

**PUBLIC POLICIES AND START-UPS IN MALAYSIA:
NEW FIRMS UNDER THE NINTH MALAYSIA PLAN**

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PUBLIC POLICIES AND START-UPS IN MALAYSIA: NEW FIRMS UNDER THE NINTH MALAYSIA PLAN

ABSTRACT

Small and medium-sized enterprises (SMEs) have long been recognized as major contributors to economic development of a country. State intervention in the economy to nurture SMEs has long been a public policy feature in industrialized East Asian states such as Japan, South Korea and Taiwan. Studies dealing with this issue assess state intervention in the economy from the perspective of developmental state theory, building on the work of Chalmers Johnson who assessed the rapid industrialization of Japan's economy. Johnson emphasized the important role played by the state in promulgating policies for private enterprise development, in terms of their growth, productivity and competitiveness, for the purpose of maintaining economic development. In Malaysia, the government's aspirations to develop SMEs has been reinforced in its five-year Malaysia Development Plans (MDPs). Generally, the objectives of the MDPs were concurrent with those of the New Economic Policy (NEP), an affirmative action plan introduced in 1970 that aspired to restructure wealth, particularly through the development of ethnic Malay entrepreneurs within the business community. When Abdullah Ahmad Badawi became Prime Minister of Malaysia on 31 October 2003, he persisted with the developmentalist model but with a focus on aiding SMEs, including start-ups, specifically as a means to nurture domestic entrepreneurship through his Ninth Malaysia Plan, implemented between 2005 and 2010. However, there are no studies analyzing the links between start-ups and the implementation of government policies, as well as the effectiveness of assistance programmes under the Malaysia Plans, and the 9MP, in particular. While new businesses are viewed as a major contributor to economic development, the reality is that many start-ups cannot survive the infancy stage. According to Malaysian government

figures, the business failure rate of start-ups has increased from 22% in 2006 to 50% in 2010, even though the government had introduced numerous institutions, policies and incentives through its 9MP to ensure the longevity of these enterprises. Recognizing the severe repercussions of business failures to the development of a country's economy, a key question arises: why have government policies and incentives to develop start-ups not been effective? This study examines the factors contributing to the sustainability of start-ups, including through different forms of state intervention.

Keywords: start-ups, state development, Ninth Malaysia Plan (9MP), sustainability, effectiveness

**POLISI AWAM DAN PERNIAGAAN BARU DI MALAYSIA:
FIRMA BARU BAWAH RANCANGAN MALAYSIA KESEMBILAN**

ABSTRAK

Perusahaan kecil dan sederhana (PKS) telah lama diiktiraf sebagai penyumbang utama kepada pembangunan ekonomi sesebuah negara. Usaha kerajaan negara bagi memupuk PKS demi membangunkan ekonomi telah lama menjadi ciri polisi awam dalam perindustrian negara Asia Timur seperti Jepun, Korea Selatan dan Taiwan. Kajian yang berurusan dengan isu ini menilai usaha negara dalam ekonomi dari perspektif teori pembangunan negara, berdasarkan kerja Chalmers Johnson yang menilai perindustrian pesat dari ekonomi Jepun. Johnson menitikberatkan peranan penting yang dimainkan oleh kerajaan dalam usaha menyebarluaskan polisi untuk pembangunan syarikat swasta, dari segi pertumbuhan, produktiviti dan daya persaingan, untuk matlamat mengekalkan pembangunan ekonomi. Di Malaysia, hasrat kerajaan untuk membangunkan PKS telah diperkukuhkan di dalam Pembangunan Rancangan Malaysia (PRM). Secara amnya, objektif-objektif PRM ini adalah sejajar dengan objektif Dasar Ekonomi Baru (DEB), satu rancangan tindakan afirmatif yang di perkenalkan pada tahun 1970 dan bertujuan untuk mengimbangi kekayaan, khususnya melalui promosi usahawan kaum Melayu di dalam komuniti perniagaan. Apabila Abdullah Ahmad Badawi menjadi Perdana Menteri Malaysia pada 31 Oktober 2003, beliau berterusan dengan developmentalist model tetapi dengan tumpuan diberikan untuk membantu PKS, termasuk perniagaan baru, sebagai satu cara untuk memupuk keusahawanan domestik melalui Rancangan Malaysia Kesembilan (RMK-9), yang dilaksanakan di antara tahun 2005 dan 2010. Walau bagaimanapun, terdapat tiada kajian yang menganalisis hubungan antara perniagaan baru dan pelaksanaan polisi-polisi kerajaan serta keberkesanan program bantuan di bawah Rancangan Malaysia dan RMK-9, pada khususnya. Walaupun perniagaan dilihat sebagai

penyumbang utama kepada pembangunan ekonomi, realitinya adalah bahawa banyak perniagaan baru tidak dapat hidup di peringkat awal. Menurut perangkaan kerajaan Malaysia, kadar kegagalan perniagaan baru telah meningkat daripada 22% pada tahun 2006 kepada 50% pada 2010, walaupun pada hakikatnya kerajaan telah memperkenalkan pelbagai institusi, polisi dan insentif melalui RMK9 untuk memastikan kelanjutan usaha niaga baru ini. Mengenali akibat teruk daripada kegagalan perniagaan kepada pembangunan ekonomi sesebuah negara, timbul persoalan utama: mengapakah polisi-polisi and insentif-insentif kerajaan tidak berkesan? Kajian ini mengkaji faktor-faktor yang menyumbang kepada kemampanan perniaga baru, termasuk melalui pelbagai bentuk usaha negara.

Katakunci: perniagaan baru, pembangunan negara, Rancangan Malaysia Kesembilan (RMK-9), kemampanan, keberkesanan

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LIST OF ABBREVIATIONS

1MP	First Malaysia Plan, 1966-1970
2MP	Second Malaysia Plan, 1971-1975
3MP	Third Malaysia Plan, 1976-1980
4MP	Fourth Malaysia Plan, 1981-1985
5MP	Fifth Malaysia Plan, 1986-1990
6MP	Sixth Malaysia Plan, 1991-1995
7MP	Seventh Malaysia Plan, 1996-2000
8MP	Eighth Malaysia Plan, 2001-2005
9MP	Ninth Malaysia Plan, 2006-2010
10MP	Tenth Malaysia Plan, 2011-2015
AFTA	ASEAN Free Trade Area
APEC	Asia Pacific Economic Cooperation
BCIC	Bumiputera Commercial and Industrial Community
CCM	Companies Commission of Malaysia
FDI	Foreign Direct Investments
EFCs	Entrepreneurial Framework Conditions
EOI	Export Oriented Industrialization
FIDA	Federal Industrial Development Authority
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
GSP	Global Supplier Programme
GLCs	Government-linked Companies
HICOM	Heavy Industries Corporation of Malaysia
ILP	Industrial Linkage Programme
ICT	Information and Communications Technology
ISI	Import Substitution Industrialization
IT	Information Technology
MATRADE	Malaysia External Trade Development Corporation

MDEC	Multimedia Development Corporation
MDPs	Malaysia Development Plans
MIDA	Malaysian Industrial Development Authority
MTDC	Malaysian Technology Development Corporation
MITI	Ministry of Trade and Industry
MNCs	Multinational corporations
MRS	Manufacturing-Related Services Technology
MSC-Malaysia	Malaysia Multimedia Super Corridor
NDP	National Development Policy
NES	National Experts Survey
NEP	New Economic Policy
NSDC	National SMEs Development Council
NVP	National Vision Policy
OECD	Organization for Economic Co-Operation and Development
PUNB	Permodalan Usahawan Nasional Berhad
Proton	Perusahaan Otomobil Nasional Berhad
PETRONAS	Petroleum Nasional Berhad
R&D	Research and Development
SMEs	Small and Medium-sized Enterprises
SME Corp	SME Corporation Malaysia
SIRIM	Standards and Industrial Research Institute of Malaysia
SMIDEC	Small and Medium Industries Development Corporation
TMB	Telekom Malaysia Berhad
TNB	Tenaga Nasional Berhad
TFP	Total Factor Productivity
UMNO	United Malays National Organization
UNDP	United Nations Development Programme
VDP	Vendor Development Programme

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CHAPTER 1: INTRODUCTION

1.1 The Puzzle: State Intervention and Start-ups

This study is about the outcome of a state that intervenes actively in the economy in an attempt to nurture start-ups. What happens when a state creates new institutions which offer a variety of concessions, as well as access to funds, to start-ups to ensure they survive following their incorporation? How do new firms avail themselves to the concessions created by the state and deal with these institutions deployed to aid their development?

In 2004, in Malaysia, the government actively introduced policies, created institutions and provided a number of concessions as mechanisms to nurture small and medium enterprises (SMEs), including infant industries. This mode of intervention was also an attempt to encourage start-ups to enter new areas of the economy that the government was actively promoting. There has been no study of the implementation of public initiatives to nurture start-ups in Malaysia, particularly the Ninth Malaysia Plan.

1.2 SMEs Development and *Ninth Malaysia Plan* (9MP)

When Abdullah Ahmad Badawi became Prime Minister of Malaysia on 31 October 2003, he was determined to transform Malaysia into a fully-developed and industrialized country by 2020. This was a major objective of the government's Vision 2020 policy, introduced in 1990 by his predecessor, Mahathir Mohamad. Abdullah's *Ninth Malaysia Plan, 2006-2010* (9MP), released on 31 March 2006, was highly anticipated as he had, on securing the premiership, highlighted his desire to persist with the developmentalist model that had long been in place in Malaysia. However, Abdullah's focus was on aiding the development of small and medium-sized enterprises (SMEs), including start-ups,

specifically as a method to nurture domestic entrepreneurship¹ (Gomez, 2012; Lim, 2007). This step signified a monumental policy shift, from the focus on creating large enterprises by Mahathir to the development of more broad-based SMEs as well as start-ups.

It is well documented that new business formation is an important driving force in economic development. Globally, SMEs, including start-ups, not only provide sources of employment, they also create private ownership for personal independence and initiative, and act as incubators for nurturing domestic enterprises, through competition and entrepreneurship. This is important as the development of entrepreneurial SMEs can have spill-over effects on innovation, efficiency and productivity growth that can positively translate into increased value-added outputs, all major contributors to economic development (Acs & Audretsch, 2010; Hashim, 2011; Timmons & Spinelli, 2003).

Abdullah identified SMEs as a key engine for economic growth under the 9MP. The government continued to provide the infrastructure, institutional framework and appropriate incentives to facilitate a conducive investment environment for the private sector to leverage on new business opportunities. When promoting new firms, the government's strategy involved building a platform for start-up enterprises and an incubation system that would create a pool of new innovation-driven entrepreneurs needed to sprout new businesses and services. Towards this end, the government also promoted the setting up of technology incubators for the purpose of nurturing firms and entrepreneurs as well as expanding capacity for innovations and related services (Malaysia, 2006: p. 127).

¹ In this study, the definition offered by Global Entrepreneurship Monitor (GEM) is adopted, that is, entrepreneurship is any attempt at new business or new venture creation.

The government's commitment and concern for the development of SMEs were reinforced when the National SME Development Council (NSDC)² was formed in June 2004. The NSDC served as the highest policy-making body to chart the government's strategic direction for the development of SMEs, including to ensure coordination and effectiveness of public sector-based programmes. Other measures included the establishment of the SME Bank³ in 2005 to function as the key development financial institution to nurture and meet the unique needs of SMEs. This was to be done through better segmentation of the financial and non-financial needs of SMEs by industry, stage of growth, product and market potential (Malaysia, 2001; 2006; *SME Annual Report, 2010/2011*).

Under the 9MP, to achieve the government's private investment targets, the public sector delivery system was streamlined to be more effective and to reduce the cost of doing business. SME Corporation Malaysia (SME Corp)⁴ was established in 2008 to act as the government's principal agency to streamline, coordinate and monitor SME development since too many ministries were simultaneously trying to promote entrepreneurial activities. Due to the significant contribution by SMEs to the development of the economy, various public agencies and institutions have paid much attention to the development of such enterprises. A number of programmes and facilities were provided to encourage the incorporation and the development of new firms. In this connection, the government has persistently allocated resources for the development of SMEs, including start-ups. Government allocation for the development of SMEs was increased from

² The details about the NSDC, i.e. its goals, structure, etc., are provided in Chapter 3.

³ See Chapter 3 for more details about the SME Bank.

⁴ Further information about SME Corp, as well as its duties are outlined in Chapters 3 and 4.

RM1,561.6⁵ million under the *Eight Malaysia Plan, 2001-2005* to RM2,160.2⁶ million in the 9MP (Malaysia, 2006). With this increased allocation of funds under the 9MP, the government demonstrated its strong desire to develop efficient and competitive SMEs.

Despite the huge financial support and policies targeted at developing SMEs and although numerous agencies and institutions were established to assist such enterprises, it was unclear whether these firms had access to these programmes. Nor was it clear if SMEs and start-ups were responding positively to these initiatives by the government to aid their development. There have been some studies assessing the role of the government in developing SMEs.⁷ However, there are no studies of start-up enterprises in Malaysia. The outcomes of Malaysia's interventionist developmental state-based policy endeavour to help foster the rise of entrepreneurial start-ups under the Malaysia Plans, particularly the 9MP, have also not been analyzed.

1.3 Developmental States in East Asia

Economic growth in East Asian countries, such as Japan, South Korea and Taiwan, were significantly stimulated by SME activities. The governments of these countries have rapidly developed their once poorly industrialized economies by providing incentives as well as creating state-business links to nurture infant industries. The primary objectives of these state initiatives were to encourage economic growth and technological development among industries in key sectors of the economy. The active interventions of these governments in these East Asian economies, in a variety of forms through economic- and enterprise-based development policies, have enabled them to control

⁵ Equivalent to US\$390.40 million with exchange rate of US\$1=RM4.

⁶ Equivalent to US\$540.05 million with exchange rate of US\$1=RM4.

⁷ The literature review on SMEs and government assistance programmes is summarized in Table 3.5 in Chapter 3.

market processes, through careful modes of resource allocation, with the objective of achieving specific production and investment outcomes (Amsden, 1989; Cumings, 1999; Wade, 1990).

The rapid and impressive industrialization of these East Asian economies suggests that they have created a more competitive form of capitalism. Numerous studies dealing with this issue assess state intervention in the economy for this purpose from the perspective of the developmental state, building on the work of Chalmers Johnson (1982) who assessed the rapid industrialization of Japan's economy. Johnson (1982) noted that the priority of state intervention was to define policies in terms of growth, productivity and competitiveness, rather than for welfare reasons. Generally, "developmental states" define their missions primarily as long-term national economic development. The key policy implication of growth is that the effects of policies on industrial development are independent of a country's structural, as well as institutional features (Cumings, 1999; Johnson, 1982; Wade, 1990).

The Japanese government played a major role in economic development in that it shifted from state entrepreneurship to collaborate with family-owned enterprises, favouring those companies that were capable of rapidly adopting new technologies and that were committed to the national goal of economic development. These family-owned firms grew into large holding companies, called the *zaibatsu* (privately-owned industrial empires), such as Mitsubishi and Sumitomo that dominated the pre-war Japanese economy (Dobson, 1998; Johnson, 1982; 1995).

The Japanese government became involved in deciding the industries to develop through supportive "industrial policies", aimed at establishing new industries or introducing new

technologies. The government induced these *zaibatsu* to go into areas where it felt development was needed. As a result, these *zaibatsu* pioneered the commercialization of modern technologies in Japan, achieving also economies-of-scale in manufacturing that was on par with those of the rest of the industrial world. Government collaboration with these *zaibatsu* marked a development of a dualism, between large advanced enterprises and small enterprises, leading to the rise of the *keiretsu* system, one funded by a bank that was interlocked through equity ownership with these firms (Johnson, 1982).

South Korea was an authoritarian state with centralized agencies in charge of economic and industrial policy formulation, implementation and supervision. The Korean *chaebol* resemble the *zaibatsu* such that they consist of independent firms within business groups which are controlled through family ownership and by cross-shareholdings within the group. The government used these *chaebol* as instruments of growth and competitiveness by directing them into key industrial sectors and by providing them with preferential financing as well as protective trade and investment policies, apart from encouraging specific new firms to enter these sectors. The stern discipline imposed by the Korean government on virtually all large firms that were privy to publicly-generated concessions was related to getting them to meet export targets. The government also wanted to ensure efficient employment of these concessions (Amsden, 1989; Dobson, 1998; Johnson, 1982; Neurath, 1988). As a whole, the policies of the governments of Japan and South Korea have favoured big corporations as a method to achieve their developmental goals.

East Asian governments have also recognized the importance of small firms in promoting innovation and generating employment, seen particularly in the case of Taiwan (see Wade, 1990). In Taiwan, the economic planning unit was influenced by the Kuomintang government's desire to institute land reform and by its preference that large enterprises

should be publicly-owned. The government was centrally concerned with preventing emerging corporate groups from acquiring autonomy from the state. As a result, Taiwan's industrial structure was driven by SMEs, in tandem with large public sector enterprises which the Kuomintang government used as instruments for its growth, export-oriented trade and industrial policies (Dobson, 1998: p. 29).

In Taiwan, the state played an important role in reducing risk by subsidizing credit, extending infrastructural and technical support, and providing market information in sectors where private investors were capable of organizing production. A crucial role of government policy was to provide a climate of incentives which encouraged high rates of domestic private investment, especially during the early stages of enterprise development (Dobson, 1998; Haggard, 1990; Vartiainen, 1999; Wade, 1988).

In comparison to Japan and South Korea, Taiwanese business groups were not vertically integrated, nor did they function in a manner to organize the workings of the economy. The Taiwanese form of organization was horizontally diversified and capital for investments was mostly from retained earnings, curb market and *guanxi* [personal connections] partners. Ownership and control of the business, therefore, resided with the heads of individual owners. SMEs formed economic alliances with other Taiwanese businesses, creating diverse cooperative networks (Dobson, 1998; Haggard, 1990; Wade, 1988).

According to Johnson (1982), economic performance is due primarily to the actions and efforts of private enterprises responding to the opportunities provided by government. Consequently, bureaucrats and civilian enterprise managers have built mutually beneficial relationships to drive industrial development and create entrepreneurial

companies. The state functioned as a “catalytic” agency which engaged with business through numerous institutions, decided which new industries needed to be created and steered the necessary resources to the private sector in order to attain its developmental objectives (Dobson, 1998; Johnson, 1982; Wade, 1990). All three East Asian countries, Japan, South Korea and Taiwan, had in common an unambiguous commitment on the part of government to actively and regularly intervene in economic activities with the goal of improving international competitiveness of their domestic economies, aiming to eventually raise living standards (Amsden, 1989; Cumings, 1999; Wade, 1990).

1.4 State Intervention in Malaysia

Malaysia, a resource-based economy in the immediate post-colonial period after 1957, subsequently focused on export-driven manufacturing which laid the foundation for the transformation of the economy to one that has come to be heavily industrialized. Its industrial strategy was a form of state intervention, aimed at achieving international competitiveness. Malaysia pursued two distinct industrialization strategies. The first was import-substitution industrialization, during the 1960s, which was discarded for the much more successful export-oriented strategy, actively implemented in the 1970s and 1980s, and aimed especially at sectors in manufacturing which were to serve as an engine of growth driven by foreign direct investment (Saleh & Ndubisi, 2006).

The aspirations of the government involving the development of SMEs were reinforced in the five-year Malaysia Development Plans (MDPs)⁸ and was clearly evident after the *Second Malaysia Plan, 1971-1975* was introduced. Generally, the MDPs’ goals were concurrent with the objectives of the New Economic Policy (NEP), a core component of the *Second Malaysia Plan*. The NEP, a twenty-year affirmative action plan (1971-1990),

⁸ A comprehensive review of the Malaysia Development Plans is provided in Chapter 3.

aimed at redistributing equity equitably, as well as promoting the rise of Bumiputera⁹ entrepreneurs¹⁰ within the business community (Jomo, 2001; Navaratnam, 2006).

Apart from the NEP, the Malaysian government's adherence to policies under the developmental state model has contributed to industrialization, particularly during Mahathir's premiership, from 1981 till 2003. Mahathir changed the nature of Malaysia's interventionist state, by reshaping it as a developmental state based on the Japanese experience, encapsulated in his "Look East Policy". Under this policy, he encouraged heavy industrialization and the rise of large corporations by replicating East Asian corporate models, specifically the Japanese *zaibatsu* and South Korea *chaebol*, to industrialize the economy quickly.

Mahathir's other core agenda was to create an influential core of internationally-recognized Malay-owned enterprises, through the government's Bumiputera Commercial and Industrial Community (BCIC)¹¹ policy. Critics of this policy argue that the BCIC entailed an "ethnic bypass" dimension, of Chinese firms, a persistent core feature of development policies which contributed to problematic, even unproductive enterprise growth patterns (Jomo, 2001). This issue has undermined Malaysia's industrialization endeavour, specifically in terms of creating vibrant entrepreneurial firms that can drive technological development.

Academic debates on enterprise development tend to pay attention to the issue of selective patronage in government interventions, involving targeting particular activities and

⁹ Bumiputera, or "son of the soil", is a term used particularly in Malaysia with reference to the Malay population, though it also includes indigenous communities in the Borneo states of Sabah and Sarawak.

¹⁰ Entrepreneurs is a term often used imprecisely to cover all self-employed and small firm owners. In this study, the term entrepreneurs and business owners are used with reference to those who started a business.

