the Bureau of Labor Statistics Quarterly Census of Employment and Wage in 1998 disclosed that among 44 percent of the start-up businesses that operated for four years, only 31 percent survived until seventh years (Everett & Watson, 1998). Most of the start-up businesses failure was due to the incapability to identify and respond to high-value market opportunities and a failure to take fast action when opportunities were identified, and being under-prepared (Ahmad & Seet, 2009). Therefore, Heydebreck et al. (2000) found to cater to this failure, start-up businesses frequently need consultancy in marketing, search and analysing the potential market, and searching for business partners. In terms of technology management and gaining knowledge, Malaysian entrepreneurs facing limited capability to access and acquire them (Kiatgan & Almsafir, 2013). This

happened due to the start-up businesses are frequently obstacle by their inadequate capital for their business development of technology adoption (Zulkifli-Muhammad, Char, bin Yaso, & Hassan, 2010).

As suggested by Heydebreck et al. (2000), for new start-up businesses, the main support from the government should consist technology, marketing, financing and soft services. Hence, this study will develop from a framework of four systems of support to understand the factors that facilitate the success of start-up businesses.

### 3. Research Questions

The key research question for this study whether technology-related services, finance-related services, market-related services and soft-related services are important for the start-up success in Malaysia.

### 4. Purpose of the Study

The main objective of the current paper is to examine the importance of technology-related services, finance-related services, market-related services and soft-related services for the start-up success.

### 5. Research Methods

Given the exploratory nature of our research, a qualitative approach based on the practical experiences of the owners of SMEs is considered the most fitting methodology. An in-depth interview with the owners of 20 SMEs in Northern Malaysia who have run their business for more than five years was carried out. The owners were asked the success of the start-up and how the role of support services helped in their business success

### 6. Findings

**Table 01.** Summarize of Respondents

Company	State	Year of Establishment
A	Penang	2012
B	Penang	2011
C	Penang	2008
D	Penang	2004
E	Kedah	1995
F	Penang	2005
G	Penang	2000
H	Penang	1999
I	Penang	2008
J	Penang	2009
K	Penang	2004
L	Penang	2002
M	Kedah	2009
N	Penang	2011
O	Perlis	2010
P	Penang	2011
Q	Penang	2005
R	Penang	1994
S	Penang	1989
T	Penang	2009

### 6.1. Satisfaction of Their Business Performance Over the Past Five Years

According to the interview, respondents were asked to rate their satisfaction with their business performance over the past five years. Therefore, based on the results, respondents were satisfied with their business performance (profitability, growth, reach intended goals, survival, customer satisfaction, personal satisfaction, networking and business image/reputation) over the past five years (Table 2). This result is consistent with prior studies that measured business performance based on profitability (Omri et al., 2015); business growth (Fisher et al., 2014); achieve intended goals (Fabian & Achidi Ndofor, 2007); survival (Islam, Khan, Obaidullah, & Alam, 2011); customer satisfaction (Sandberg, 2008); personal satisfaction (Fabian & Achidi Ndofor, 2007); networking (McAdam & McAdam, 2008); and reputation/business image (Ahmad, 2007). Furthermore, respondent B and C stated that:

“We can measure business performance by using other indicators such as an increase in a number of employees”.

Therefore, to measure business performance, start-up businesses also can include together the indicator increasing employees as one of the business performance measures.

**Table 02.** Company Performance Over the Past Five Years

No	Company Performance	Satisfied		Not Satisfied	
		f	%	f	%
1	Profitability	18	90%	2	10%
2	Growth	19	95%	1	5%
3	Reach Intended Goal	16	80%	4	20%
4	Survival	18	90%	2	10%
5	Customer Satisfaction	18	90%	2	10%
6	Personal Satisfaction	15	75%	5	25%
7	Networking	19	95%	1	5%
8	Reputation/Business Image	19	95%	1	5%

\*f (frequency of respondents)

### 6.2. The Importance of Technology-Related Services, Finance-Related Services, Market-Related Services and Soft-Related Services for the Start-Up Success

#### 6.2.1. Technology-related Service

According to the interview, respondents stated that technology-related support services are important for their business success, however, the level of accessibility is still low. This happened might be because small and medium businesses are rarely having all required expertise in technology, apply less resource to research and development and have fewer systematic technology monitoring (Jylha-Ollila, 2016). Kurnia, Choudrie and Alzougool (2015) also stressed that the start-up businesses in developing countries such as in Malaysia, they are slow in terms of technologies adoption such as electronic commerce into their business processes. 100 percent of the respondents mentioned that assistance of technological consulting is essential for them because they do not have knowledge how to apply for the support services for these technology-related services, and respondent A stated that:

“With the assistant from the consultant, I think my application process will be smoothed, and the potential to get the support services is higher”.