¹¹ The BCIC programme was primarily to encourage the involvement of Bumiputeras in commercial and industrial activities. It was introduced specifically to help create Malay-owned SMEs which the government hoped would evolve in major enterprises.

recipients as opposed to distributing rents to only those with the most entrepreneurial capacity. One reason for this is that the NEP, heavy industrialization and privatization focused on nurturing the development of corporations, especially those owned by the well-connected Bumiputeras (Abdul Hamid & Ong, 1999; Gomez, 2012; Navaratnam, 2001; 2006).

Abdullah's enterprise development policy change was seen to follow the Taiwanese model, that is, to develop SMEs. Mahathir, on the other hand, was greatly influenced by the Japanese and South Korean models of nurturing big corporations. However, there is a surprising gap in the literature on Abdullah's policy focus on the development of SMEs, in particular start-ups. There are no studies analyzing the links between start-ups and the implementation of government policies under the MDPs, and the 9MP in particular.

Abdullah's intervention to create a conducive environment to nurture SMEs, including start-ups, an important function of a developmental state, is in line with the Global Entrepreneurship Monitor (GEM),¹² which states that the encouragement of entrepreneurship is critical for facilitating economic growth. Since its inception, GEM has sought to explore the widely accepted link between entrepreneurship and economic development. According to the *GEM 2000 Executive Report*, the best thing a government can do to promote entrepreneurship is to create a supportive environment in which entrepreneurship and other forms of individual initiative can flourish.

¹² The Global Entrepreneurship Monitor (GEM) is an international consortium that organizes and conducts research projects relating to entrepreneurial activities, aspirations and attitudes of individuals on a global scale. Every year, the consortium coordinates its member countries to study entrepreneurship following a consistent framework of analysis in their respective territories. Initiated in 1999 as a partnership between London Business School and Babson College, the first study covered 10 countries. Since then nearly 100 'National Teams' from every corner of the globe have participated in the project, which continues to grow annually. In 2011, the project had an estimated global budget of nearly US\$9 million (more details are available at www.gemconsortium.org).

It is therefore crucial to study how a state-created entrepreneurial environment, one that includes institutions, policies, incentives and programmes, has influenced the development of entrepreneurial companies in Malaysia. There is no research of the link between start-ups and government policies, particularly the 9MP, using the GEM model.¹³ This study focuses specifically on how start-ups responded to policy initiatives while also resorting to their own resources to create thriving enterprises using the GEM model. More specifically, this study also provides insights into issues involving the sustainability of start-ups. This is particularly important as start-ups, the world over, have a very high failure rate.

1.5 Defining the Problem

While SMEs, including new ventures, are viewed as a major contributor to a country's economic development, the reality is that many businesses cannot survive the infancy stage. Studies worldwide indicate that one out of every three businesses failed within three years of starting-up, while as many as 50% failed in their first five years after their incorporation (Hisrich & Peters, 1995; Reynolds, 1987; Tuller, 1994). Malaysian businesses face similar challenges. Statistics collected from the Companies Commission of Malaysia (CCM)¹⁴ indicated that the failure rate of companies had increased during the 9MP period, from 22% in 2006 to 50% in 2010.

Under the premiership of Abdullah, state intervention through various institutions, economic policies and assistance programmes was primarily to create an enabling environment to enhance private investment, with the main aim of stimulating rapid economic growth through entrepreneurial firms. Even though the SME Bank actively

¹³ More details on GEM model are provided in the discussion about the conceptual framework, in Chapter 4.

¹⁴ The CCM serves as the government agency responsible for incorporating companies and registering businesses as well as providing business information to the public.

supported new and small firms and SME Corp functioned well enough to streamline, coordinate and monitor SME development during the 9MP period, there is little evidence of the emergence of a new base of entrepreneurial companies, particularly in new growth sectors. Moreover, Malaysian businesses continued to fail at a high rate. Recognizing the severe effects of business failures to the stability and health of a country's economy and also to individual entrepreneurs, this raises questions about the impact of government intervention in developing and sustaining start-ups in Malaysia.

1.6 Research Questions

Although the government was determined to help SMEs, including start-ups, during the 9MP through institutional and policy reforms, why did start-ups continue to fail at a high rate? The sustainability¹⁵ of start-ups in Malaysia evidently deserves more academic attention to ensure stability of the economy. Hence, questions arise pertaining to the viability of these policy initiatives to enhance the sustainability of start-ups incorporated under the 9MP period. There were, however, companies that managed to survive under a challenging environment and some of them continued to grow. It is essential to identify the factors that help explain their sustainability in order to offer comprehensive guidelines for potential businessmen.

The key research questions are:

- (1) Why has state intervention through the 9MP not been effective in nurturing start-ups?
- (2) For start-ups that have survived under the 9MP, what were the factors contributing to their survival?

¹⁵ Sustainability is defined here as the ability of start-up enterprises to survive in a challenging environment for more than three years after their incorporation (Sloman, 2003).

- (3) What policy reforms should be introduced to enhance the sustainability of start-ups?

1.7 Research Objectives

The research objectives of this study are to:

- (1) Assess the impact of policies, incentives and programmes in helping to develop start-ups during the 9MP.
- (2) Examine factors contributing to the sustainability of start-ups.
- (3) Determine how to ensure better implementation of interventionist policies to enhance the sustainability of start-ups.

1.8 Significance of the Study

This study will evaluate the impact of state intervention to support the development of new firms. This study will contribute in numerous ways. Firstly, it enhances the literature on start-ups by focusing on state intervention through public policies¹⁶ and institutions to promote such enterprises to develop and sustain a thriving SME community. The information derived from this research will provide policy-makers useful guidelines when they formulate policies and programmes aimed at assisting start-ups.

Empirically, there have been very limited attempts to determine the factors that can help overcome weaknesses among start-ups as well as those factors that contribute to their survival in Malaysia. This study will provide useful insights into the factors contributing to the sustainability of start-ups. Thus, it also serves to promote the adoption of necessary

¹⁶ Public policies are what a government chooses to do or not to do. Generally, governments do not choose to act unless a substantial segment of the public is affected and some public purpose is to be achieved. Hence, a public policy is a plan of action undertaken by a government to achieve a broad purpose affecting a substantial segment of a nation's citizens. This is the essence of what is meant by the concept of government acting in the public interest (Post et al., 1996; Haggard, 1990).

preventive measures and offers a plan of action to increase the survival chances of start-ups.

The significance of this research are to:

- ▶ Improve the capacity of government institutions and the quality of incentives to sustain start-up enterprises.
- ▶ Increase the sustainability rate of start-ups.
- ▶ Enhance the quality of policies to support the sustainability of start-ups.

1.9 Research Scope

The main focus of this study is to gather views pertaining to the impact of state intervention through defining policies and programmes to nurture start-up enterprises, particularly under the 9MP. Hence, this study is confined to selected private limited companies incorporated during the period of the 9MP, the period under review in this study. The list of companies used as a sampling frame was provided by SME Corp. These were companies that have approached or obtained financial incentives and government support from SME Corp during the first year of their incorporation.

A total number of 102 companies fell under the category of start-ups. Altogether, 36 companies responded. Apart from collecting quantitative data through a survey, the case study method was adopted to gain real life experiences and opinions of start-ups that had dealt with government agencies. An internal assessment of the functioning of start-ups would help provide insights into the value of the policies, institutions and incentives introduced through the 9MP to help develop their business during the start-up stage. In addition, the interviews would give a clearer picture of their endeavours to sustain their business. Out of the 36 start-ups who responded, six case studies were undertaken to

provide an in-depth understanding of their business development, an issue that will be discussed in Chapter 5.

1.10 Thesis Organization

This thesis is organized as follow:

Chapter 1 provides introductory information about this study, covering state intervention, the 9MP and the development of start-ups. It also highlights the purpose and significance of this study, as well as the scope of the research.

Chapter 2 covers the landscape of SMEs, including start-ups, in Malaysia. It also covers the theoretical and empirical literature on research about start-ups, their high failure rate and the factors contributing to business failures in Malaysia and other countries. A discussion about the significance of start-ups to the country is also included in this chapter.

Chapter 3 reviews the literature on public policies. This chapter reviews the MDPs to provide insights into the country's interventionist developmental state model and traces the evolution of the policies promulgated to help develop SMEs, particularly the 9MP. A theoretical discussion on the developmental state, in comparison with East Asian states such as Japan, South Korea and Taiwan, will provide insights into state intervention through public policies and institutions to develop a country's economy. This chapter also includes a review of the literature dealing with the effectiveness of government assistance programmes to help develop SMEs.

Chapter 4 covers the methodology adopted for this study. Part I introduces the conceptual framework to be applied in this study. Part II discusses the research method used in the study. Both questionnaire surveys and case studies will be employed as the main approaches for data collection. This section also provides the survey sample and sampling procedure, as well as data analysis.

Chapter 5 provides the selected case studies, their experiences as start-ups, their encounters with government agencies and the opinions they hold about government policies. The case studies will also provide insights into the problems they faced and the factors that contributed to their business performance.

Chapter 6 analyses the data collected. The first section analyzes the data pertaining to the impact of government policies, incentives and programmes. The second section presents the data on the factors contributing to the sustainability of start-ups.

Chapter 7 covers the conclusion and provides recommendations for policy-makers to develop effective policies to enhance the development of start-ups. This chapter will also provide start-up enterprises with useful information and strategies for business sustainability.

CHAPTER 2: LANDSCAPE OF START-UPS

2.1 Entrepreneurial Culture

To start a business, the key issues that potential businessmen look for are the institutional and policies framework in place for enterprise development and the general response of the public towards the product or service to be offered. A government that values an individual's effort to create a new business will definitely spawn more company formation than one that does not. For instance, in the United States, the culture of entrepreneurship is deeply rooted in the heart of society whereby entrepreneurs receive high recognition and are celebrated as role models. Various government bodies have taken an interest in promoting entrepreneurship and individuals are highly encouraged to form new businesses (*GEM 2000 Executive Report*; Hisrich & Peters, 1995).

Clearly, the government can influence business formation rates. Governments with a negative attitude towards self-employment and entrepreneurship will definitely discourage new business formation. According to Reynolds, Storey and Westhead (1994), governments may affect the presence of new firms in a locality in two ways. One is through local spending on infrastructure, including roads, utilities, schools, health care, etc., in order to attract more potential business people to establish new businesses, while the second approach is through programmes aimed at providing direct assistance to new firms.

In Malaysia, on an individual level, attitudes toward enterprise creation have been previously divided along racial lines. However, this situation is beginning to change due to modernization and social restructuring of society. Historically, the Chinese were more inclined to the notion of entrepreneurship and venturing into business. On the other hand,

the Bumiputeras generally did not have a tradition of entrepreneurship. Rather, members of this ethnic group were usually employed in government service, or self-employed as agricultural farmers. Nevertheless, there were exceptions to this rule whereby a small number of Bumiputeras were involved in business (Gomez & Jomo, 1999; Mahathir, 1999; Okposin, Abdul Hamid & Ong, 1999).

At the national level, the affirmative action-based NEP was instituted in 1970 by the Malaysian government in response to the growing discontent about the economic inequalities between the Malays and the other ethnic groups, particularly the Chinese, who had a prominent presence in the economy. The main emphasis of the NEP, as well as policies with a focus on heavy industrialization and privatization, was to increase Bumiputera ownership and participation in the corporate sector. This has indeed contributed to a positive result in terms of improving the attitude of Bumiputeras toward entrepreneurship, with more members of this community venturing into business (Gomez & Jomo, 1999; Mahathir, 1999; Okposin, Abdul Hamid & Ong, 1999).

2.1.1 Defining Start-up Enterprises

Resurreccion and Lazo (1982: p. 44) define a start-up as an effort to initiate a business that results in the actualization of the project. For instance, a store was rented, people were hired, products or services were offered and a loan was obtained, regardless whether the project succeeded or failed later on. Financially, start-ups have yet to turn a complete revenue cycle. They are still “priming the cash pump” with their original investment which means they are still investing time, effort, energy and money to create a stable customer base, buy inventory, etc., before any cash begins to flow back into the enterprise.

There is no universal agreement on where the process starts and where it ends. However, the process is considered to have started when one or more people make a decision to participate in the formation of a new business and have given most of their attention, time, energy and resources to developing it. It is characterized by the direct exhaustive drive, energy and entrepreneurial talent of a lead entrepreneur and a key team member or two. Hence, start-ups are all about building a business from “scratch”. At this point, the business owner is a jack-of-all-trades, doing everything deemed necessary to get the business up and running. This includes securing suppliers, distributors, equipment, facilities and labour. This is the route most often thought of when discussing new-venture creations (Allen, 2012; Longenecker, Moore & Petty, 1994; Timmons & Spinelli, 2003).

The start-up stage usually covers the first two or three years, but perhaps as many as seven, and is by far the most perilous stage. The experience of entrepreneurs who start their own business is always filled with enthusiasm, anxiety and frustration, while lots of hard work is required. They have to take the risk of failure due to factors like poor sales, lack of capital, lack of managerial ability and a challenging business environment (Allen, 2012; Hisrich & Peters, 1995; Timmons & Spinelli, 2003).

In Malaysia, start-up enterprises are categorized as SMEs. The definition of SMEs varies widely in different countries. There is no agreement about what constitutes a micro, small or medium enterprise. The *SME Annual Report 2012/13* revealed that, from early 2004, global trends indicated a convergence towards greater harmonization for a common definition of SMEs. This attempt was especially true of international organizations such as the Organization for Economic Co-operation and Development (OECD). Nevertheless, these initiatives were not too successful due to the differences between countries. For example, countries like the United States, United Kingdom, Japan, South Korea, Taiwan,

Singapore, China and Thailand used employment as the main criterion in their definition of an SME. While employment is the easiest way to determine the size of a firm, annual turnover or total revenue is also considered a good financial indicator to measure the size of business. As for New Zealand and Australia, only employment is used in their SME definition. Table 2.1 presents the criteria used in SME definition across countries.

Table 2.1: Comparison of SME Definition Criteria Used Across Countries

(Extracted from *SME Annual Report, 2012/13*)

Economy	(%) of SMEs	Criteria & Highest Threshold (US\$ Mil)				Basis
		Employees	Sales	Assets	Paid-up Capital	AND/OR
US	99.7	≤500	≤\$22			OR
Japan	99.7	≤300			≤\$3	OR
UK	99.8	<250	≤\$66	≤\$56		AND/OR
South Korea	99.9	<300	≤\$30		≤\$8	OR
Taiwan	97.6	<200	≤\$4		≤\$3	OR
Singapore	99.0	≤200	≤\$80			OR
China	99.0	≤3,000	≤\$48	≤\$64		OR
Thailand	99.8	≤200		≤\$7		OR
Malaysia	97.3	<150	≤\$8			OR
Australia	99.7	<200				-
New Zealand	97.2	<20				-

In Malaysia, there was no standard definition¹⁷ of SMEs before the formation of the National SMEs Development Council (NSDC) in June 2004. On 9 June 2005, a new definition for SMEs was introduced by the NSDC for adoption by government ministries and agencies involved in SME development. This revised definition was introduced to help identify SMEs across all sectors and for more effective targeting of such enterprises, with respect to the design of economic policies. NSDC listed SMEs under two broad categories – the first, manufacturing and manufacturing-related services (MRS) together

¹⁷ Previously, SMEs have been defined in various ways, using fixed quantitative criteria like number of employees, amount of assets, amount of capital and sales turnover.

with agro-based industries, while the second comprised services, primary agriculture and information and communications technology (ICT). SMEs were further grouped into three categories, namely micro, small and medium enterprises. These grouping were decided based on the fixed quantitative criteria, i.e. either the number of full-time employees or the total sales generated by a business in a year (see Table 2.2).

Table 2.2: New Definitions of SMEs Offered by NSDC (*Source: SME Census 2011*)

Industry	Primary Agriculture & Services Sector (including Information and Communications (ICT))	Manufacturing (including Agro-Based) & Manufacturing-Related Services Technology (MRS)
Micro	Sales turnover of < RM200K Less than 5 employees	Sales turnover of < RM250K Less than 5 employees
Small	Sales turnover of between RM200K and RM1 million Between 5 & 19 employees	Sales turnover of between RM250K and < RM10 million Between 5 & 50 employees
Medium	Sales turnover of between RM1 million to RM5 million Between 20 & 50 employees	Sales turnover of between RM10 million to RM25 million Between 51 & 150 employees

2.1.2 Business Incorporation by Sector

The *SME Census 2011* by the Department of Statistics reported that SMEs accounted for 97.3% of total business establishments in the five main economic sectors of services, manufacturing, construction, agriculture and mining and quarrying. Table 2.3 shows that 580,985 of the establishments were in the services sector, which accounted for 90.06%. The presence of SMEs in the manufacturing, construction, agriculture and mining and quarrying sectors was 5.87%, 2.99%, 1.04% and 0.05% respectively. In terms of the total number of SMEs, about 77% were micro enterprises, 20% were small enterprises and the remaining 2.7% were medium-sized establishments. SMEs were mainly concentrated in the Central Region (Federal Territory of Kuala Lumpur and Selangor), which accounted for 32.6%. Johor was the state with the next highest concentration with 10.7% and other Malaysian states accounted for less than 10%, as presented in Table 2.4.

Table 2.3: Number of Establishments by Sector (Source: SME Census 2011)

Sector	Total SMEs	Micro	Small	Medium	Total SMEs
Number of Establishments					% share
Services	580,985	462,464	106,320	12,201	90.06
Manufacturing	37,861	21,619	13,933	2,310	5.87
Construction	19,283	8,581	6,730	3,972	2.99
Agriculture	6,708	3,777	1,939	993	1.04
Mining & Quarrying	299	57	126	116	0.05
Total SMEs	645,136	496,497	129,047	19,591	100

Table 2.4 Distribution of SMEs by Sector in States (Source: SME Census 2011)

State	Services	Manufacturing	Agriculture	Mining & Quarrying	Construction	Total SMEs
Selangor	110,714	8,314	834	23	6,019	125,904
WP Kuala Lumpur*	78,448	4,201	5	2	2,023	84,679
Johor	60,618	4,828	994	27	2,407	68,874
Perak	53,322	3,833	962	84	1,827	60,028
Sarawak	40,608	1,977	322	19	904	43,830
Sabah	37,612	1,382	812	24	1,054	40,884
Pulau Pinang	36,899	2,614	269	7	1,035	40,824
Kelantan	35,372	1,814	326	30	281	37,823
Kedah	33,123	2,809	603	17	540	37,092
Pahang	26,815	1,305	630	13	699	29,462
Negeri Sembilan	21,633	1,495	435	11	968	24,542
Terengganu	19,882	1,782	196	37	617	22,514
Melaka	19,694	1,107	252	4	618	21,675
Perlis	4,484	291	63	1	214	5,053
WP Labuan	1,761	109	5	0	77	1,952
Total SMEs	580,985	37,861	6,708	299	19,283	645,136

*Includes WP Putrajaya

Figure 2.1 presents the number of companies registered according to the category of business. However, it is often difficult to classify firms by sector, mainly due to its product, and not the business, to which the Standard Industrial Classification applies.¹⁸

¹⁸ Some firms may be identified by two or more sectors by offering different products or services. It is common for firms to fall into the category of both the services and manufacturing divisions. Thus, the total number of companies may defer with the number of new companies incorporated for the same year.

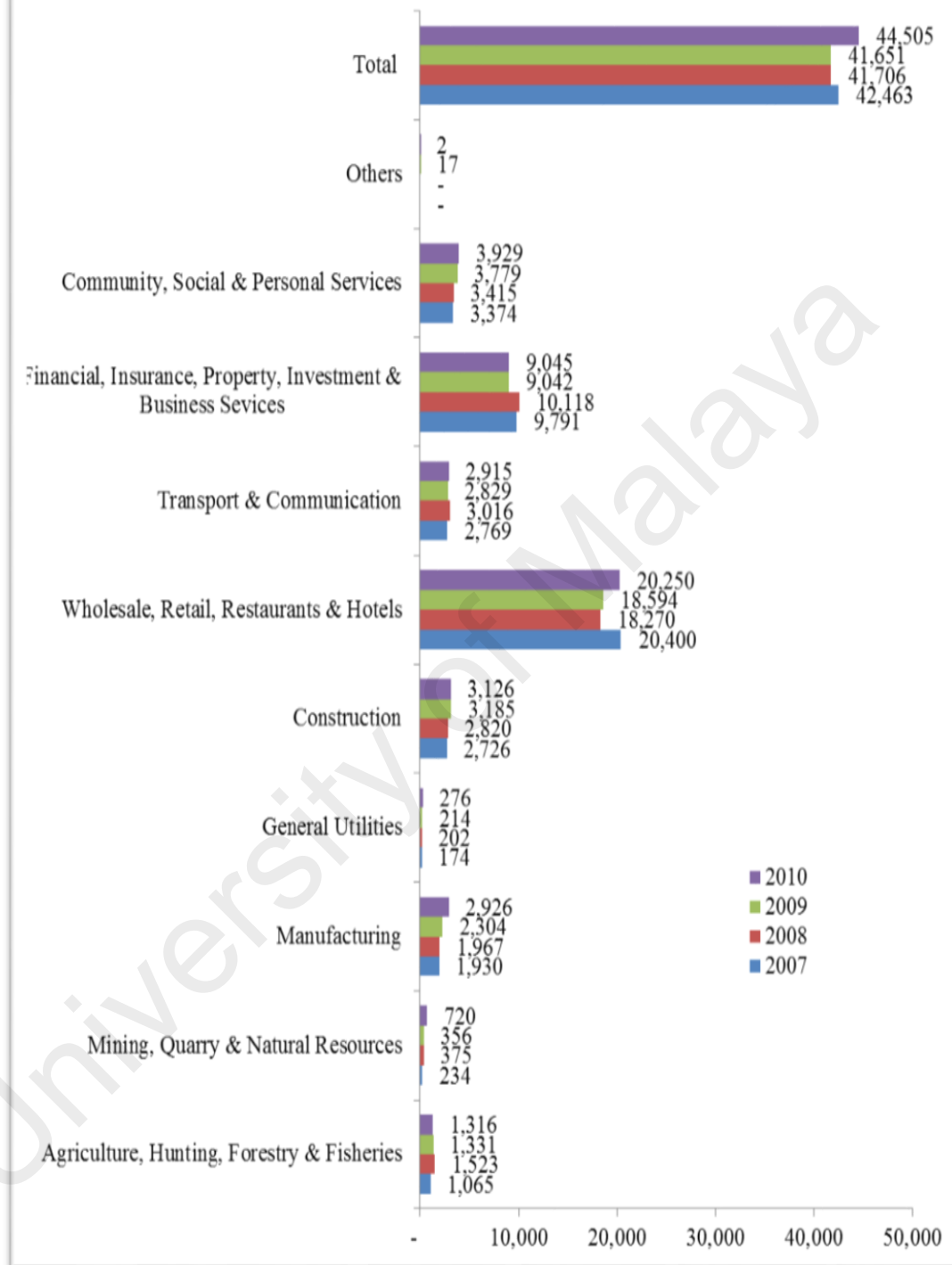


Figure 2.1: Companies Registered According to Category of Business (2007-2010)

Source: CCM's Annual Reports, 2008; 2009; 2010

2.1.3 Businesses Incorporated, 2005–2010

Since the focus of this study is on start-ups incorporated during the 9MP period, the number of new private limited companies registered between 2005 to 2010 were compiled from the CCM's annual reports. Figure 2.2 indicates an average of 41,820 private limited companies registered annually from 2005 to 2010. 37,702 companies were incorporated in 2005 and 38,252 in 2006. The number of companies registered in 2007 had greatly increased to 43,277, indicating a 13% increase from 2006. However, the number of companies registered in 2008 and 2009 reduced drastically. 41,599 and 41,578 companies were registered in 2008 and 2009 respectively. The reason for such a fall in the incorporation of new companies could be the result of the financial crisis that occurred in 2008. The decline certainly reflects falling confidence among potential businessmen. The main concern for many entrepreneurs who wanted to start a business was the viability of their new venture during the financial crisis. Hence, some of the entrepreneurs delayed setting up their businesses until the economic condition was more stable, in order to decrease the possibility of failure.

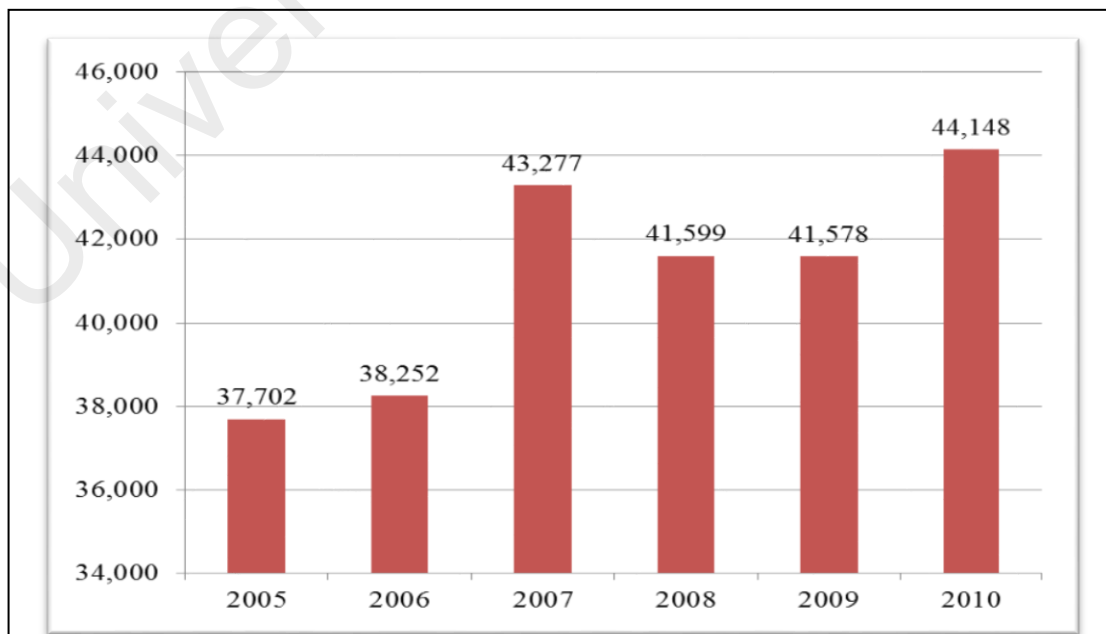


Figure 2.2: Number of New Companies Registered with CCM (2005-2010)

According to UHY¹⁹ professionals, Malaysian policymakers took measures to encourage greater entrepreneurial activity during the financial crisis. The government introduced a significant number of subsidies and incubators to encourage start-ups in activities such as green initiatives, from biotech to creative industries. With encouragement from the government and as the market stabilized, the confidence of entrepreneurs was restored and 44,148 companies were registered in 2010, an increase of 6% from 2009.

2.2 Business Failure

While statistics on the failure rates of new businesses worldwide vary, all suggest high incidences, particularly in the first few years. In many cases, the intention of entrepreneurs to start a business might not be sufficient to make it happen. Many potential businessmen drop out of the process as they move from intention to preparation and then to execution, due to the challenging nature of the endeavour. Besides, a high number of entrepreneurs give up before the new business makes the transition to an established firm. It is at the start-up stage that new ventures exhibit a failure rate exceeding 60% (Timmons & Spinelli, 2003).

Even though Timmons (1999: p. 30) noted that “it is a common pattern that the first venture fails, yet the business owner learns and goes on to create a highly successful company.” This process of learning from failure can have serious repercussions on the business owners and their families. Many failing businesses took with them the lifetime savings and often the self-esteem of the founders (Longenecker, Moore & Petty, 1994; Shepherd, 2004; Saunders, 1989). At the firm level, failure in business not only weakens the confidence of creditors, it may also impair the confidence of the consumers. Hence, it is difficult for business owners to rebuild the enterprise due to bad reputation. At a

¹⁹ UHY is a full member of the Forum of Firms, an association of international networks of accounting firms.

macro level, business failures could severely affect the national economy. It also has a major effect on the employment rate and national income (Longenecker, Moore & Petty, 1994).

There are a variety of definitions for business failure in the literature. Some of these are very broad and might include the discontinuance of a business for many reason. On the other hand, some specific definitions of failure include only businesses that closed because of outstanding debts to creditors. The essence of business failure is the inability of owners to continue their business from a financial perspective. Business owners who are not earning adequate returns or have fallen short of their goals are left with little choice but to cease operations (Bickerdyke, Lattimore & Madge, 2000; Titus & Robins, 2005). In the context of this study, business failure refers to the discontinuance of an entrepreneurial initiative due to the loss of capital or insufficient returns on investment or because it is no longer a viable concern.

2.2.1 Failure Rate of Start-ups – Country Studies

Venturing into a new business not only provides the business owner with a livelihood, but it also offers employment to others. More importantly, it lays a good training ground for entrepreneurship. A review of the academic literature indicates, however, that one out of every three businesses fail within three years of starting-up, while as many as half fail within five years (Reynolds, 1987; Tabet & Slater, 1994; Timmons & Spinelli, 2003). In fact, young firms are very fragile and there is a high mortality rate among new ventures throughout the world, as illustrated in Table 2.5.

Table 2.5: Failure Rate of Start-up Enterprises – Country Studies

Author & Year	Country	Failure Rate
Reynolds, Storey & Westhead, 1994; Timmons & Spinelli, 2003	USA	According to the U.S. Small Business Administration and US-based BizMiner 2002 Start-up Business Risk index, half of the new businesses (46.4%) fail within four years of operation.
Featherstone, 2006	Australia	Australian Bureau of Statistics (ABS) data suggests just over half of new businesses (51.4%) fail within four years.
Wang, 2004	China	50% (within a period of three to five years of operation)
Chua, 2003	Hong Kong	70% (within first five years of operation)
Boey & Chiam-Lee, 1994	Singapore	71% (within five years of incorporation)
Gaomab II, 2004	Africa	The failure rate is 85%.

The literature in these countries reveals that lack of capital or financing is the main problem encountered by most businesses (see Table 2.6). Generally, failure is mostly due to insufficient capital to cover heavy operating expenses, as well as the lending policies of banks which often discourage entrepreneurs. Other factors undermining start-ups and SMEs in these countries include lack of managerial and marketing skills, economic conditions like a downturn or a recession, strong competition, lack of skilled workers and limited access to technology. Besides, government policies and regulations are criticised for not being supportive at their early development stage.

Table 2.6: Causes of Business Failure – Country Studies

Author & Year	Country	Causes of Business Failure
Longenecker, Moore & Petty, 1994	USA	1) “Economic factors” contributing to failure are inadequate sales, insufficient profits and poor growth prospects (45%). 2) “Financial causes” include heavy operating expenses and insufficient capital (37.2%). 3) “Experience causes” are related to quality of management (10.5%).
Bickerdyke, Lattimore & Madge, 2000; Ghosh & Kwan, 1996	Australia	1) Economic conditions affecting the industry and excessive interest payments on loans. 2) Poor marketing. 3) Lack of business ability (managerial skills). 4) Lack of capital.
Wang, 2004	China	1) SMEs face many financial difficulties. 5) The phenomenon of ownership discrimination caused by the adoption of different credit and loan policies based on different forms of enterprise ownership.
Chua, 2003	Hong Kong	1) Availability of capital financing due to banks’ lending policies. 2) Bureaucratic red-tape also discouraged entrepreneurs.
Boey & Chiam-Lee, 1994; Ghosh & Kwan, 1996;	Singapore	1) Start-up capital. 2) Availability of capital financing where banks are quite conservative in their loan policy, especially to new ventures. 3) Strong competition. 4) Lack of skilled workers.
Gaomab II, 2004	Africa	1) Structural rigidity which is not supportive during the early development stages. 2) Issue of access to capital which limits access to technologies.

2.2.2 Causes of Business Failures – Literature Review

Generally, the literature indicates that all business failures can be traced to one of two factors. First, among those who start an enterprise, not all have what it takes to be business owners because they lack entrepreneurial competencies and managerial skills. Their personality, ideas, skills and abilities may not be up to the challenges they encounter. Second, they may not have enough cash-flow to meet expenses for day-to-day operations as sources of their capital normally come from the founders or the start-up teams

themselves or from funds borrowed from family and friends. Under-capitalization is the cause of most small business failures. This is exacerbated by a high degree of reliance on limited resources, such as initial capital, as well as difficulties obtaining a loan from financial institutions. Table 2.7 summaries the general causes of failure among start-ups and small businesses.²⁰

Table 2.7: Causes of Business Failure – Literature Review

Author & Year	Causes of Business Failure
Penrose, 1972	<ul style="list-style-type: none"> • Lack of adequate entrepreneurial ability • Lack of financial resources
Saunders, 1989	<ul style="list-style-type: none"> • Lack of industry-related experience • Lack of working capital • Bad financial management • Lack of managerial skills
Robinson, 1990	<ul style="list-style-type: none"> • Shortage of capital
Brazell, 1991	<ul style="list-style-type: none"> • Lack of management skills, competence and experience
Altman, 1993;	<ul style="list-style-type: none"> • Quality of management
Reynolds, Storey & Westhead, 1994	<ul style="list-style-type: none"> • Management inadequacy
Tabet & Slater, 1994	<ul style="list-style-type: none"> • Inadequate planning and recordkeeping • Fraud • Lack of managerial experience • Poor management or managerial incompetence
Tuller, 1994	<ul style="list-style-type: none"> • Inadequate access to capital
Ghosh & Kwan, 1996	<ul style="list-style-type: none"> • High cost of doing business and competition
Anderson & Woodcock, 1996	<ul style="list-style-type: none"> • Lack of adequate capital
Pena, 2002	<ul style="list-style-type: none"> • Lack of business experience • Strong industry competition • Small firm fragility
Titus & Robins, 2005;	<ul style="list-style-type: none"> • Lack of proper financing channels
Hubert & Sofie, 2008	<ul style="list-style-type: none"> • Lack of managerial or industry-related experience • Heavy capital expenditure • Low sales levels • Under-estimated expenses
Bruder, Neuberger & Rathke, 2011	<ul style="list-style-type: none"> • Poor quality of human capital • Poor volume of financial capital

²⁰ Although this study focuses on the impact of government policies and support schemes to help sustain start-ups in their early years, the causes of business failure among such enterprises are provided here to indicate how these insights can be translated into survival information.

Clearly, the key input factors for a start-up's sustainability and growth are human capital and financial capital. This is true especially in the case of micro and small enterprises where the entrepreneurs run the business alone. They must be equipped with both technical and managerial skills, as well as have access to financial capital to finance start-up costs, necessary investments in equipment, and so on. However, the new entrepreneurs may not have access to finance because they have no track record and also often do not have enough assets that are suitable for collateral (Bruder, Neuberger & Rathke, 2011).

2.2.3 Failure Rate of Start-ups – Case of Malaysia

The literature regarding start-up enterprises in Malaysia is very scant. Similarly, there is not enough information to capture the failure rates of start-ups in this country. As this study focuses on the effectiveness of government policies, programmes and incentives to support start-ups among SMEs under the 9MP, data on companies incorporated from 2005 to 2010 was collected from annual reports filed with the CCM. This was done in order to determine the failure rate of start-ups during the period under review. Even though these figures do not reflect the actual failure rate of start-ups, it provides a good indication of the failure rate of start-ups in Malaysia.

The information compiled from CCM's annual reports, as shown in Table 2.8, indicates an average of 41,820 private limited companies registered annually from 2005 to 2010. A review of the number of private limited companies that wound up and were struck off under Section 308 of the Companies Act 1965²¹ indicates an increasing trend since 2006.

²¹ The striking-off process entitles the Registrar to exercise his discretionary power to strike the name of a defunct company off the register if the Registrar has reasonable cause to believe that:

- the company is not in operation or is not carrying on business as under Section 308 (1) of the CA 1965;
- the company has been wound up but no liquidator is acting under Section 308 (3)(a) of the CA 1965;
- the liquidator failed to lodge any return or the Liquidator's Account of the wound up within the stipulated period as required by the law under Section 308 (3)(b) of the CA 1965; or
- the company has no asset or insufficient funds to pay the costs of obtaining an order from the Court to dissolve the company under Section 308 (3)(c) of the CA 1965

(retrieved from <https://www.ssm.com.my/en/company/closing-a-company/striking-off> on 23 March 2013)

The number of private companies that failed to sustain their business has increased from 8,759 in 2006 to 27,992 in 2008. The highest record was in 2009, due to a global economic crisis, which amounted to 39,075 companies.

Table 2.8: Winding Up and Striking-off of Private Limited Companies in Malaysia

(Source: CCM's Annual Report, 2006; 2007; 2008; 2009; 2010)

Year	2005	2006	2007	2008	2009	2010
Incorporation of new companies	37,702	38,252	43,277	41,599	41,578	44,148
Accumulation of new companies	-	75,954	119,231	160,830	202,408	246,556
Wound up companies (A)	-	955	1,276	1,450	2,013	1,487
Companies struck off under Section 308 of the Companies Act 1965 (B)	-	7,804	13,668	26,542	37,062	24,098
Total number of failed companies (A + B)	7,539	8,759	14,944	27,992	39,075	25,585
Accumulation of failed companies	-	16,298	31,242	59,234	98,309	123,894
Percentage of accumulated failed companies over total number of accumulated new companies	-	21%	26%	37%	49%	50%

Table 2.8 demonstrates an increasing trend of private limited company failures over the number of accumulated new firms from 2006 to 2010. The failure rate has increased from 21% in 2006 to 50% in 2010. Given these high failure rates, an assessment was done of start-ups that have managed to sustain themselves over this period, to understand the factors that have enabled them to do so, including whether this was due to public policies.

2.2.4 Causes of Business Failure: Case of Malaysia – Literature Review

There is scant research on the causes of failure on start-ups in Malaysia. Since all start-ups are categorized as SMEs, a review of the problems which affect their growth would reveal a better understanding of issues encountered by them. According to the United Nations Development Programme (UNDP, 2007) in Malaysia “the lack of sufficient finance and access to credit are often cited as major handicaps to the development of SMEs, particularly in their early growth stages. For instance, it is estimated that close to

95% of all SMEs rely on the personal resources of their owners and/or loans from friends and relatives to finance such enterprises.” Clearly, there is no exception for Malaysian SMEs, like businesses in other countries, whereby limited access to capital and financing are seen as factors hampering SME growth.

Previous studies also cite inadequate financing as one of the most common problems faced by new small business ventures as well as existing SMEs, an outcome of internal factors such as under-capitalization and poor financial management practices. SMEs generally encountered difficulties accessing financing due to lack of collateral, insufficient documents to support the loan application, no financial track record and a long loan processing time. These account for more than 80% of listed difficulties in all sectors (Aris, 2006; Hashim, 2011). Despite their significant role in the economy, SMEs face various problems which impaired both their performance and survival rate. Table 2.9 summarizes the causes leading to business failure among SMEs in Malaysia.

Table 2.9: Causes of Business Failure in Malaysia

Author & Year	Causes of Business Failure
Aris, 2006	Malaysian SMEs generally face difficulties accessing funds
Abdullah et al., 2009	Factors leading to the failure of Bumiputera entrepreneurs include: <ol style="list-style-type: none"> 1) Inability to compete 2) Lack of competency and capital 3) Customer-related problems 4) Employee-related problems 5) Unfavorable economic conditions like a recession 6) Bureaucratic red-tape in government agencies 7) Supplier discrimination 8) Negative community attitudes
Ghosh & Kwan, 1996	The four most important problem areas are: <ol style="list-style-type: none"> 1) Shortage of capital 2) Obtaining sources of financing 3) Strong competition 4) Lack of skilled / trained workers

Table 2.9, continued

Author & Year	Causes of Business Failure
Hashim, 2002; Hashim, 2005; Hashim, 2007; Hashim & Ahmad, 2005;	The challenges faced by SMEs were caused by both internal and external factors such as: 1) Lack of capital and credit facilities 2) Lack of information and knowledge concerning available alternative sources of financing 3) Shortage of skilled workers 4) Shortage of raw materials 5) Inadequate infrastructure 6) Lack of managerial capabilities and technical expertise 7) Marketing constraints and knowledge 8) Limited application of new technology 9) Strong domestic and foreign competition
Hashim, 2011	Business failures were strongly associated with: 1) Management problems such as deficient or no accounting records 2) Limited access to information 3) Deficiency in accounting knowledge and lack of management advice
Hashim & Wafa, 2002	The core problems were: 1) Lack of knowledge regarding marketing techniques, branding and customer loyalty 2) Good contacts with local and international enterprises
Kam & Mahalingam, 2008	The most common financial problems faced by SMEs are: 1) Lack of working capital 2) Poor financial management practices 3) Inadequate credit facilities 4) Difficulty getting external sources of financing
Chee, 1986	Among the most important problems faced by SMEs were: 1) Access to finance 2) Inadequate land or buildings 3) Shortage of skilled labour and lack of raw materials
Lim, Puthucheary & Lee, 1979	1) Lack of management skills 2) Lack of capital 3) Inadequate credit facilities 4) Inadequate government assistance 5) Lack of skilled workers
Ndubisi & Saleh, 2006; Saleh & Ndubisi, 2006	Some of the hindrances to the development of SMEs are: 1) Red tape applied by government agencies when delivering incentives 2) Poor access to new technologies and under-utilization of existing ones 3) Limited skilled human capital resources 4) Low level of ICT penetration 5) Low levels of research and development 6) Substantial focus on domestic markets 7) High level of international competition 8) High level of bureaucracy in government agencies 9) Difficulty obtaining funds from financial institutions

The literature notes that the recurring problems faced by Malaysian SMEs are similar to those found in other countries, i.e. lack of human capital with requisite capabilities, difficulty obtaining funds from financial institutions, poor financial management practices, failure to update market knowledge, low level of technology, lack of innovation through research and development (R&D), low level of ICT, lack of managerial and marketing skills, shortage of skilled labour, shortage of raw materials and strong domestic and foreign competition. Besides, the government seemed not to be supportive, evident in the red tapes applied by public agencies when delivering incentives, inadequate of government assistance and inadequate infrastructure. All these factors have contributed in one way or the other to the lack of resilience and efficiency among entrepreneurs, rendering them ill-equipped to compete locally and globally.

2.3 Contributions of Start-ups among SMEs to the Economy

There is growing evidence that entrepreneurship is strongly associated with economic growth. Countries with high levels of entrepreneurship tend to register higher levels of economic growth. Hence, new venture creation not only enables people to pursue and realize their dreams, it is also the single most powerful force to foster economic and social mobility. Policy makers around the world have seen the effect of entrepreneurship on economic growth and have reacted by making it a focus of social and political activity (Timmons & Spinelli, 2003; Whittaker, 1997).

2.3.1 Job Creation

According to a study by the U.S. Small Business Administration Office of Advocacy, small firms are generally the creators of jobs needed by a growing population and economy. Almost all firms begin small due to the constraints of resources and often need to grow to compete. Entrepreneurs have strategies that help new ventures emerge as large

entities. With their expansion, they will contribute to high employment. The domino effect of private investments is significant. Government's revenue will increase with growth in employment as more people are employed, and the volume of taxes collected and consumption will increase. The more revenue the government secures, the more government can spend on its people, especially the poor and marginalized. This is the "circle of life," and of course private investment in all sectors is the cog that will turn the wheel (Hisrich & Peters 1995; Longenecker, Moore & Petty, 1994).