This show that start-up businesses in Malaysia need to the access of technology-support services and by the help from consultant/expert will increase chances to get the support services. In addition, eight of the respondents stated that they received technological/infrastructure support to develop and enhance their business, while another 12 of them do not receive any support in terms of technological/infrastructure. The agencies/bodies that provide these supports, including; Malaysian Industrial Development Finance Berhad (MIDF), Majlis Amanah Rakyat (MARA), Technology Park Malaysia (TPM), SME Corporation, Malaysian Technology Development Corporation (MTDC), Ministry of Science, Technology and Innovation (MOSTI), Federal Agriculture Marketing Authority (FAMA) and SIRIM Berhad.

### **6.2.2. Market-related Services**

Respondents stated that market-related support services are important for their business success, however, the level of accessibility is still low. Only 10 of the respondents stated that they received marketing supports from agencies/bodies such as the Malaysian Automotive Institute, Malaysian External Trade Development Corporation (MATRADE), SME Corporation and Federal Agriculture Marketing Authority (FAMA). While another 10 of the respondents do not receive any marketing support for their business. Respondent K stated that:

*“We are facing difficulty in term of accessibility of the assistance in marketing their products or services, locally and globally due to no knowledge about the accessibility of those services”.*

Hence, this result shows that they are a concern and awareness about the importance to engage with the marketing methods that help them to market their product locally and globally, however, due to the low degree of accessibility. Thus, this becomes a barrier for them.

### **6.2.3. Finance-related Services**

Based on the interview, respondents stated that the need for finance-related support services is important for their business growth and success. Furthermore, financial-related support services are accessible in Malaysia, not like technology-related support services and market-related support services. All interviewed respondents received financial support from the agencies/bodies such as Majlis Amanah Rakyat (MARA), Bank Perusahaan Kecil dan Sederhana Malaysia Berhad (SME Bank), Malaysian Industrial Development Finance Berhad (MIDF), SME Corporation, Malaysian Technology Development Corporation (MTDC), TEKUN Nasional, Bank Pertanian Malaysia Berhad (Agro Bank), Perbadanan Usahawan Nasional Berhad (PUNB) and Credit Guarantee Corporation (CGC) to enhance their business activities and performance. However, some of the respondents (such as respondent A, G and M) stated that:

*“It is very difficult to get a financing/credit support especially for the start-up business as bank/financial institutions require us to provide strong financial evidence”.*

*“I must appoint the bank officer to help me apply for the loan”.*

*“I really need business advice, especially when I want to apply for the loans, because I have no knowledge about the processes and requirements”.*

Furthermore, even though they follow what is stated such as requirements, conditions etc, however, most of the time their applications were rejected. Some of them must hire a consultant to help them to apply and some of them hire the bank officer to help them fill in the form and meet the requirements.

#### **6.2.4. Soft-related Services**

This study also examined the degree of important and degree of accessibility of the soft-related support services (networking, mentoring, raising awareness, education, training, consultancy, problem-solving skills and acquiring learning capabilities) to the business. Based on the interview, respondents stated that soft-related support services are important for their business success, and the degree of accessibility is also high compare to the technology-related support services and market-related support services (Table 6). 20 of the respondents received soft-related support services throughout their business operation. Among the agencies/bodies that provide these kinds of supports are Malaysian Industrial Development Finance Berhad (MIDF), SME Corporation, TEKUN Nasional, Perbadanan Usahawan Nasional Berhad (PUNB), Malaysian External Trade Development Corporation (MATRADE), Technology Park Malaysia (TPM), Ministry of Science, Technology and Innovation Malaysia (MOSTI), Halal Development Corporation (HDC), Federal Agriculture Marketing Authority (FAMA), SIRIM Berhad, Malaysia Productivity Corporation (MPC), Pembangunan Sumber Manusia Berhad (PSMB) and Institut Keusahawanan Negara (INSKEN). Based on the interview, one of the respondents mentioned that:

*“We need more classes/workshop for legal procedures such as registration process, OSH, ethical concern etc, because these kinds of classes are seldom”.*

### **7. Conclusion**

Based on the interview, SMEs in Malaysia were satisfied with their business performance (profitability, growth, reach intended goals, survival, customer satisfaction, personal satisfaction, networking and business image/reputation) over the past five years. In Malaysia context, the important support services need by SMEs are finance-related and soft-related support services. This is because SMEs in Malaysia find it is very difficult for them to get approval when they apply for financing/credit at the early stage of the businesses. This is because they do not have strength financial evidence to support their financing/credit application from banks/credit agencies. Hence, there were SMEs that hired bank officer to help them apply for their loans. Furthermore, soft-related support services also very important for SMEs in Malaysia, as these services such as registration processes, application for certifications (e.g. Halal Certification, ISO Certifications, GMP Certification) are seldom offering, whereas these consultation and guidance are important for them. In Malaysia, the accessibility in terms of technology-related support services and market-related support services are still low, SMEs do not have a knowledge how to find these services. According to the interview, the most support needed by the start-up to succeed is financial and soft-related support services. In addition, several factors to help young start-up businesses including; coaching and mentoring; continuous support from government; reduce the condition for loan and other support services; and many campaigns towards the support services that provided by any agencies to create awareness about those services.

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