In the case of Malaysia, the promotion and development of new economic subsectors in construction, manufacturing, services and agriculture has contributed to the birth of many new enterprises with the employment of a large number of skilled and unskilled workers (Malaysia, 2006). There was a marked increase of 271,812 employees by SMEs in 2007, resulting in the increasing share of SME employment to total employment; from just under 57% in 2006 to 58.2% in 2007. The share of SME employment continued to increase to 59.4% in 2009 (*SME Annual Report, 2010/2011*).

2.3.2 Supporters of Large Corporations

A growing number of small firms in Malaysia are becoming specialist suppliers to large companies. As suppliers and vendors, small firms help contribute to local and regional economic development through their complementary supplier and customer relationship as well as with other business. This can be seen from the increasing number of small firms becoming vendors through the government's Vendor Development Programme (VDP), which was first introduced in the heavy industrial programme by former Prime Minister Mahathir Mohamad. The establishment of the Heavy Industries Corporation of Malaysia (HICOM) to realize an ambitious heavy industrialization programme had contributed to the strategy of large-scale production for export.

HICOM entered into a joint venture with Mitsubishi Motors in 1983 and formed Perusahaan Otomobil Nasional, popularly known as Proton. Proton, known as the “anchor company” in the automobile industry, established the Component Scheme Programme to support industries in production areas such as tyres, batteries, steel, glass and plastics. By 2009, there were 287 vendors who constituted the entire supply chain, supplying Proton with 20,000 to 30,000 component parts that were required to make Proton cars. This programme has proven to be a great breeding ground for individuals interested in establishing start-ups (Gomez, 2013; Hashim, 2011a; Okposin, Abdul Hamid & Ong, 1999).

Under the premiership of Abdullah Ahmad Badawi, the government took a proactive approach, through the Global Supplier Programme (GSP), to create links between multinational corporations (MNCs) and SMEs, particularly in the retailing sector. The GSP has enhanced the capacity and capabilities of local SMEs to enable them to compete at the global level. Under the GSP, the government compelled foreign hypermarkets such as Tesco and Carrefour to allot space for goods produced by Malaysian SMEs, both locally and abroad. This approach created an abundance of opportunities for new companies wanting to enter the retailing sector. These GSP links served as an avenue to enable Malaysian producers to market their products abroad, especially in Europe, the home base of Tesco, Carrefour and Nestle. By the end of 2008, out of Tesco’s 2,000 suppliers, Malaysian SMEs accounted for 60% of them in 30 hypermarkets nationwide (Gomez, 2012; Ndubisi & Saleh, 2006).

These vendor programmes are about capacity building. New firms among SMEs can stimulate competition among themselves in a particular industry. This will drive the company to perform better in order to survive in a competitive market and to be able to enjoy a higher growth rate as well as reap more revenue by providing better products and

services to customers. As vendors, these small firms often produced products at a lower cost than the large companies could achieve in-house (Allen, 2012; Hashim, 2002; 2005).

2.3.3 Innovation

At the heart of the entrepreneurial process is the innovative spirit. Innovation can come in many forms, for example, from improvements in products, processes and organizational structures. Generally, an entrepreneurial venture aims at introducing something new to the marketplace. This could be a new product or service. Hence, entrepreneurs tend to serve customer needs that are currently not being served, that is by finding niches in the market. Small firms have been known to play an important role in fostering innovation that leads to technological change, while they also generate market turbulence, competition, and industry renewal (see Acs & Audretsch, 2010).

Studies in developed countries indicate that SMEs are more creative, more productive, more responsive and more dynamic in adapting to changing conditions in the marketplace than larger firms. Smaller firms tend to generate 24 times as many innovations per R&D dollar versus mega-firms with more than 10,000 employees (Allen, 2012; Malaysia, 2011; Siropolis, 1994; Timmons & Spinelli, 2003).

2.3.4 Seed-bed for Big Companies to Grow

The evidence suggests that small businesses have the potential to grow and become big corporations. In fact, many of the successful large corporations in the world grew from small business ventures. Hence, small businesses serve as seed-beds from which larger companies can grow. In the Malaysian context, many large public-listed companies were

at one time small firms. For example, Oldtown Group²² in Ipoh, Perak commenced manufacturing of 3-in-1 instant white coffee under the “Oldtown” brand name in the retail sector in 1999. The company’s white coffee products are now exported to more than 13 countries worldwide and it has more than 200 café outlets throughout Asia.

2.3.5 New Industry Formation

New industry formation is another important outcome of entrepreneurship and technological change. An industry is simply the people and companies that engage in a category of business activity such as semiconductors or good services. A new industry is born when technological changes produce a novel opportunity that enterprising entrepreneurs seize. The earliest stage of an industry is a time of rapid innovation and change as young firms struggle to become the industry standard bearers with their technology. As these entrepreneurial firms achieve noticeable levels of success, more and more firms desiring to capitalize on the potential for success enter the industry (Allen, 2012: pp. 8-9).

A good example of new industry formation is the Malaysia Multimedia Super Corridor (MSC-Malaysia),²³ which was conceptualized in 1996. It has attempted to bridge the digital gap between the nation and its capability to conduct businesses worldwide. Since then, Malaysia has grown into a thriving dynamic ICT hub, hosting more than 360

²² The co-founders and Executive Director of Oldtown Group, Goh Ching Mun and Tan Say Yap, are responsible for the incorporation of White Café which produces high quality white coffee. They formulated their own blend of 3-in-1 instant white coffee. Oldtown engaged in the manufacturing, marketing and sale of coffee and other instant beverages to both local and overseas markets. In 2005, the company expanded vertically into the food service sector with the opening of a chain of café outlets based on the traditional Ipoh coffee shop setting and ambience under the brand name "OldTown White Coffee". Today, Oldtown White Coffee is Malaysia largest halal-certified operator of a chain of café outlets. (For more information on the company, visit Oldtown White Coffee’s official website: <http://oldtown.com.my>)

²³ A new initiative of MSC-Malaysia is the Creative Multimedia cluster. Many innovative flagship applications have been developed in MSC-Malaysia, contributing to its rapid growth. Its main areas of focus are the development of Smart Schools, Telehealth, e-Business, smart card technology, electronic government and technopreneurship. The Malaysian Government has equipped core areas in MSC-Malaysia with high-capacity global telecommunications and logistics networks (retrieved from <http://www.cyberjaya-msc.com/msc.asp> on 9 Feb 2015).

multinationals, foreign-owned and home-grown Malaysian companies focused on multimedia and communications products, solutions, services and R&D.

2.4 Conclusion

It is well-documented that new business formation is an important driving force in attempts to generate economic development. Even though SMEs may not be able to match the resources and capabilities of larger corporations, their contributions are as significant as those of larger enterprises. Worldwide, SMEs not only provide sources of employment, they also stimulate private ownership for personal initiative and act as incubators to develop domestic enterprises into larger corporations. Due to their proliferation, SMEs, including start-ups, can enhance competition and entrepreneurship and have spill-over effects on innovation, efficiency and productivity growth that can translate into increased value-added output (Hashim, 2011; Hashim & Wafa, 2002; Timmons & Spinelli, 2003).

However, while new venture creation is viewed as a major contributor to economic development, the reality is that many businesses cannot survive the infancy stage, a problem seen worldwide (Hisrich & Peters, 1995; Reynolds, 1987). Recognizing the severe effects of business failures to the stability and health of a country's economy and also to the individual entrepreneurs, it is crucial to identify the relevant solutions to help start-up enterprises to develop and sustain themselves. By assessing start-ups through in-depth case studies, this study will provide insights into a number of core issues including the merits and demerits of public policies and incentives and the quality of entrepreneurship in Malaysia. By critically looking at the factors contributing to their sustainability, the feedback would also provide ideas that help to increase the survival rate of start-ups.

CHAPTER 3: LITERATURE REVIEW

3.1 Government Intervention and Enterprise Development

State intervention in the economy to nurture SMEs has been a key public policy feature in industrialized East Asia states such as Japan, South Korea and Taiwan. The importance of different forms of state-business links is evident in macroeconomic policies that have contributed to the rapid growth of domestic businesses. Such ties have also played a role in influencing business organization and behaviour of ethnic Chinese and indigenous capitalists of Southeast Asia (Dobson, 1998; Cumings, 1999).

As for Malaysia, it was generally accepted that since 1970 a key role of government was to create interventionist-based public policies to promote economic growth while also actively moving to redistribute wealth more equitably among all ethnic groups, striving to eradicate poverty and nurturing entrepreneurial domestic companies. The aim of developing SMEs was reinforced in the five-year Malaysia Development Plans (MDPs), particularly those introduced after 1970 though there was less emphasis on this issue between 1981 and 2003.

However, state intervention to promote domestic firms in Malaysia was unique due to the government's intention to promote Bumiputera capitalists. This mix of developmental and affirmative action-type policies has influenced the nature of state interventions in the economy. Generally, the Malaysia Plans were concurrent with the objectives of the New Economic Policy (NEP) which involved affirmative action to restructure wealth as well as promote the rise of Bumiputera entrepreneurs. The creation of a Bumiputera capitalist class was to be achieved through selective distribution of state-created rents (Abdullah et al., 2009; Jomo, 2001; Navaratnam, 2006). According to Yoshihara (1988), these crony

capitalists were rent-seeking private-sector businessmen who gained from licenses, monopoly rights, and government subsidies apart from being protected from foreign competition. This contributed to irregularities in the economy.

Historically, East Asian developmental states, specifically Japan and South Korea, have favoured big businesses, which have indeed become globally competitive. However, not much attention was given to start-ups in pursuing their goal of rapid economic growth. This was not the case in Malaysia, a trend that was seen when the government introduced the 9MP in 2006. In the 9MP, there was strong emphasis on nurturing SMEs, with specific attention given to start-up enterprises. Scholars have studied SMEs in Malaysia, but no one has looked at the implementation of public policies introduced to nurture start-ups, particularly under the 9MP. This is particularly interesting as start-ups, the world over, have a very high failure rate.

3.2 Concept of Developmental State

Numerous studies dealing with state intervention in the economy analyzed this issue from the perspective of developmental state theory, building on the work of Chalmers Johnson who assessed the rapid industrialization of Japan's economy. Johnson (1982) argued that the priority of state intervention was to ensure rapid economic development. He argued that the function of policies was to foster growth, productivity and competitiveness, rather than for welfare reasons.

One core concern of the developmental state was to create effective and productive state-business ties. Accordingly, bureaucrats and civilian enterprise managers have endeavoured to build mutually beneficial relationships to drive industrial development and create entrepreneurial companies. The state here acted as a "catalytic" agency, one

that engaged with businesses through numerous institutions, allowing for consultation and coordination with the private sector and ensuring timely and appropriate policy adjustments to conform to constantly evolving business cycles, as well as deciding which new industries needed to be created and to steer the necessary resources to the private sector in order to attain these developmental objectives. Managers of private sector companies were responsible for responding accordingly to the incentives and disincentives that the state provided (Dobson, 1998; Johnson, 1982; Wade, 1990).

In this regard then, the Japanese government played a key role in shaping the country's business systems, a trend seen in other East Asian states. For this reason, business systems vary across the East Asian economies, and through time. The Japanese government played a major role in founding firms in a number of core industries and then privatised them by selling them to wealthy merchant families. These family-owned firms grew into large holding companies known as *zaibatsu*, such as Mitsubishi and Sumitomo, which dominated the pre-war Japanese economy (Dobson, 1998; Johnson, 1982; Wright, 1996).

These *zaibatsu* were broken up during the American occupation, but subsequently re-emerged as *keiretsu*²⁴. Typically, the horizontal *keiretsu* were comprised of a lead bank which plays a powerful coordinating role through supportive long-term financing in return for proprietary access to the strategy and management of companies in the group, a trading company and one or two major industrial firms. The objective of the horizontal

²⁴ A *keiretsu* is a set of companies with interlocking business relationships and shareholdings. It functions as a business group. The *keiretsu* maintained dominance over the Japanese economy during the second half of the twentieth century. In the *keiretsu*, the member companies own small portions of share equity in each other's companies, though all are centered on a core bank. This system helps insulate each company from stock market fluctuations and takeover attempts, thus enabling long-term planning to implement innovative large-scale projects. The *keiretsu* system is a key element of manufacturing industry in Japan. See Dobson, 1998 for a discussion on the *keiretsu*.

keiretsu was to spread risk. The key to achieving this goal was inter-firm²⁵ (intragroup) coordination of finance and strategy (Wright, 1996)

The vertical *keiretsu* evolved in the post-war business environment that linked vertically-integrated activities in an industry within a business group. Employees were major stakeholders in the vertical *keiretsu*. At their core was a parent firm, which focuses on high value-added manufacturing, R&D or assemble. Interfirm activities of the group were coordinated by the parent firm which owned the majority of its subsidiaries' shares and allocated lower value-added activities to them. Hence, the vertical *keiretsu* organized activities by value-added, forming a vertical network of cooperating firms, among which goods, finance, information and people flowed (Westney, 1996).

The Korean economy depended in large measure on private enterprise operating under highly centralized government guidance. The Korean government played a highly interventionist role in promoting import-substitution and export-orientation-based industries when pursuing its goals of rapid economic growth as well as catching up with industrialised countries. The government adopted this approach rather than that of merely setting the broad rules and influencing the economy indirectly through market forces. In fact, the government appeared to be a participant and often the determining influence in nearly all business decisions. Rapid economic growth began in South Korea in the early 1960s when the government began actively intervening in the economy (Wade, 1990).

²⁵ Inter-firm coordination involving the financing of projects as well as a strategy to implement projects is key to achieving economic and enterprise development.

Financial and fiscal incentives were important incentives when the government decided which industries to develop. The Korean *chaebol*²⁶ resembles the *zaibatsu* such that they consist of independent firms within business groups which are controlled through family ownership and by cross-shareholdings within the group. Subsidized credit was made available to the *chaebol*, to help them upgrade their technological capabilities to encourage scale economies and reduce market risk. The government used them as instruments of growth and competitiveness by directing them into key industrial sectors and providing them with preferential financing and protective trade and investment policies. In addition, new market entry by foreigners was restricted in order to protect these new industries (Dobson, 1998; Haggard, 1990).

In contrast to the *keiretsu*, Korea's main banks did not have inter-firm (intra-group) coordination. Instead, the Korean government had virtually complete control over the entire financial system of the country, primarily through its public ownership of the banking sector from 1961 to 1980, in order to allocate capital to sectors considered developmental priorities. Inter-firm coordination was achieved by families whereby the *chaebol* heads obtained funding from state banks at preferential rates and went on to establish firms favoured by development planners (Dobson, 1998: p. 28; Wade, 1990).

Historically, Japanese and Korean policies have favoured big corporations as a means to attain their developmental goals. For this reason, the developmental state is, in some ways, seen as a paradise for big industrialists.²⁷ However, the collaboration of these governments with big corporations also entailed a development plan whereby large

²⁶ A *chaebol* is a South Korean form of business conglomerate. They are typically global multinationals and own numerous Korean and international enterprises, controlled by a chairman with power over all the operations. The term is often used in a context similar to that of a highly-diversified business group or conglomerate. The term was first used in 1984. Several dozen large Korean family-controlled corporate groups can be classified as *chaebol*. See Haggard (1990) and Cumings (1999) for a discussion on the *chaebol* system as a model of enterprise development.

²⁷ Governments pursued growth objectives by selecting and financing clan-owned business groups as instruments of policy. This form of selective patronage clearly favoured large firms.

advanced enterprises were seen to play a key role in creating links with small firms, through supply chains (Cumings, 1999; Dobson, 1998: p. 28; Johnson, 1982).

In the developmental state literature, the studies of Taiwan's industrial capability indicates that the government recognized the important role of small firms in promoting innovation and generating employment (see Wade, 1990). Generally, the origins of the family businesses in Taiwan's industrial structure were different from those in South Korea mainly because of government policy. The government's economic planning unit was influenced by the post-war land reform, implemented by the ruling Kuomintang's preference that large enterprises be publicly-owned. As a result, Taiwan's industrial structure was driven by large public sector enterprises which the Kuomintang government used as instruments for its growth plan and to implement its export-oriented trade and industrial policies (Dobson, 1998: p. 29).

The government of Taiwan was centrally concerned with preventing emerging groups from acquiring autonomy from the state as it feared that the economic power of large firms could be used to undermine the Kuomintang. It established an impressive economic bureaucracy to manage the governing of the economy and central state managers had an extraordinary degree of autonomy to define national goals and influence the behaviour of productive enterprises. The state had unusual powers to accomplish these goals, without having to enter into bargaining and shifting alliances (White & Wade, 1988).

SMEs were significant players in Taiwan and ownership of the business resided with individuals or families. They formed economic alliances with other Taiwanese enterprises and created diverse cooperative networks. Vertical integration was rare in Taiwan. The state played an important role in providing a suitable investment environment for the

private sector including by minimizing risk by subsidizing credit, extending infrastructural and technical support and providing market information about sectors where private investors were capable of organizing production. As a whole, the Taiwanese government played a significant role in influencing the activities of SMEs, particularly in favour of export-based industries (Dobson, 1998; Haggard, 1990; Vartiainen, 1999; Wade, 1988)

In comparison to Japan and South Korea, the Taiwanese government played a smaller coordinating role and became progressively less involved over time, although it later favoured a number of strategic sectors as candidates for preferential loans and tax treatment. The public sector had not been seen to significantly privatize firms; instead, the private sector has grown ahead of the national economy, reducing over time the presence of state-owned enterprises in the economy (Dobson, 1998; Haggard, 1990; Vartiainen, 1999; Wade, 1988).

In the 1960s, the government established several research and service organizations to promote technological and managerial upgrading in industries. Rapid expansion of the heavy and chemical enterprises began in the 1960s and the government was very successful in enlisting the help of leading US and Japanese firms to establish these industries in Taiwan (Wade, 1990). In addition, the importance of policy initiatives to provide investment funding to support early stages of enterprise development was also been realized. The Taiwanese government realized that high-tech firms needed more seed capital in the start-up phase as they suffered greater risks than others in traditional industries. The Development Fund and the SME Development Fund took the lead in providing equity financing to support industrial innovation in order to encourage high-

tech firms to undertake R&D activities. The goals of these two funds were to improve the operating structure and competitiveness of SMEs (Wonglimpiyarat, 2012: p. 80).

There is little doubt about the crucial role of government policy in South Korea and Taiwan in terms of providing a climate of incentives which encouraged high rates of domestic private investment (Booth, 2001). Foreign aid constituted an important segment of capital formation in the 1960s in Taiwan and South Korea, but this declined thereafter (Amsden, 1989). The concept of the strong developmental state, derived from the experience of Japan, South Korea and Taiwan, emphasized the high degree of autonomy enjoyed by key decision-makers, especially in the bureaucracy. The nature of the East Asian developmental state, and especially the role of government in determining the allocation of resources to particular industries, in building infrastructure and in the development of the educational system is evident. The export-orientation was critical to all three economies though there were differences as it was centralized in Korea, decentralized in Taiwan, and oligopolistic and highly competitive in Japan. All three countries have relied heavily on the export of manufactured goods in order to drive its export-oriented strategy (Booth, 2001).

Historically, the relationship between government and the private sector in Malaysia was not favourable in the past. Unlike Japanese companies that have received solid backing and sound direction from the government and enjoyed a high degree of protection and security, the Malaysian government regarded itself as an opponent of the private sector. Conversely, the private sector saw government regulations as obstructions to doing business. Furthermore, civil servants failed to appreciate that the national interest would suffer if businesses were unduly obstructed by government red tape. In most cases, the uneasy relationship between government and business, which was based on mutual

distrust rather than opposite, was not able to contribute positively to the kind of economic growth Malaysia was aiming for (Mahathir, 1999: pp. 88-9).

Generally, the Malaysian government promoted the rise of Bumiputera capitalists to check private sector dominance by ethnic Chinese-owned businesses. In the post-colonial period, Bumiputera entrepreneurs benefited from the nationalization of natural resources and agricultural industries. Former Bumiputera bureaucrats subsequently become directors of privately-owned business organizations, while members of this ethnic group benefited much when government enterprises were privatised. These well-connected organizations were family-based, relying heavily on personal and political connections to secure rents as a means to continue to grow (Gomez & Jomo, 1999; Jomo, 2001).

3.3 Development of SMEs in Malaysia – the Malaysia Development Plans

Recognizing the importance of small firms to the national economy, the government's commitment to and emphasis on the SME sector may be best observed in the MDPs. These five-year plans played an essential role in promoting a viable SME sector in the nation's stride to broadening the sources of growth as well as to sustain growth (Hashim, 2005; Mahathir, 1999). This chapter reviews why the MDPs can provide insights into the country's interventionist developmental state model as well as trace the evolution of the policies promulgated to help develop SMEs, particularly during the 9MP. The 9MP was important because the state actively intervened in the economy by creating institutions and public policies that nurtured domestic firms, an issue that has received little attention from scholars.

3.3.1 *First Malaysia Plan, 1966-1970*

In the *First Malaysia Plan* (1MP), implemented by Tunku Abdul Rahman, the country's first Prime Minister, its main objectives were to promote the welfare of citizens and improve living conditions in rural areas, particularly among low-income groups. A key feature of the policy was its emphasis on industrial development via the private sector, while FDI were given a pivotal role in this process. The country's industrial strategy was a form of state capitalism, aimed at achieving international competitiveness (Ching, 2004).

The Federal Industrial Development Authority (FIDA) was incorporated via a legislation 1965 to assume a role in shaping the Malaysian economy. FIDA was later renamed Malaysian Investment Development Authority (MIDA) and became fully operational in 1967 to expedite industrialization. It was government's principal agency to oversee and drive investment in the manufacturing sector in Malaysia. By the early 1970s, government efforts to encourage export-oriented industries were in full swing. However, in as much as this could have been the case, it appeared that MIDA purposefully targeted FDI in sectors that had the potential for growth and it so happened that electronics was among them. By the end of the 1970s, foreign firms had contributed a significant proportion of fixed assets, output and employment (Rasiah, 1995; Lall, 1995)

MIDA provided incentives to help industrialize the economy though it coordinated such development in order to also promote Malay entrepreneurship and upgrade their management skills in manufacturing ventures. Nevertheless, this Plan failed to reduce inequity in the distribution of income. The May 13²⁸ riots in 1969 subsequently become

²⁸ The *First Malaysia Plan*, whose approach had been dependent on the Malays availing themselves to the facilities offered by the government, had failed to address economic imbalances, exacerbating Malay discontent with the ruling party. Meanwhile, the Chinese were concerned by what they saw as discrimination against them. In the 1969 general election, the ruling alliance coalition led by the United Malays National Organization (UMNO), fared badly.

an issue of a great concern for the government as this was an outcome of persistent socio-economic inequities that had not been redressed since Independence in 1957.

3.3.2 *Second Malaysia Plan, 1971-1975*

The *Second Malaysia Plan* (2MP) was introduced by the government under the premiership of Abdul Razak Hussein, the country's second Prime Minister. Greater government intervention in the development of SMEs only became evident during the early 1970s with the introduction of the NEP (Ching, 2004). This affirmative action-based policy, which marked a new phase of economic and social development in Malaysia, sought to address the issue of growing discontent about inter-ethnic economic inequalities which coincided with the change in the direction of the industrial policy from Import-Substitution Industrialization (ISI) to Export-Oriented Industrialization (EOI), a strategy switch that gave fresh impetus to industrial growth (Gomez & Jomo, 1999).

The NEP was designed to eradicate poverty among all Malaysians, irrespective of race, and to restructure society to correct economic imbalance, so as to reduce and eventually eliminate the identification of ethnic groups with economic function. Generally, the 2MP outlined policies and programmes that attempted to promote and assist the development of SMEs and, above all, to enhance economic equity ownership (30%) by Bumiputeras by 1990 (Malaysia, 1971; Navaratnam, 2006).

Manufacturing was considered a strategic sector for the achievement of these objectives. Therefore, the industrialization strategy during the 2MP and subsequent Malaysia Plan periods were aimed at addressing the objectives laid down in the NEP. Foreign firms were

the preferred vehicle due to political reasons²⁹ and there was also a demonstration effect from East Asian ‘Tiger’ economies which were pursuing export-oriented industrialization. In Malaysia, this began with the enactment of the Investment Incentives Act in 1968 which widened the range of industries eligible for inducements such as deductions for overseas promotional campaigns and exemption from payroll tax for companies exporting more than 20 percent of total production (Drabble, 2000).

3.3.3 *Third Malaysia Plan, 1976-1980*

The *Third Malaysia Plan* (3MP), implemented during the premiership of Hussein Onn, constituted the second phase in the implementation of the NEP. During the 2MP, the emphasis was on promoting the wealth of the Bumiputeras, an issue that greatly worried the non-Malays. In the 3MP, poverty alleviation was the key feature and the government toned down its rhetoric on affirmative action and emphasized greater economic growth, which would benefit all (Henderson et al., 1977).

The government also realized that successful implementation of this Malaysia Plan would depend very much on the performance of the private sector, and SMEs served as an important training ground for future entrepreneurs. Hence, the administration played a vital role in creating an environment necessary for the development of the private sector through programmes such as credit assistance, advisory and extension services, technical assistance and administrative support (Chee, 1986; Malaysia, 1981).

²⁹ The actual fact is that government was reluctant to involve Chinese with the NEP-inspired practice of ‘ethnic bypass’ policy (Gomez, 2009; Gomez & Jomo, 1999).

The government went a step further and enacted the Industrial Coordination Act (ICA) of 1976, which gave the Ministry of Trade and Industry (MITI)³⁰ extensive power to direct and control the development of the industrial sector (Rasiah, 1995). The provision of financial and other resources for the implementation of the NEP contributed to an expanding range of facilities and services to help foster Malaysia's industrial development. The resultant economic expansion benefited both Bumiputeras and non-Bumiputeras, through their greater participation in various economic activities and programmes that were made available. During this period, private investment grew at a rate of 11.6% per annum, which provided the impetus to expand domestic activities (Malaysia, 1981).

In addition to EOI, the government was intent on encouraging the private sector and FDI during the period 1977-1980 through policies emphasizing investment incentives, the development of infrastructural facilities, numerous taxes, etc. Foreign companies manufacturing for export were exempted from the ICA policies dealing with Bumiputera share ownership. This new phase saw the beginning of massive foreign investment in the electronics sector by the US and Japan companies (Lall, 1995).

3.3.4 *Fourth Malaysia Plan, 1981-1985*

The period 1981-1985 was dynamic with the government embarking on a heavy industrialization strategy with a view of enhancing linkages between multinationals and local industries under the premiership of Mahathir Mohamad. There was also a renewed

³⁰ The Ministry of Commerce and Industry was established in April 1956 and was renamed the Ministry of Trade and Industry in February 1972. On 27 October 1990, the Ministry was separated into two Ministries:

- Ministry of International Trade and Industry (MITI)
- Ministry of Domestic Trade and Consumer Affairs.

The Ministry of International Trade and Industry, abbreviated MITI, is responsible for international trade, industry development, securing investments, enhancing productivity, nurturing small and medium enterprises and overseeing the development financial institutions, as well as the halal industry and the automotive and steel sectors. (For more information, visit Ministry of International Trade and Industry official website: www.miti.gov.my.)

focus on the role of SMEs in development, especially in terms of job creation. The government was very careful about retaining FDI and measures were put in place to curb outflow of capital.

Mahathir moved to alter the nature of Malaysia's interventionist state, reforming it as a developmental state based on the Japanese and South Korea experience, encapsulated in his "Look East Policy".³¹ Mahathir supported domestic enterprises and encouraged the rise of large corporations, replicating pre-war Japan's form of economic growth. The concept of *Malaysia Incorporated* was introduced in 1983 to facilitate the growth of the private sector. These business models served as templates for Mahathir's attempt to create large, internationally-recognized Malaysian firms that would also help rapidly industrialize the economy as well as nurture SMEs (Gomez, 2009).

Mahathir's heavy industrialization policy was implemented in the early 1980s through the state-owned Heavy Industries Corporation of Malaysia (HICOM), partially modelled on South Korea's Heavy and Chemical Industries programmes of 1975. A number of projects, including the establishment of iron, steel, aluminum, and cement plants, as well as an engineering servicing complex, served as potential industries for rapid development during the 4MP. The implementation of these projects provided opportunities for the private sector to participate in industrial development (Chee, 1986; Malaysia, 1981).

In order to drive industrialization, the government established the Small Enterprise Division in the Ministry of Trade and Industry (MITI) in 1981 to assist and coordinate the activities of the SMEs sector (Chee, 1986; Malaysia, 1981). Government intervention

³¹ The Look East Policy served as the framework for learning from the experiences of rapidly industrializing countries in East Asia. In addition, the policy sought to encourage the citizens, in general, and members of the public service, in particular, to inculcate values of hard work, thrift, self-reliance, initiative and perseverance, which were seen as essential for progress (Malaysia, 1986).

in the industrial sector during the 1980s contributed significantly to economic growth, primarily through high levels of public and foreign investment. With Japanese investments, the heavy industries flourished and, in a matter of years, Malaysian exports became the country's primary growth engine.

3.3.5 *Fifth Malaysia Plan, 1986-1990*

The severe 1985 recession prompted more people to start their own business and initiate self-employment endeavours, a result of the high unemployment rate. Due to this, the establishment of SMEs was seen as important not only to address unemployment but also to deepen the country's industrial base. The recession also made the government rethink the strategy of ushering in a new era focusing on the export-oriented strategy. The government realized that the 30% Bumiputera equity requirement on various sectors imposed by the NEP was the greatest stumbling block that hindered the export-oriented industrialization. In 1986, the government lifted the NEP quota on equity ownership, allowing foreign investors to hold 100% equity of firms in the manufacturing sector, if at least half of their outputs were exported. The abolition of the NEP quota spurred foreign investments in manufacturing. Malaysia registered tremendous growth in the 1990s, with a further emphasis in the economy towards exports and new incentives to attract foreign firms (Drabble, 2000; Malaysia, 1991).

In line with the "Look East Policy", the government continued to embark on the promotion of heavy industries to strengthen industrial development. Just as the Japanese's government had aided technological development of strategic industries by Japanese enterprises, the Malaysian government also learnt to emphasize programmes to expand, improve and modernize SMEs through the introduction of an incentive system, by supporting R&D, and by strengthening the agencies responsible for providing assistance

programmes to the manufacturing sector. With this, MITI³² was established in 1990, modelling Japan's MITI, to support SMEs as well as to stimulate manufacturing for exports (Malaysia, 1991).

During this Plan, steps were also taken to gradually reduce the size and role of the public sector and to ensure greater consolidation and efficiency in the management of government departments and public enterprises. Certain government services, which presumably could be provided more efficiently by the private sector, were earmarked for privatization³³ in order to promote domestic competition and increase productivity. Privatization opened up new opportunities to nurture the development of viable private enterprises. Nevertheless, the priority of this policy's programmes was to contribute to increasing Bumiputera equity ownership and their participation in the management of the privatized ventures, especially big corporations (Malaysia, 1991).

The 5MP was the last segment of the two-decade long NEP. Following the NEP's implementation, the shares held by individual Bumiputeras had grown from 1.6% in 1970 to 19.3% in 1990, an increase of 17.7 percentage points. Even though this figure was considerably short of the NEP's 30% target, it signified a remarkable increase in Bumiputera corporate shareholding (Malaysia, 1991).

³² Under the 5MP, MITI was responsible for providing various programmes and financial assistance schemes through the following agencies:

- SME Corporation Malaysia (SME Corp) - formerly the Small and Medium Industries Development Corporation (SMIDEC)
- Small and Medium Enterprise Bank (SME Bank)
- Malaysia External Trade Development Corporation (MATRADE)
- Malaysia Productivity Corporation (MPC)
- Malaysian Industrial Development Authority (MIDA)
- Malaysian Industrial Development Finance (MIDF)
- Halal Industry Development Corporation (HDC)
- Malaysia Automotive Institute (MAI)
- Malaysia Steel Institute (MSI)

³³ Privatization broadly refers to efforts by the government to promote greater private sector participation in the ownership, operation and management of public sector projects and the provision of public services. These included partial or total divestment of several government companies, corporatization of selected government departments, leasing of several government facilities to the private sector, management of government-owned installations by private sector management contract and construction of new projects through Build-Operate (BO) or Build-Operate-Transfer (BOT) arrangements and through management-buy-outs or existing government companies or facilities (Malaysia, 1986: p. 218).

3.3.6 *Sixth Malaysia Plan, 1991-1995*

The *Sixth Malaysia Plan* (6MP), embodied in the National Development Policy (NDP), was meant to build on the primary thrust of the NEP. Vision 2020 was put forward by Mahathir during the tabling of the 6MP in 1991, which served as the foundation for long-term development plans. The vision called for the nation to become a fully developed and industrialized country by the year 2020. Vision 2020 gave focus and direction to Malaysians, especially the private sector, to set bigger goals for greater achievement. Using Malaysia Incorporated as a concept and privatization as a vehicle, this collaboration of private and public sectors prepared Malaysians for a quantum leap into the new millennium (Malaysia, 1991).

The government took more positive approaches to develop SMEs when it realized their economic contributions and their great potential for further growth in the economy. The government continued to implement structural adjustments, through further industrial restructuring, technology improvements and human resource development. The efforts in industrial development resulted in better quality products, increased efficiency and improved competitiveness of Malaysia's exports. The government encouraged SMEs to increase their investments and export activities by assisting them to venture into foreign markets, identifying potential gateways and establishing offshore distribution centres. In 1995, the government set up the Ministry of Entrepreneur Development to provide guidance, training, advice and sponsorship to entrepreneurs in the country (Hashim, 2011; Malaysia, 1996).

Under the 6MP, the government continued to promote BCIC. Public enterprises, acting as catalysts for promoting Bumiputera involvement in the private sector, helped increase their participation in all sectors. In 1993, MIDA launched the Vendor Development

Program (VDP) in which more technologically advanced firms, usually MNCs, were given incentives to mentor upgrading processing among local vendors. The VDP, which commenced with the implementation of the Proton Component Scheme, served to create business opportunities for many businesses, though primarily to promote Bumiputera participation in the industrial sector. The vendor programme was extended to other subsectors such as electrical and electronics, wood-based and engineering industries. Petroliaam Nasional Berhad (PETRONAS), Telekom Malaysia Berhad (TMB) and Tenaga Nasional Berhad (TNB) were also involved in the development of vendors through similar programmes managed by the Ministry of Finance, which created more business opportunities for Bumiputera businesses in all sectors (Malaysia, 1996). As a whole, the focus of government intervention was to create big Bumiputera-owned businesses. Several of these large Bumiputera companies were already playing this role (Malaysia, 1991).

3.3.7 *Seventh Malaysia Plan, 1996-2000*

The main thrusts of the *Seventh Malaysia Plan* (7MP) were to enhance potential output growth, achieve further structural transformation and attain balanced development. An important facet was to increase productivity and efficiency in resource utilization to strengthen Malaysia's competitive edge, primarily through private sector initiatives. The 7MP emphasized sustaining economic progress in order to achieve the status of a fully-developed nation, as envisaged in Vision 2020. This Plan shifted its focus from an investment-driven strategy towards one that was productivity-oriented (Malaysia, 1996).

Even though the importance of SMEs was being undermined by the growing presence of a number of large companies, including MNCs, the 7MP still accorded an important role to SMEs as a means to support national industrialization efforts by forging linkages across

the manufacturing sector. To support the development of SMEs, the government established the Small and Medium Industries Development Corporation (SMIDEC) in 1996 to promote SME development through the provision of advisory services, infrastructure facilities, market access and other supporting programmes (Hashim, 2011; Malaysia, 2001).

During this period, the EOI strategy for manufacturing industries which was implemented in 1971 was further emphasized, as well as the restructuring of strategic industries to nurture capital- and technology-intensive and knowledge-based activities. Manufacturers, particularly local entrepreneurs, were encouraged to undertake large-scale industrial production to benefit from economies-of-scale and to increase local content in manufacturing. By 1998, the foreign investors were permitted to have 100% equity regardless of export levels as the government tried to stimulate an economy battered by the 1997 Asian Financial Crisis. Apart from increasing foreign exchange earnings, the strategy led to the development of competitive industries as entrepreneurs targeted the production of quality products for export (Malaysia, 2001).

Privatization was accelerated during this period in order to improve efficiency and productivity, sustain growth and further reduce the financial and administrative burden of the public sector. In line with the NDP, efforts to promote a more viable BCIC and to increase Bumiputera equity ownership and participation in the corporate sector remained a priority under the 7MP (Malaysia, 1996; 2001).

3.3.8 *Eighth Malaysia Plan, 2001-2005*

The *Eighth Malaysia Plan* (8MP) was embodied in the National Vision Policy (NVP), which charted the development of the nation in the first decade of the twenty-first century.

As the economy progressed towards becoming more knowledge-based, the government encouraged SMEs to be more adaptive in the use of information technology (IT) and improve their operations and productive capabilities to move up the value chain in order to remain competitive. Priority was accorded to increasing the supply of quality human capital, enhancing R&D efforts and accelerating the development of growth sectors in order to enhance the competitiveness of the economy and strengthen economic resilience (Malaysia, 2006).

As only 20% of SMEs were able to penetrate the export market, the Industrial Linkage Programme (ILP) was implemented under this Plan to develop SMEs to be reliable suppliers of parts, components and services to lead companies. The ILP comprised fiscal incentives, business matching and supporting programmes such as technology development, skills upgrading, market development and the provision of industrial sites. The scope of the ILP was expanded to include the GSP, through which SME capabilities were developed to enable them to be competitive suppliers of parts and components to MNCs and their worldwide operations. Through the GSP, SMEs were provided training in critical skills and linked to large companies and MNCs (Malaysia, 2003).

In order to complement the government's efforts in the development of the BCIC, the private sector, particularly large enterprises, as well as chambers of commerce and trade associations, were to support the BCIC by initiating new programmes to help create sustainable and self-reliant Bumiputera entrepreneurs. The privatization programme continued to be implemented to increase effective Bumiputera ownership and control of the corporate sector. The focus of state intervention under the 8MP was to create opportunities to develop more Bumiputera entrepreneurs, particularly those who owned large companies (Malaysia, 2001).

Mid-way through the implementation of the 8MP, there was a change in the premiership, when Abdullah Ahmad Badawi took over in 2003. Abdullah realized the important role of SMEs in promoting endogenous sources of growth and so he emphasized that he would help SMEs including start-ups. The government's commitment and concern for the development of SMEs were reinforced when the National SME Development Council (NSDC)³⁴ was formed in June 2004. The NSDC served as the highest policy-making body to chart the strategic direction for the government regarding SME development policies so as to ensure coordination and effectiveness of government programmes (Malaysia, 2001; 2006; *SME Annual Report, 2010/2011*)

Besides the NSDC, the SME Bank³⁵ was established in October 2005 to function as a development financial institution to nurture and meet the needs of SMEs through the provision of financial and non-financial services towards the end of this plan. The SME Bank's primary aim was to hasten the financing of eligible SMEs, to meet their funding needs as well as support their business growth requirements through the provision of timely advisory services. While the SME Bank's role is to complement the programmes and services provided by other government-linked development institutions, the bank was also established to strengthen the national implementation infrastructure to enhance SME capacity (Malaysia, 2001; 2006).

³⁴ The NSDC was chaired by the Prime Minister, with representation from ministers and heads of more than 12 ministries and 38 agencies supporting the Government's SME development efforts. Specifically, the scope of work of the NSDC was to formulate broad policies and strategies to facilitate the development of SMEs across all sectors:

- Review the roles and responsibilities of government ministries and agencies (i.e. the "stakeholders") responsible for SME development;
- Enhance cooperation and coordination, as well as guiding stakeholders to ensure effective implementation of SME development policies and action plans;
- Encourage and strengthen the role of the private sector in supporting the overall development of SMEs; and
- Provide emphasis to the development of Bumiputera SMEs across all sectors of the economy.

Among the initiatives announced include the formulation of targeted strategies for the development of SMEs across all sectors; the adoption of a standard definition for SMEs according to economic activity; the establishment and maintenance of a comprehensive National SME database and the expansion of development programmes and facilities to enhance access to financing and accessibility of markets for export.

³⁵ SME Bank was the outcome of a rationalization process between Bank Pembangunan & Infrastruktur Malaysia Berhad and Bank Industri dan Teknologi (M) Berhad. SME Bank became a wholly-owned subsidiary of Bank Pembangunan (M) Berhad. Bank Pembangunan is wholly-owned by the government. SME Bank was designed to function as a one-stop financing and business development centre (retrieve from <http://www.smebank.com.my/corporate-info/> on 1 Feb 2015).

In May 2004, the government-linked companies (GLCs) transformation programme was initiated to infuse a culture of high performance and excellence in all GLCs. In order to create Malaysian multinational corporations, private sector companies, especially SMEs and GLCs, were encouraged to expand into higher value-added activities and to venture abroad. This move helped to increase access to new markets, create demand for domestically-produced intermediate goods and components, apart from providing a hedge against domestic economic slowdown (Malaysia, 2001; 2006).

3.3.9 *Ninth Malaysia Plan, 2006-2010*

The *Ninth Malaysia Plan* (9MP) represented the first five-year blueprint of the National Mission, aimed at obtaining greater impact and performance from the country's development efforts towards achieving Vision 2020. In giving a lead role to private sector in economic development, the development of SMEs including start-ups was a key priority during this period. This signaled a monumental policy shift under Abdullah, with a focus on SMEs instead of creating big corporations (Malaysia, 2006).

The promotion and development of the new economic subsectors in manufacturing, services and agriculture were also undertaken to create more jobs in the market and to broaden the knowledge-based economy. Another strategy was to build a platform for start-ups and incubation centres to create a pool of new and innovation-driven entrepreneurs. On the other hand, inter-firm linkages among SMEs, as well as with large domestic companies and MNCs were strengthened to enable SMEs to become more competitive, innovative and reliable suppliers for global outsourcing networks, thereby facilitating entry into new export markets (Malaysia, 2006; 2011).

In terms of institutional support for the development of the industrial sector, MITI continued to be the lead agency that drove the expansion of manufacturing activities and related services into strong knowledge-intensive and value-creating entities. The promotion of technology- and innovation-driven strategies were given increased priority. There was greater emphasis on investments in new areas of growth to reinforce innovation and to achieve the capacity to augment productivity and competitiveness. Greater industrial integration and international collaboration were encouraged to further benefit from the increasing global employment of production and services networks.

To achieve private investment targets, the public sector delivery system was streamlined to be more effective and to reduce the cost of doing business. Since far too many ministries were simultaneously trying to promote entrepreneurial activities, SME Corporation Malaysia (SME Corp,³⁶ formerly SMIDEC)³⁷ was established in 2008 to act as the government's principal agency striving to streamline, coordinate and monitor SME development. For greater SMEs participation, their access to financing and incentives were improved. This included the SME Bank taking measures to enhance the availability of venture capital to finance SME start-ups and the provision of more integrated assistance packages (Malaysia, 2006).

³⁶ SME Corp's restructuring was part of the government's drive to reduce bureaucratic red tape that had hindered the activities of SMEs. SME Corp is now a one-stop information centre for all SMEs in Malaysia to obtain comprehensive information and advisory services which includes development of business plans, marketing, technology adoption, information services and financial advisory. SME Corp also disseminates information on SME performance as well as statistics. It also conducts research on SME related issues and development (*SME Annual Report, 2010/2011*). The main functions of SME Corp are as follows:

- Formulate broad SME policies and strategies across all sectors for better coordination and efficient implementation of SME development initiatives;
- Coordinate, monitor and evaluate effective implementation of policies and programmes across relevant ministries and agencies
- Coordinate SME statistics and publications
- Formulate and implement overall SME financing policy to enhance access to financing across all economic sectors.

³⁷ SMIDEC, established on 2 May 1996, played a pivotal role in providing stronger support for SMEs, prior to its restructuring as SME Corp. SMIDEC had provided infrastructure facilities, financial assistance, advisory services, market access and other support programmes to help develop SMEs. SMIDEC also encouraged SMEs to undertake R&D, upgrade their technology and improve their marketing capabilities (retrieved from SME Corp Official Website: <http://www.smeCorp.gov.my/index.php/en/about-sme-corp-malaysia> on 15 June 2013).

The 9MP led to changes in the structure of the economy, aimed at achieving higher value-added and total factor productivity (TFP)³⁸ in every economic sector. To promote productivity-driven growth, the enhancement of TFP was undertaken through programmes to upgrade skills and management capabilities, develop a more creative and skilled workforce, improve the level of educational attainment, intensify R&D and innovation activities and increase the utilization of technology and ICT in all sectors of the economy. During the 9MP period, the services sector was the main source of growth. In terms of sectoral performance, all sectors, except mining and quarrying, recorded positive growth (Malaysia, 2006; 2011).

Apart from developing SMEs and start-ups during this phase, the government continued to accord high priority to the creation of a viable and competitive BCIC. The implementation of the GLCs transformation programme was intensified during this period to further enhance the shareholder's value. Public enterprises, trust agencies and GLCs intensified their efforts to facilitate greater Bumiputera investment in existing and, more importantly, new areas of wealth creation, technology transfer and skills development. Meanwhile, privatization continued to support the private sector-led growth strategy and helped to enhance the participation of Bumiputera entrepreneurs in the corporate sector (Malaysia, 2006).

3.4 Interventionist State in Malaysia

There can little doubt that the objectives of intervention in Malaysia were quite different from those in East Asian countries like Japan, South Korea and Taiwan. A review of the MDPs indicates that the implementation of the developmental state in Malaysia was

³⁸ TFP refers to the additional output generated as a result of the introduction of new technology or upgrading of technology, innovation, superior management techniques, gains from specialization, improvements in efficiency, know-how, worker's education, skills and experience and advancement in information technology.

profoundly influenced by the NEP, implemented from 1970 to 1990, with the primary goal of addressing ethnic imbalances in the economy, as well as creating capitalists among Bumiputeras. Other related goals included that of international competitiveness and industrial efficiency, though they were subordinated to the two primary objectives of the NEP (Lall, 1995, Gomez & Jomo, 1999).

While the NEP managed to bring Bumiputeras into business, it failed to stimulate the development of an independent Bumiputera entrepreneurial society. Moreover, since Independence in 1957, the government has been preoccupied with constraining Chinese wealth expansion. The ethnic bypass of the Chinese has been a feature of much developmental policy and the problems of growth and industrialization in particular (Ariff & Abubakar, 2003; Omar, 2003; Navaratnam, 2006).

Apart from the NEP, the Malaysian government's subscription to policies under the developmental state model contributed to economic development, particularly during the premiership of Mahathir Mohamad (1981-2003). His other core agenda was to transform Malaysia into a fully-developed nation status by 2020 as well as create an influential core of internationally-recognized Malay-owned enterprises, through the government's BCIC policy (Searle, 1999; Mahathir, 1999; Okposin, Abdul Hamid & Ong, 1999).

In order to achieve these visions, Mahathir changed the nature of Malaysia's interventionist state by reshaping it as a developmental state based on the Japanese experience, encapsulated in his "Look East Policy" since the 4MP. The government subsequently intervened in the market by targeting the industries it considered imperative to achieve industrialized nation status and altered the incentives available to businesses. Apart from supporting domestic enterprises, Mahathir's also desired to develop large

corporations, inspired as he was by East Asian corporate models, specifically the Japanese *zaibatsu* and South Korea *chaebol* (Gomez, 2009; Searle, 1999).

Most of the large enterprises in Malaysia, however, did not replicate the Japanese companies developed with the aid of banks and SMEs tied together through interlocking ownership relationships. On the contrary, Malaysian firms, specifically the well-patronized large enterprises, emerged through their access to finance from state-owned banks and through the stock market by securing listing on the domestic bourse. Moreover, the Malaysian government did not monitor the loans, nor were there sufficient regulations to ensure that banks disbursed loans in a fashion that conformed to the dictates of government policies (Dobson, 1998; Gomez 2002; Johnson, 1982). Bumiputera-owned SMEs fared better but these enterprises had not emerged as major actors in the economy by the time Mahathir stood down as prime minister in 2003.

As part of Mahathir's heavy industrialization policy, HICOM was required to increase local linkages, promote SMEs and generate local technological capacity, primarily with Malay-owned firms. Mahathir's choice of state-owned enterprises as the primary instrument of the heavy industries programme, through one tied to nurturing Bumiputera SMEs reflected his BCIC agenda (Felker, 2001: p. 134). However, it was noted that numerous heavy industries established by the government under the umbrella of HICOM did not perform well. Mahathir's selective industrial policy apparently did not attempt to achieve the goal of being able to compete globally. Such arbitrary intervention led to a bad reputation about Malaysia's industrial policy (Jomo, 2001, Lall, 1995).

While Japan, South Korea and Taiwan, which had restricted the entry of foreign firms, Malaysia heavily cultivated FDI to drive industrialization. Export targets for local firms

were very important in South Korea and Taiwan, partially because export capacity provided a performance-based criterion for allocating credit, encouraging the adoption of international standards, and accelerating the diffusion of technology, but these factors were absent in Malaysia. In fact, the heavy industries of Malaysia were not exposed to external competition due to high levels of protection (Booth, 2001; Lall, 1996).

Although Mahathir adopted the interventionist “Look East Policy”, he was equally influenced by privatization, a core policy agenda since the 5MP. Privatization was an initiative to tackle Malaysia’s domestic economic problems, specifically the huge size of the public sector, ridden as it was a large number of public enterprises. Privatization appeared on the policy agenda as the government came under pressure to institute economic reforms in the 1980s. The announcement of privatization in Malaysia was a radical move since it involved a reversal of the state’s earlier promotion of public enterprises as a mechanism to boost economic growth, redistribute wealth and create opportunities for employment (Gomez & Jomo, 1999; Tan, 2008).

The implementation of privatization led to new forms and modes of rent-allocation. With the high degree of autonomy that Mahathir had as Prime Minister within the state – his party, the United Malays National Organization (UMNO), was seen to function as a single dominant party – this allowed him to distribute government-created rents selectively. This practice of selective patronage favoured businessmen who were politically well-connected, a factor that changed the nature of state intervention. This form of selective patronage was institutionalized, involving a state-sanctioned policy of developing and distributing rents to the Bumiputeras that was conducted through government leaders on a personalized basis to select individuals. This is one issue that undermined the

development of highly entrepreneurial Bumiputera-owned enterprises. (Gomez, 2002; Navaratnam, 2006).

This is in line with the argument by Yoshihara (1988) and Amsden (1995) that the different form of Southeast Asian industrial growth, which cast doubts on its sustainability, was mainly due to “technology-less industrialization”. The high dependence of Southeast Asian economies on foreign capital and technology; the continuing dominance of the Chinese minority in business and the growth of large firms, especially in Malaysia, owned by indigenous capitalists, who were often mere ‘rent-seeker’; and the exploitation of political connections had undermined the development of entrepreneurial enterprises.

In the East Asian developmental states, economic goals were paramount and were based on a consensus behind the pursuit of industrialization. Their actions can be seen as operating at two levels. Firstly, providing the administrative infrastructure, and, closely connected with this, the supply of educated and trained personnel through which the state can contribute to industrial development. Secondly, in specific acts of ‘industrial policy’, aimed at establishing new industries. Under such a system, bureaucrats have a greater degree of authority necessary to enable them to engineer, within the framework of vague and all-embracing laws, the kind of assistance they regard as likely to be most effective in the case of each particular industry (Francks, 1992: p. 17, 32).

Obviously, if government officials are to play this role effectively, they must have a high degree of competence as well as autonomy and be insulated from powerful interest groups, and from politicians. In South Korea and Taiwan, there can be little doubt that such bureaucratic autonomy is a crucial characteristic of the developmental state (Booth,

2001). However, the Malaysian bureaucracy could not play the tough disciplining role of the sort seen in South Korea and Taiwan because of their subservience to powerful politicians, such as Mahathir, who tended to use their powers to influence how state-created rents in the form of licenses, contracts, subsidies, and privatized projects were distributed (Searle, 1999). It is, however, evident that policies to cultivate a dynamic domestic entrepreneurial community have long been hampered by race-based policies to promote Bumiputera capital, a crucial goal of affirmative action (Gomez, 2012; Navaratnam, 2008; Okposin, Abdul Hamid & Ong, 1999).

3.5 Effectiveness of Government Policies and Institutions

From the developmental state perspective, the outcomes of state intervention in Malaysia were quite different from those in South Korea, Taiwan and Japan. These differences drew important reference to the challenging debate, which had transpired since the mid-1990s, about the role of the government in promoting rapid economic growth. There appeared to be a measure of consensus that the governments of Taiwan and South Korea had played an active role in creating market institutions such as long-term developmental banks and establishing an institutional infrastructure that enabled markets to work more effectively. These governments also used their control of financial markets to help direct resources in ways that stimulated economic growth with the objective of achieving enterprise development and higher production outcomes (Booth, 2001).

However, there was no consensus in Malaysia whether the different forms of intervention, although pervasive, had been extremely important for generating economic growth. This is especially true of interventions at the enterprise level whereby subsidy allocations were usually made on the basis of political cronyism or ethnicity, not merit, in order to promote the rise of Bumiputera-owned businesses (Booth, 2001; Jomo, 2001). Similarly, Chang

(1999) stressed that a country's economy controlled by interest groups, politicians, or bureaucrats, who utilized it for their own self-interests, tend to produce socially undesirable outcomes.

From the reviews of the MDPs, even though the government continued to create policies targeted at developing SMEs and numerous agencies and institutions were established to assist this endeavour, it remained unclear whether these support programmes were accessible to these firms. While some research assessed these supporting agencies and their contribution in the context of SMEs, very little is still known about their roles and impact. Similarly, few studies have endeavoured to investigate the outcomes of Malaysia's interventionist developmental state-based policies aimed primarily at fostering the rise of entrepreneurial SMEs (Hashim, Ahmad & Zakaria, 2007).

As a result of the affirmative action-based NEP, SMEs tended to view the government's numerous programmes and the support of various agencies as attempts not to foster entrepreneurial capacity but to nurture Bumiputera-owned SMEs (Gomez 2009). Government support programmes were seen as insufficient and were unable to deliver enough towards enterprise development and to strengthen domestic SMEs while the bureaucratic procedures were seen as a major hindrance to the running of businesses (Kee et al., 2011). Table 3.1 summarizes the ineffectiveness of government intervention, in so far as the development of SMEs in Malaysia is concerned.

Table 3.1: Ineffectiveness of Government Assistance Programmes

Author & Year	Government Assistance Programmes
Shieh Lee, 1990	SMEs did not know how to apply for assistance.
Abdullah, 2000	SMEs did not obtain adequate assistance. Limited services, lack of funds or complex loan application procedures discourage small businesses from approaching government agencies.
Hashim, 2005	Lack of information and knowledge concerning available alternative sources of financing.
Aris, 2006	Difficult to access financing due to lack of collateral, insufficient documents, no financial track records and long loan processing time.
Mahajar & Mohd Yunus, 2006	Focus: 76 SMEs; pertaining to exporting assistance programmes. Findings: Lack of awareness of these programmes.
Ponnusamy & Satkunasingam, 2006	Inadequate financial resources & biased incentive system have prevented the transfer of technology in an industrial economy, which enhances the technological gap between SMEs and large firms.
Rose, Kumar & Lim, 2006	Focus: Malaysia Enterprise-50, winners for 1997-2003. Findings: 62% did not avail themselves to governmental support programmes. They were unaware of such funds as well as being sceptical about obtaining such assistance.
Hashim, Ahmad & Hassan, 2007	Focus: 79 manufacturing firms in 2004. Findings: Low level of awareness of the availability of management training programmes provided by National Productivity Corporation (NPC).
Hashim, Ahmad & Zakaria, 2007	Focus: 79 manufacturing firms in 2004. Findings: Unaware of the availability of financial support offered by MIDF.
Hashim, Ahmad & Zakaria, 2007	Focus: 79 manufacturing firms in 2004. Findings: Low level of awareness of manufacturing programmes offered by four government supporting agencies, namely the MIDF, SMIDEC, NPC and MIDA.
Abdullah et al., 2009	Focus: Bumiputera entrepreneurs in 2006. Findings: Poor dissemination of information, late payments, inappropriate policies, difficulty in getting government aid and bureaucratic officials were major hindrances in the conduct of their businesses.
Ahmad et al., 2010	Unavailability of various forms of support, especially training and financial support.
Kee et al., 2011	The ineffectiveness of assistance programmes was due to limited number of SMEs receiving full range of assistance and inefficient allocation of resources.

This literature review on SMEs and government assistance programmes in Malaysia indicates the ineffectiveness of assistance programmes, mostly due to inefficient allocation of resources, unavailability of various forms of support, especially financial support, difficulty in applying for loans, incentives or aid, lack of information and awareness pertaining to the availability of financial aid or available alternative sources of financing. Among owners of SMEs, there even appeared to be a lack of awareness of the programmes offered by the government.

3.6 State Intervention under Abdullah Ahmad Badawi

The state-led approach to economic development in Japan and South Korea has prioritised big companies as the mechanism to drive industrialization. However, imbalances in SME policies, in that these states favoured larger SMEs, remained, with micro-businesses neglected. Japan, for example, which encouraged large business “intrapreneurship” linked to supply chains favoured by state investments, left most small businesses and entrepreneurs to fund their own way (Bennett 2014: p. 107). Similarly, the Malaysian government’s policies that aimed to assist Bumiputeras tended to favour larger business interests rather than small companies (Navaratnam, 2001).

According to Chang (1999:182-199), there is an important “entrepreneurial” dimension in the role of the developmental state. The state is an entrepreneurial agent which provides a vision when promoting development. In this case, the state has to create the necessary institutions to realize this “entrepreneurial vision” that it subscribes to. In fact, the success of private entrepreneurship itself very much depends on the construction of new institutional vehicles for the realization of its vision.

Similarly, critics argue that government intervention should be functional if they want to help SMEs because functional interventions are intended to improve markets without favoring any particular recipient (Lall, 1996:5, Lall and Teubal, 1998). In view of this, a proper role of government, as being confined to the provision of non-discrimination and non-discretionary industrial promotion policies for the nurturing of infant industries, is necessary (Jomo, 2001). Realizing this, Abdullah persisted with the developmentalist model under his premiership but with more focus on aiding SMEs, including start-ups, specifically as a means to nurture domestic entrepreneurship (Gomez, 2009).

Abdullah's enterprise development policy change was seen to follow the Taiwanese model, that is, to develop SMEs, especially during the early stages of enterprise development, as compared to Mahathir, who was greatly influenced by the Japanese and South Korean models of nurturing big corporations. Abdullah's commitment to the development of SMEs was reinforced when NSDC was formed to chart the government's strategic direction for the development of SMEs as well as the establishment of the SME Bank as the key development financial institution to nurture and meet the unique needs of SMEs. SME Corp was also established during the 9MP period to streamline the public sector delivery system. There have been clear attempts to nurture start-ups, reflected in the government's intention to improve its efficiency and performance to facilitate economic growth, an issue debated at length in the 9MP.

Even though there are few studies about Abdullah's focus on SMEs, there have been no studies about Abdullah's policy focus on the development of start-ups. There are also no studies to link start-up SMEs with the implementation of MDPs, particularly under the 9MP, where Abdullah's economic and enterprise development plan for Malaysia was clearly outlined. Recognizing the severe effects of business failures on individual entrepreneurs and also to the stability and health of a country's economy, this research is an assessment of the impact of government incentives, policies and programmes introduced to help start-up entrepreneurs to develop their businesses during the 9MP period. This study therefore attempts to provide some insights into the development of start-ups among SMEs during the period of the 9MP, using real life examples of start-ups and case studies to provide in-depth understanding of these enterprises. More specifically, this study seeks to provide entrepreneurs with some insights into the different issues of sustainability of start-ups. This study represents an attempt to help narrow the research

and information gaps currently found in the study of start-ups among SMEs, particularly in the Malaysian context.

University of Malaya

CHAPTER 4: METHODOLOGY

Part I: Development of Conceptual Framework

Governments worldwide recognize the importance of new ventures to the country's economic performance as well as the phenomenon of its high failure rate. In Malaysia, the government has continuously attempted to influence the manner of business operations by shaping the market environment in order to achieve its developmental goals. The Malaysian government has implemented various strategic initiatives and programmes to provide the necessary support as well as create a climate in which SMEs, including start-up enterprises, can thrive through its 5-year development plans. The recent policy interventions have also recognized the importance of the "business enabling environment" especially for start-ups (Bennett, 2014; Hisrich & Peters, 1995).

Under the premiership of Abdullah, he was determined to create an enabling environment to enhance private investment through various institutions, policies and assistance programmes with the main objectives of stimulating rapid economic growth through entrepreneurial firms as his agenda was to transform Malaysia into a fully-developed country by 2020. Moreover, his government had proposed a major strategy, "entrepreneurship as career of choice," in an effort to promote self-employment under the 9MP. However, the government did not look into the internal aspects of start-ups and how these new firms respond to government initiatives to nurture their business. There has been no study of the implementation of public policies introduced to nurture start-ups. Therefore it is important to study how a state-created entrepreneurial environment that includes institutions, policies, incentives and programmes has influenced the development of start-ups in the context of Malaysia.

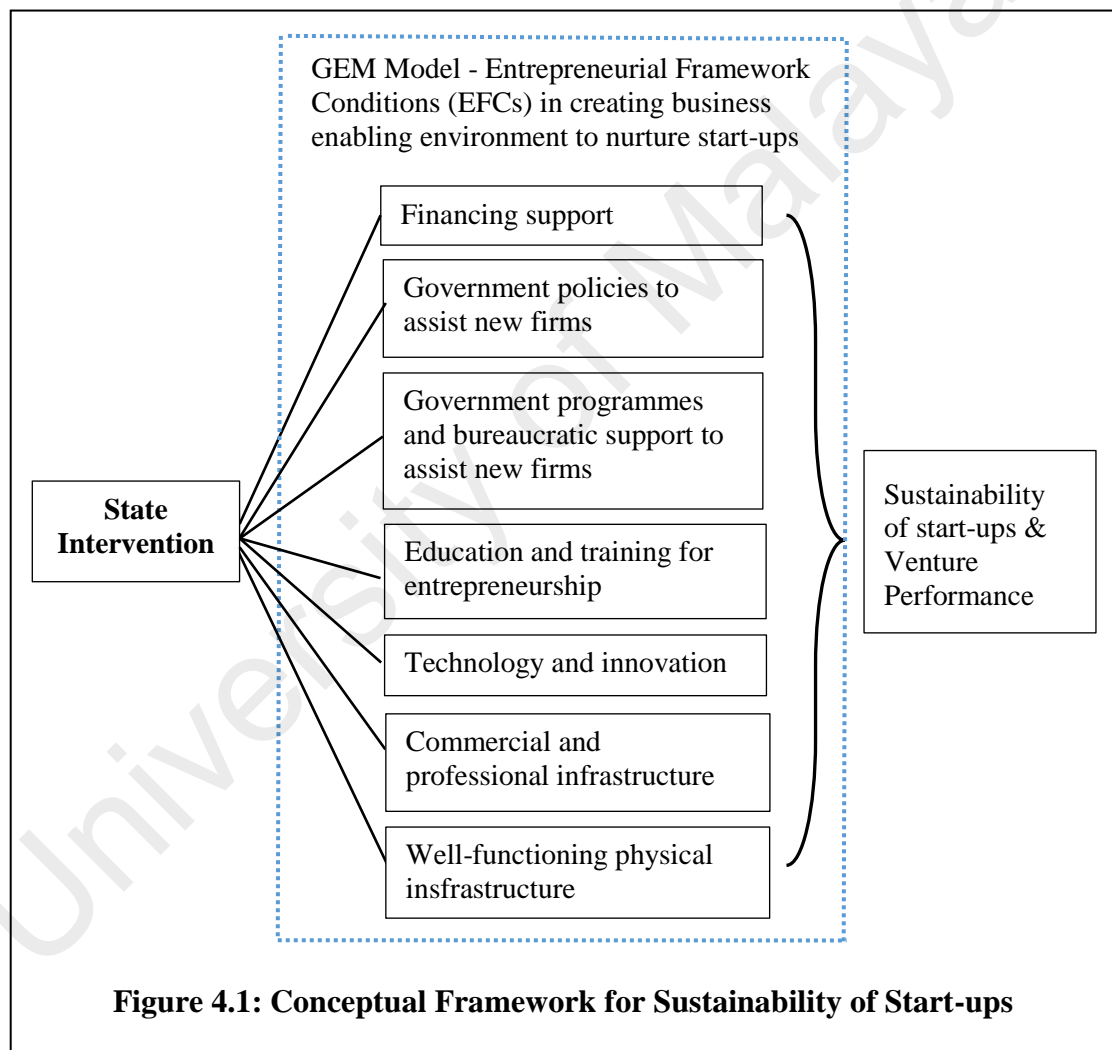
4.1 Global Entrepreneurship Monitor (GEM) Conceptual Model

According to Ahmad et al. (2010: p. 183), “studies of business success in Malaysian SMEs can generally be categorized into two groups. The first highlights the role of external factors in determining success, whereas the second stresses the internal aspects of SMEs, specifically, the organizational variables and the characteristics of the entrepreneur. The studies that focus on external factors typically examine the role of government in creating an environment that is supportive to smaller business success.” This is further supported by National Malaysia GEM that argues that policy interventions are aimed at supporting and mentoring entrepreneurs through the difficult process of firm birth and that this is necessary in order to reduce the poor sustainability of start-ups in Malaysia (Ahmad & Xavier, 2012).

Abdullah’s intervention to create a conducive environment to nurture SMEs, an important function of a developmental state, is in line with the GEM conceptual model that sets out key elements of the relationship between entrepreneurship and economic growth, and the way in which these elements interact. The GEM’s unique contribution is to describe and measure the conditions named the entrepreneurial framework conditions (EFCs) under which entrepreneurship can thrive. This framework provides guidelines to assess how start-ups respond to the state intervention in helping to develop their business at the early stage. Nevertheless, the focus of this study is to gather views on the impact of state intervention to create a conducive business environment to nurture new firms so that they have better chances of growing which can contribute to economic growth. This serves to address Research Question 1. This will form the first proposition for this study of Malaysia start-up firms which is as follows:

P1: The impact of state policy initiatives, through institutional support and incentives to nurture start-ups during the 9MP.

Drawing on both the research context, as well as the literature on state intervention to create a business enabling environment to nurture start-ups, a conceptual framework was developed using the GEM model. This framework is outlined in Figure 4.1.



This study adopts seven of the nine EFCs (except internal market openness/barriers to entry and cultural and social norms)³⁹ from the GEM research programme carried out in 2009 in Malaysia. These seven EFCs relate to government support that is considered to have had a significant impact on entrepreneurial activity within an economy in relation to the concept of developmental state. These seven conditions, as listed in Table 4.1, serve as guidelines to assess the effectiveness of state intervention in promoting the development of start-ups.

Table 4.1: GEM Model and Developmental State

GEM Model – EFCs	Concept of Developmental State	Measures
Financial support	Funding is critical and it binds the state to private firms. Accordingly, state plays an important role to steer the necessary resources to the private sector in order to attain the government's developmental objectives.	The extent to which financial assistance, including grants and loans, can be accessed by new firms.
Government policies to assist new firms	The state plays a key role in defining policies to nurture infant industries, in terms of growth, productivity and competitiveness.	The level of support to which policies and their implementation concerning business taxes, regulations and administration are favourable to new firms; freedom from bureaucratic red-tape.
Government programmes and bureaucratic support to assist new firms	The state is a “catalytic” agency offering numerous well-coordinated institutions and a meritocratic bureaucracy that is competent to support private firms.	The accessibility and quality of government programmes; effectiveness and competency of bureaucrats to conceive and implement policies.
Education and training	The developmental state stresses the importance of investments in education to ensure quality human capital is available in the economy.	The extent to which business knowledge features in the educational system at all levels and its relevance in the development of entrepreneurial skills.

³⁹ This study does not consider two EFCs, which is barriers to entry and cultural and social norms. The main focus of this study is to examine the impact of state intervention in its attempt to provide an environment that supports new firms. Companies in this study were those active in operation for more than three years. Therefore, barrier of entry is not a critical issue. Furthermore, the Malaysian government had proposed a major strategy, “entrepreneurship as career of choice,” in an attempt to promote entrepreneurship. In addition, the *GEM Malaysia Report (2009)* stated that the necessary infrastructure was widely available in Malaysia. This coincides with the fact that Malaysia has low cost entry for business start-ups.

In fact, the *GEM Malaysian Report (2009)* stated that there were great opportunities for the creation of new firms. This indicates that the existing social and cultural norms encourage individual actions that may lead to the development of an enterprise through personal efforts, self-sufficiency, autonomy, personal initiative and entrepreneurial risk-taking. In addition, the attitude towards SMEs in Malaysia has changed through the years. Currently, SMEs in Malaysia seem to enjoy more esteem and prestige among the general public. There is high media attention of entrepreneurs in Malaysia. Successful entrepreneurs receive high social image and respect.

Table 4.1, continued

GEM Model – EFCs	Concept of Developmental State	Measures
Technology and innovation	The developmental state seeks to increase productivity growth through active acquisition of new technology. The state also aims to increase the efficiency of domestic producers to achieve its “industrial policy”. Capital is available for private firms for the acquisition of technology and R&D.	To examine the ease at which new technological advancements can be accessed and the extent to which national R&D leads to new commercial opportunities and whether R&D and funding is made available for new firms. In addition, it attempts to investigate the adoption of ICT in business operations.
Commercial and professional infrastructure	Availability of a well-functioning commercial and professional infrastructure is imperative in order to support start-ups.	The presence of commercial, accounting, banking and other legal services that ease the development of new firms.
Well-functioning infrastructure	The role of the developmental state is to provide infrastructure to facilitate the creation of entrepreneurs.	Quality of and access to physical resources including physical infrastructure, communication and basic utilities that are advantageous for start-ups’ development.

4.2 Why GEM Conceptual Model?

The GEM’s conceptual model is considered in this study because its components measure the entrepreneurial start-up environment. In conjunction with the concept of the developmental state, the GEM explores the role of entrepreneurship in national economic growth, unveiling detailed national features and characteristics associated with entrepreneurial activity. This model provides the method necessary to assess how start-ups respond to government intervention to create an enabling business environment for them to thrive. An internal assessment of the functioning of start-ups, through their response to government intervention, would help to provide insights into the impact of public institutions, policies and incentives under the 9MP.

The GEM is a unique project, one through which a standardized methodology is used to assess entrepreneurial activity all over the world. The fact that Malaysia has participated in the GEM study since 2006 gives us the opportunity to cross-reference data used in this

study. In addition, the empirical results in the GEM serve as a framework for the interpretation of the results found in the Malaysian case (Ahmad & Xavier, 2012).

The advantage of adopting variables from the GEM model is that they are based on high-quality data. The GEM data collection method is through the National Experts Survey (NES), a face-to face interview with experts concerning their assessment of the situation of the EFCs. These experts are from government, universities and organization of venture investment (*GEM Malaysian Report, 2009*). The main objective of the NES is to have qualified people evaluate items relating to the EFCs. However, no involvement of new ventures when conducting the survey even though the EFCs measures the entrepreneurial start-up environment. From this perspective, this study is imperative as it involves an assessment of real life experiences as well as the opinions of the owners of start-ups who have dealt with government agencies.

4.3 Factors Contributing to Sustainability of Start-ups

While the government undeniably plays a key role in creating an environment conducive for new businesses, this factor alone does not explain why start-ups succeed or fail. There are other factors affecting the sustainability of start-ups. Ahmad et al. (2010) stress that Malaysian SMEs that thrive do so due to their internal aspects, specifically their organizational variables and the characteristics of their entrepreneurs.

According to Covin and Slevin (1991: p. 15), the “organization’s resources and competencies” have high impact on a firm’s performance. They argue that “the availability of organizational resources and competencies such as monetary resources, plant and equipment, personnel, functional-level capabilities (e.g. manufacturing flexibility), organizational-level capabilities (e.g. ability to get a new product to the

market in a timely fashion), and organizational system (e.g. marketing research systems) are mechanism that can enhance the likelihood of achieving business success.”

Penrose’s “resources approach” of the firm confirms this perspective. Accordingly, firm-specific resources include the variety of resources that a firm would normally possess such as high quality human capital, technological expertise, access to funds, relevant knowledge, etc. In Penrose’s resources approach, there is a framework that helps identify the existing resources that serve as a firm’s internal strengths, those that are crucial to sustain its existence. Penrose’s “resources approach” reveals that a firm exists to provide products and services to its customers. Basically, every business has an environment in which it operates and a business firm is both an administrative organization and a collection of productive resources (Penrose, 1972). This section serves to address Research Question 2. This will form the second proposition which is as follows:

P2: A firm’s resources and competencies are the core factors that sustain it as a start-up.

For start-ups that have survived the duration of the 9MP, factors contributing to their sustainability were assessed. The literature review points out that the recurring problems⁴⁰ that undermine the performance of Malaysian SMEs generally are these firms’ resources and competencies, both crucial to sustain their existence, as outlined in Table 4.2.

⁴⁰ The recurring problems faced by Malaysian SMEs were summarized from Table 2.9: Causes of Business Failure in Malaysia under Chapter 2, Section 2.2.3.

Table 4.2: Firms' Resources and Competencies for Sustainability

Internal Aspects of Firms' Resources and Competencies	Factors Contributing to Failure of Malaysian SMEs
Capital - monetary resources	<ul style="list-style-type: none">• lack of resources• difficulty obtaining funds from financial institutions
Investment in technology	<ul style="list-style-type: none">• low level of technology• failure to adapt to new technologies
Innovation (Investment in R&D)	<ul style="list-style-type: none">• lack of innovation through R&D
Managerial skills	<ul style="list-style-type: none">• lack of managerial competence• lack of capabilities• poor financial management practices
Marketing Management	<ul style="list-style-type: none">• failure to update market knowledge• lack of focus on branding and marketing
Availability of raw materials	<ul style="list-style-type: none">• shortage of raw materials
Availability of labour	<ul style="list-style-type: none">• shortage of skilled labour
Capacity to compete	<ul style="list-style-type: none">• strong domestic and foreign competition

Failure and success are somewhat bound together, and the literature also provides evidence that absence of these success factors may also contribute to business failure. The literature provides an indication of the factors leading to failure among SMEs, issues that can be used as a guide to evaluate the ability of a firm to sustain itself. Research that identifies the factors that impact a new firm's development will help founders in their decision-making process and improve their chances of surviving.

Part II: Research Methodology

The following methods were employed to achieve the objectives of the study.

4.4 Survey Sample and Sampling Procedure

This study assesses the impact of government policies, incentives and programmes deployed to help develop start-ups during the implementation of the 9MP. A list of private

limited companies⁴¹ provided by SME Corp was used as a sampling frame. These companies were those that had approached SME Corp for funds or had benefited from financial assistance or government programmes soon after they had been incorporated. (Appendices A and B provide more information on the grants schemes and soft loans offered by SME Corp.) As most of the companies are services-based and in manufacturing, this study is confined to these sectors. Furthermore, a majority of SMEs in Malaysia are concentrated in the services (90%) and manufacturing (6%) sectors (*SME Census 2011*).

SME Corp is the primary source of data for this study because this public institution was officially appointed as the new central agency, during the 9MP, to enhance the development of SMEs in the country. SME Corp's core function is to formulate programmes to further encourage SME participation in the economy. It was also one of the key achievements of the NSDC in its attempt to restructure a government agency dedicated to formulating and coordinating policies and SME development programmes to ensure comprehensive and effective implementation across all sectors.

This list of companies provided by SME Corp was then sent to CCM to confirm their operating status, i.e. whether these companies were active or had ceased operating. For those active companies, CCM provided relevant information, specifically the year of their incorporation. This study is confined to selected private limited companies incorporated during the implementation of the 9MP, i.e. between 2006 and 2010, and were still

⁴¹ In Malaysia, most companies are those limited by shares. The meaning of private limited companies is that the liabilities of its members are limited to the amount of shares they hold in the company. This is particularly popular as the company, being a separate legal entity, has to bear its own liability and cannot make the members liable for more than their contribution to the capital. As long as the members had fully paid up their shares or guarantee to the company, they cannot be made further liable for the debts of the business. These companies are incorporated and governed by the Companies Act, 1965. Companies limited by shares will carry "Sendirian Berhad" behind their names, according to Section 22(4) of the Act.

operating in 2013. 102 companies, across various states in the Malaysian federation, fell under this category.

The companies in this list were mainly concentrated in the Central Region, with 45 companies in Selangor and 18 in the Federal Territory of Kuala Lumpur, accounting for 44.12% and 17.65% respectively. Johor and Penang were states with the next highest concentration of firms, both with 7.84%, while other Malaysian states accounted for less than 5%. The details of these companies are illustrated in Table 4.3.

Table 4.3: Company Profile – Sample

Variable	Category	Frequency	Percentage (%)
Year of Incorporation	2006	33	32.35
	2007	22	21.57
	2008	42	41.18
	2009	5	4.90
Company Location	Johor	8	7.84
	Kedah	4	3.92
	Kuala Lumpur	18	17.65
	Kelantan	1	0.98
	Melaka	5	4.90
	Negeri Sembilan	3	2.94
	Pahang	2	1.96
	Perak	2	1.96
	Penang	8	7.84
	Sabah	1	0.98
	Sarawak	4	3.92
	Selangor	45	44.12
	Terengganu	1	0.98
Type of Industry	Construction	2	1.96
	Manufacturing		
	- Manufacturing & Distribution	10	9.80
	- Manufacturing Related Services	20	19.61
		30	29.41
	Services		
	- Business & Professional Services	26	25.49
	- ICT Service Provider	3	2.94
	- Distributive Trade, Wholesale & Retail	40	39.22
	- Tourism	1	0.98
		70	68.63

4.5 Profile and Background of Respondents

Altogether, 36 firms responded, giving a response rate⁴² of 35.30%. The respondents of this survey were decision makers. In setting up the company, 27 of these 36 companies (75%) had ventured into business for the first time. 15 of the respondents were drawn from the manufacturing industry and 21 were from the services sector. Nine of these companies marketed their products abroad. Table 4.4 presents the profile of the companies surveyed.

Table 4.4: Company Profile – Respondents

Variable	Category	Frequency
Position of the Respondent	Owner	20
	Managing Director	5
	Director/Executive Director	8
	Senior Manager	3
Year of Incorporation	2006	10
	2007	6
	2008	12
	2009	8
Company Location	Kuala Lumpur	8
	Selangor	15
	Johor	5
	Kedah	1
	Melaka	1
	Penang	4
	Perak	1
	Sarawak	1
Type of Industry	Manufacturing	
	- Manufacturing & Distributor, Wholesaler and Trading	5
	- Manufacturing Related Services	10
		<u>15</u>
	Services	
	- Business & Professional Service Providers	15
	- Distributive Trade, Wholesale & Retail	6
		<u>21</u>

⁴² A number of these companies did not participate in this survey mainly due to their concern that the issues dealt with here, though focusing on public policies, had a political perspective. They were very careful about discussing public policies because they were worried about the political implications of doing so.

4.6 Collection of Data

Both questionnaire surveys and case studies were used as the main approaches for data collection.

4.6.1 Quantitative Surveys

Data collection was carried out from April to September 2013. The data for this study was collected through email or mail surveys:

a) Email

The study was introduced to the selected SMEs through telephone conversations and followed up with an email. In this email, a covering letter and a questionnaire were attached.

b) Mail Survey

The study was introduced to the selected SMEs through telephone conversations and followed up with a covering letter, accompanied with a questionnaire and a paid reply envelope.

4.6.2 Case Study Approach

Apart from collecting quantitative data through a survey, the case study approach is employed here because it is the most effective way to assess how these companies have actually responded to the 9MP. The main objective of the interviews was to have a better understanding of their real life experiences in dealing with the government as well as to gather information about the impact of government policies, incentives and programmes to support their businesses during the initial start-up stage. In addition, the interviews would give a clearer picture of their endeavours in sustaining their business.

The literature review indicates that under-capitalization or inadequate financing is the main cause of most small business failures (Aris, 2006; Hashim, 2011). As a result, the government has offered financial assistance in various forms to assist SMEs, including the start-ups. Therefore, companies that had received government financing assistance were considered as case studies. In all, 13 of the 36 companies were provided with loans, grants or business start-up funds, as presented in Table 4.5. Altogether, six companies were interviewed and the details about their development are provided in Chapter 5.

Table 4.5: Financial Assistance Benefited by Companies under Survey

Co.	Type of Industry	Nature of Business	Funding Received	Interview Status
1	Services Sector	Vehicle tracking services – Tracking	Matching grant for start-ups – SME Corp	Accepted
3	Manufacturing and distributor	Manufacturing of condiment sauce – Hotsauce	Matching grant for Manufacturer – SME Corp	Accepted
4	Services Sector	Educational consultancy	Tekun financing (loan) – TEKUN Nasional	Declined
6	Services Sector	Schedule waste management	SME loan – SME Corp	Declined
9	Manufacturing	Manufacturing of health care products	Grant for renting the of a factory and packaging – SME Corp	Declined
18	Manufacturing and Distributor	Instant beverages	Matching grant for certification and quality management system – SME Corp	Declined
21	Manufacturing and Retail	Process optical lenses - laboratory	6 months rental for women entrepreneurs – SME Corp	Declined
22	Services Sector	Consultant in accounting & secretarial	Grant for SMEs in service sector – SME Corp	Declined
23	Manufacturing	Bird nest products	Start-up grant – SME Corp	Declined
26	Services Sector	Boutique & textile – Alqas	Business start-up loan – PUNB	Accepted
28	Services Sector	Satay-franchising – Best Satay	Matching grant for purchase of assets – SME Corp	Accepted
29	Services Sector	Trading of agricultural machinery – Agro	Grant for 6 months of rental – SME Corp	Accepted
31	Manufacturing	Pre-commercialization of Kenas bio composite material – Evergreen	Business start-up fund – fully funded by MTDC and collaborating with SIRIM	Accepted

4.7 Instrument Development

The instrument used for this study was drawn from the literature search to ascertain previous works in the field. This involved searching the literature on the developmental state, GEM model and factors leading to the sustainability and failures of business. As most of the previous measures were adequate, instructive and proper credit were cited, the researcher has value-added, adopted and modified the indicators and questionnaires from previous scholars.

A pilot run was undertaken of five selected companies to test the instrument and obtain a more comprehensive picture of the importance and relevance of the factors mentioned earlier. This helped to provide a guideline or direction as to what adoption factors were imperative for start-ups. The literature review of previous studies, together with the outcome of focus groups, served as the basis for generating items for inclusion in the questionnaire.

The structured questionnaire used in this study consists of five sections. The first and second sections consist of questions used to gather general information pertaining to the background of the respondents and the characteristics of the companies.

Section three was designed to capture the views of the respondents about the impact of state intervention, specifically when conceiving policies focusing on creating an enabling business environment to help develop start-ups. Questionnaires used by *GEM 2009 National Expert Survey* in Malaysia were adopted and modified. These questions were in the 5 point Likert scale, whereby one (1) indicates “strong disagreement” and five (5) indicates “strong agreement”. Each factor was measured by taking the average of the responses to several questions. The table in each section was organized in descending

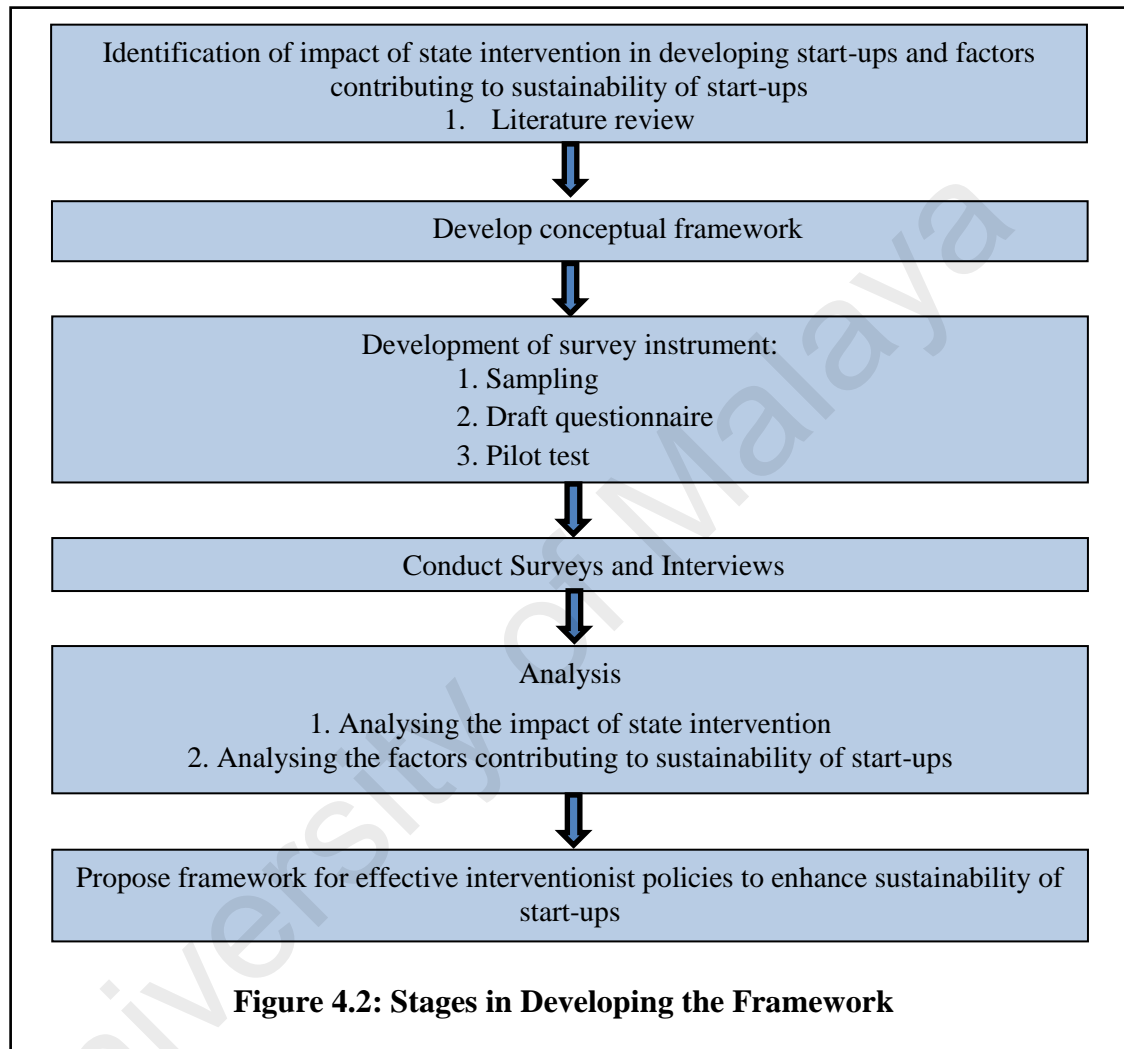
manner, whereby the highest ranked categories were those about which respondents felt more positive, while the lowest ranked categories were seen as most under-developed by the respondents. On a Likert scale of five, a mean score of 3 is regarded as average.

Section four of the questionnaire focused on the factors contributing to the sustainability of start-ups. The instruments for this section were adopted and modified from previous research, including those by Ghosh and Kwan (1996), Hashim (2011) and Kee et al. (2011). The researcher grouped the questions into their respective sub-sections for the ease of response. The respondents were asked to indicate the key factors contributing to their business sustainability. Each factor was measured by taking the average of the responses to several questions. The table in each section was organized in descending manner whereby the highest ranked categories were those about which the respondents felt were more important, while the lowest ranked categories were seen as less desired by the respondents (mentioned earlier).

With regard to start-ups that have survived the duration of the 9MP, the measurement of their performance would lead to better understanding of their financial status. This reveals that profits are one dimension of venture performance, one that was most familiar to and most commonly referenced by the founders (Chandler & Hanks, 1993). Hence, section five of the questionnaire was used to assess companies' performance, with reference to net profits. Respondents were asked if their companies' profits were increasing, sustaining or decreasing.

In addition, open-ended questions were used in the survey to prompt more information for the study. The various steps involved in this study are shown in Figure 4.2. In particular, this study attempts to incorporate the qualitatively generated determinants into

a Likert-type instrument in order to quantitatively assess the impact of government efforts in developing the start-ups using the GEM model and to determine the factors contributing to the sustainability of start-ups.



CHAPTER 5: CASE STUDIES

This chapter serves to record the information gathered from the interviews conducted with the owners or management of the following six companies:

- 1) Tracking Sendirian Berhad
- 2) Hotsauce Manufacturing Sendirian Berhad
- 3) Alqas Boutique Sendirian Berhad
- 4) Best Satay Sendirian Berhad
- 5) Agro Trading Sendirian Berhad
- 6) Evergreen Home Sendirian Berhad

The interviews were first transcribed and then written up as case studies. These write-ups were sent to the respective companies or reconfirmed by the interviewees through telephone conversations, a process undertaken to ensure validation of the findings. The case studies were written employing a thematic approach and analyzed to meet the objectives of the study.

In principle, the company owners or management agreed with the write-ups. Assurances were given that their privacy would be protected. Hence, the term “anonymous” was used for interviewees and the company’s actual name was changed in all cases.

5.1 Case 1 – Tracking Sendirian Berhad

5.1.1 Company Background

Tracking Sendirian Berhad (hereafter referred to as Tracking) offers vehicle tracking services. This service consists of a combination of GPS technology with asset management software and satellite communications to provide complete solutions for all

types of commercial vehicle tracking requirements. Tracking provides products and services to the local market.

Tracking was incorporated on 22 September 2008 and commenced its operations on 20 May 2009. The company is situated in Selangor and founded by two Bumiputeras. The owners of Tracking started the business with a RM100,000 paid-up capital. Azuddin held the majority shares as he contributed RM99,998 of the paid-up capital, using his personal savings to start the enterprise. The interview was conducted with Azuddin on 16 October 2013.

Azuddin, who is a graduate, studied Commerce in Melbourne. He worked for a Malaysian corporation, Touch n' Go, as a manager before he started his company, Tracking. He revealed that, after ten years, he could not imagine himself working as general manager for the same company. He did not want to build a future where he had to work for others and conform to office rules.

Working at Touch n' Go allowed him to foresee great opportunities arising from installing tracking devices on commercial vehicles that would enable customers to track the location of their vehicles. As a result, it helped the customers to make informed business decisions based on the actual performance of their vehicles in real time. His service in Touch n' Go had given him the advantage of building up a clientele for the business he wanted to venture into, a reason why he decided to take up the challenge to incorporate Tracking.

Azuddin shared that his experience working at Touch n' Go as this helped him understand the problems with the devices that were available in the market. He recognized that those

devices offered in the market were not reliable and the functions provided were rather rigid. Azuddin noted that customers wanted devices that were reliable and suited their business requirements.

Tracking imports the components it requires from Europe and Taiwan and assemble them here. The company designs the devices to suit the requirements of the customers. Tracking, then, contracts out the fabrication so that they do not have to worry about manufacturing the products. What they get from the fabricator are the final devices. With this production method, Azuddin claimed that he could fully focus on monitoring the system and marketing the tracking devices. Their users were from the following transportation industries: logistics, haulage, freight forwarders and express bus companies.

The business model that Azuddin created was a recurring revenue model, which allowed him to collect payment from customers every month, once the set up was installed (the vehicle tracking device is fixed in commercial vehicles like trucks, buses and lorries). He does not have to worry if he cannot find new customers every month because the income will still flow in from existing customers.

- **Has Government Intervention Been Effective?**

5.1.2 Funding Sources

Pertaining to funding, Azuddin applied for a start-up matching grant from SME Corp soon after he incorporated the company. Azuddin explained that the matching grant is basically an allocation for new companies. Anyone can apply for this matching grant once the company was incorporated. He shared that the business proposal would have to include a pro-forma financial statement whereby the government could match the

projected financial requirement. He submitted an application requesting RM100,000 from SME Corp.

Azuddin mentioned that he had to submit numerous documents during the application and that the process was tedious. Sometimes, he even feared that the bureaucracy was part of the government's intention to delay the approval. Azuddin revealed that a grant of RM20,000 was approved after one year. He was very upset with the government because he expected the government to match the grant fully with the business proposal given, and not merely offer a small portion of the funds required to run the company properly. Although the government was only willing to release 20% of the amount applied, Azuddin accepted the offer since the grant was given free.

Azuddin further elaborated that the fund was released in tranches. Worse still, he was asked to resubmit the documents after the application was approved with receipts for rental and internet bills. It was only after two years that the fund was fully reimbursed by the government institution. Azuddin commented:

"Tracking would not have been able to survive if I had to depend on government funding alone. Luckily, I had enough capital to start the business and keep the business going. It was not a good experience applying for funds from government institutions. The application procedures involved a long processing time as numerous supporting documents were required. The government will definitely delay the approval if we do not submit all the documents. It would be a lot easier if the government tells us in advance all the documents required. Our application was finally approved after a year. The government must understand that when people start a business, they want the money urgently. If the government is to assist start-ups, it cannot take too long to approve the

application as well as to release the fund. I personally think that the government does not seem to be effective in providing funds to help start-ups.”

5.1.3 Government Policies

Azuddin acknowledged that the government had created very good policies to support the development of start-ups. He did not encounter any problems when he registered the company and it was easy to run a business in Malaysia. However, the execution of the policies left much to be desired. The amount of bureaucracy involved would halt any new start-up from making swift progress in the market and seizing the opportunities that have arisen. Azuddin highlighted that the government should revise the criteria for an application if its intention was to help new companies. The process should be simplified in order to encourage more applications.

Azuddin also commented on company taxes. He contended that most new companies were struggling to make profits. And, when their earnings were subjected to government taxes, the retained profits were reduced. These earnings were critical to new businesses, especially when they can be used to add new equipment or for re-investment in other projects. According to Azuddin, he had to pay more than RM7,000 in tax out of the first profit he made in 2009, which was about 26%. The taxes imposed by the government was considered high by him and he was of the opinion that the government should have a provision for start-up enterprises in the initial stage, like the first five years if it was to encourage new businesses.

5.1.4 Government Programmes and Bureaucratic Support to Assist New Firms

Azuddin expressed a paradoxical opinion about government programmes. He said that government programmes were created to support the development of new companies. He

had no doubt that the government would like more start-ups to blossom in order to boost the economy. However, government personnel were incompetent and it was very frustrating dealing with them. Azuddin was referred to different people in order to solve a problem. Basically, the government personnel were uncertain how to deal with problems encountered by new businesses.

According to Azuddin, the government's promulgation and implementation of support programmes was worthless if its personnel were not supportive. The bureaucracy, without realizing it, could indirectly discourage those who wanted to start a business. The bureaucrats were supposed to serve the nation, but yet they jeopardized the government's reputation and vision.

5.1.5 Education and Training for Entrepreneurship

Azuddin knew that the government had intensified the number of entrepreneurial training programmes it offered under the 9MP. However, he did not attend any of these programmes because his business knowledge acquired in university and the working experience with Touch n' Go had provided him with a strong business foundation. He felt that entrepreneurial training programmes could help to educate those interested in starting a business so that they would have better knowledge of running a company. More importantly, potential businessmen must be able to take up the challenges and carry out the business. He stressed that the learning of a business was best achieved by doing the business itself.

According to Azuddin, the early education system in Malaysia was unable to promote entrepreneurship because commerce was not made a compulsory learning subject in secondary schools. Only those who were interested in business would pursue

entrepreneurial studies in business and management in tertiary schools. He suggested that the learning of business to be included in the education system from young, if the government's intention was to build an entrepreneurial society.

5.1.6 Technology and Innovation

Azuddin revealed that Tracking did not apply for any incentives from the government to acquire new technologies or undertake research because Tracking was not a company involved in high technology. In addition, he was not an engineer who was equipped to carry out research. What they did was to add value to the components they imported, since there was a great demand in the market. They designed the devices to suit the customers' requirement, in order to secure the clientele.

Pertaining to investment in technology and research, Azuddin indicated that a company should invest in technology when the business was performing well so that they could provide higher valued-added products in order to stay competitive. Azuddin felt that most new companies could not afford the latest technology. The main reason for this was because of the huge capital required to adopt technology as well as the need to hire a specialist with the specific knowledge required to handle the technology. Furthermore, the government did not provide adequate subsidies for new companies to acquire new technology and research. The government, to his mind, preferred to help established or big corporations because these enterprises were financially stable and had the technical resources. Hence, the government was unable to promote the adoption of technology and research among new companies.

5.1.7 Commercial and Professional Infrastructure for Entrepreneurs

Azuddin highlighted that it was easy to get good legal and accounting services as long as the company was willing to pay for these services. The company secretary and accountant that he engaged had provided him with professional services. He did not have to worry about legal or finance issues because they would advise him on business matters. Azuddin claimed that Malaysia is a good place to do business as a whole.

5.1.8 Access to Physical Infrastructure for Entrepreneurs

Azuddin pointed out that the Malaysian government had done well to provide good physical infrastructure for SMEs and that start-ups had been given privileges to enjoy this infrastructure. In addition, the government had done a great job in increasing the coverage of broadband networks. The adoption of internet has helped him to enhance the marketing of products as more and more people were using it. Accordingly, the charges for using the physical infrastructure was reasonable in Malaysia. Therefore, the government was effective in nurturing start-ups by providing great infrastructure and this is crucial if firms are to function in a productive as well as sustainable manner.

• What Were the Factors Contributing to Business Sustainability?

5.1.9 Business Performance

Even though Azuddin claimed that the government fund was ineffective in helping to develop the business, Tracking was doing very well, in terms of revenue growth, from RM373,010 in 2009 to RM970,708 in 2010, which represented an increase of 160%. The revenue further increased to RM1,627,521 in 2011, as shown in Table 5.1. The profits had increased from RM21,001 in 2009 to RM55,690 in 2010 and RM152,003 in 2011. This represented more than a 150% increase.

Table 5.1: Tracking – Financial Information, 2009-2011

	22.09.2008 -31.12.2009 (in RM)	2010 (in RM)	2011 (in RM)
Revenue	373,010	970,708	1,627,521
Gross Profit	164,762	573,850	1,013,675
Profit before taxation	28,539	72,657	196,668
Taxation	(7,538)	(16,967)	(44,665)
Net Profit	21,001	55,690	152,003

Pertaining to factors contributing to Tracking's sustainability, Azuddin disclosed that his tracking products and highly experienced and committed team members who serviced the vehicle tracking solutions were his company's strengths. He stressed that Tracking's devices and services were designed and developed in response to customers' needs and requirements. Although their needs were constantly changing, Tracking was able to respond quickly to them. The company's competitive advantage was its ability to understand the end users' operational flow and provide the best customized solutions.

5.1.10 Managerial Skills and Human Capital

Azuddin shared his preference to recruit experienced employees with at least two years' experience in the similar field in order to eliminate time and cost to train new recruits. He elaborated that he would personally brief his employees or provide in-house training to his experienced staff. His team members comprised mostly front liners and support service personnel. This allowed them to have direct access to users who were in consistent liaison with the team members. He also explained that experienced technicians were stationed in Penang, Johor and Port Klang in order to solve problems immediately. He said:

“Initially, I had problems with staff taking emergency and medical leave. In tracking services, we must have at least two people on duty to monitor the system. In the absence

of one staff, I have to reschedule the shift and replaced with staff who was on an off day. In the scenario like this, the staff was frustrated if they were called back to work on their off days or their working shift was changed. So, I came out with an idea by implementing monthly allowance for full attendance. It worked! There was no absenteeism since then and business ran smoothly. We started off with staff working for twelve hours monitoring the system. As business picked up, we increased from two shifts to three shifts whereby our staff are now working only eight hours a day. Our number of staff strength have increased from 6 employees in year 2009 to 14 employees in year 2013.”

According to Azuddin, employees would be more cooperative and performed better if they found that their leader was responsible and involved them in the business planning. Given the small number of people in the company, Azuddin and his business partner shared their ideas with the employees and worked very closely with them. Tracking had a committed and supportive team who played an important role in helping the company achieve its objectives. Azuddin appreciated his team who brought good results to the company.

5.1.11 Good Marketing Skills

Azuddin indicated that Tracking had already built up a substantial profile because his company consistently placed its customers’ needs as top priority and that he had managed to build a good relationship with his clients. He had no problem penetrating the market when he first started because his customers were people he had served while at Touch n’ Go. It was easy for him to sell the tracking devices and services to them since he understood their needs very well. Once customers experienced his tracking devices in their commercial vehicles, they would most likely continue.

5.1.12 Availability of Capital

Concerning the financial resources needed to start the business, Azuddin pointed out that it was imperative to have enough own equity when venturing into business. When business picked up, he then approached a commercial bank to borrow more funds to expand his business. Azuddin started Tracking by injecting RM100,000. In the initial stages, he did not borrow from commercial banks because loans incurred interests. He highlighted how difficult it was to pay monthly instalments if the company did not perform financially.

Azuddin added that he got loans from RHB Bank Berhad when his business was doing better. He managed to secure a loan with a 4% interest rate which he deemed reasonable. The loan was secured by a lien on the company's fixed deposit and a joint guarantee by the directors of the company. He mentioned that the company needed to upgrade the equipment and the software in order to compete. He preferred to get loans from commercial banks because it was easier to deal with private financial institutions.

5.1.13 Investment in Research and Development and Capacity to Compete

As for R&D, Azuddin agreed that R&D was important but Tracking did not invest in it specifically at that time. However, he claimed that the team was able to customize the tracking devices satisfactorily for the customers since they were the people who designed them. This had indeed given them the competitive advantage over their competitors because they could rectify problems immediately. Unlike other competitors who imported the products directly from China and contracted them to car dealers for installation, it would be very difficult for them to rectify problems quickly. Azuddin hinted that he had a lot of customers who came to him because they had bad experiences

with other suppliers. Recommendations made by existing customers have brought him a lot of new deals which meant that Azuddin understood the market and his competitors.

5.1.14 Handling Economic Crisis and Future Plan

According to Azuddin, Tracking was not adversely affected by the financial crisis in 2008 and 2009 mainly due to his company's recurring revenue model. Once the customers started to use the tracking devices on their commercial vehicles, they had to pay for the services on a monthly basis. He added that customers still needed the tracking devices, regardless of the crisis. The only impact was the delay in the collections of debts. Hence, it was important to have enough cash flow, in case of an emergency.

In future, Azuddin would like to expand the business with the recruitment of more experienced employees, with better capacity to monitor the system, and technicians who could be stationed in all the states to ensure prompt action, when needed. However, he had no intention to publicly-list his company because there were too many rules and regulations to fulfil. He preferred to focus on business performance instead.

5.2 Case 2 – Hotsauce Manufacturing Sendirian Berhad

5.2.1 Company Background

Hotsauce Manufacturing Sendirian Berhad (hereafter referred to as Hotsauce) is a company involved in manufacturing and marketed value-added convenience food. The company is located in Segamat, Johor. Hotsauce produces convenient and tasty Nyonya sauces such as assam fish sauce, chicken curry sauce and fish rendang sauce that delivers delicious aroma and simplicity to cooking. This company has created its own brand name, inspired by retaining the authenticity of Nyonya food cooking.

Hotsauce was founded by two Chinese brothers in January 2008, with a paid-up capital of RM2. Initially, the brothers were involved in family food trading, after they had completed secondary school education. The family's food trading company was basically a trading arm for the manufacturing enterprises. After few years of operating the food trading company, they decided to set up Hotsauce to manufacture condiment sauces themselves because they foresaw the opportunities arising from an increasing demand for pre-prepared sauces that provide a simple and relaxed way to prepare an easy-to-cook delicacy.

In 2008, there were not many manufacturers producing sauces for convenient cooking. The brothers knew that they could create a market niche and that there was the possibility of mass distribution if the sauces were packaged well. Besides, production of halal food was heavily promoted by the government under the 9MP. Moreover, the brothers enjoyed the advantage of vast experience in preparing products for the halal export market,⁴³ a reason why they saw the potential of ready-made sauces in Malaysia's expanding middle class market.

Although non-Bumiputeras, the brothers were privy to government incentives offered to acquire equipment. They subsequently approached SME Corp for help. Hotsauce was granted the Matching Grant for Manufacturer (e.g. machinery and packaging materials) by SME Corp in year 2009. The interviews were conducted on 30 October 2013 with Shirley from the Human Resource Department and with the credit controller, Michelle. Both of them have been working for Hotsauce since the company was established.

⁴³ Today, halal food is the world's fastest growing global business. It is not only for Muslims who are spread across the world but it also attracted non-Muslims with its strict hygienic, contamination-free principles in food production. As for Malaysia, halal food production was relatively small industry in the mid-2000s.

- **Has Government Intervention Been Effective?**

5.2.2 Funding Sources

The grant that Hotsauce applied from SME Corp, was for the acquisition of a sealing bag-making machine. The company had submitted an application amounting to RM200,000 to SME Corp, not long after it secured the factory. The application was cumbersome and a lot of documents were required. Michelle indicated that they had made lots of telephone calls to find out the status of their application, but they were asked to wait. She hinted that the government personnel only took action when they went to the counter personally. Even though the application was approved after six months, the grant amounting to RM40,000 was released much later, in November 2009. In fact, the machine was acquired, installed and commissioned earlier in 2009. Hotsauce had funded the machine using term loans from OCBC Bank (Malaysia) Berhad.

According to Michelle, the application process discouraged businesses from reaching out to the government for help. The government did not seem to be very helpful in assisting start-ups. The red tape enforced by government agencies when delivering incentives hindered the speed of new business development. Though the government increased fund allocations for start-ups under the 9MP, the support provided was not generous and ineffective.

5.2.3 Government Policies

While it was easy to incorporate a company and start a business in, Michelle's experience when dealing with SME Corp proved quite cumbersome. She was not convinced that the government was genuine in its desire to help develop start-ups. They felt discriminated against when dealing with the government who was supposed to be helping all start-ups. Instead, they felt that the government practiced selective patronage, favouring certain

groups by granting them full support to set up a factory involved in the same business. This enterprise was operated by a Bumiputera.

Michelle stressed strongly that the government should not discriminate start-ups, if it was genuine in developing SMEs in order to boost the economy. Furthermore, Hotsauce was supporting the government's endeavor to promote the halal food industry domestically and internationally. Michelle argued that what was required was that all Malaysians be treated fairly, regardless of racial background. She questioned the sincerity of 1Malaysia, a slogan created in 2009 by the government that emphasized the inclusiveness of all Malaysians during the implementation of public policies.

Company tax was seen as a problematic issue. The company tax imposed by the government was considered high, even though Hotsauce was not taxed by the government. Hotsauce had not registered a profit then. The Accountant elaborated that most companies were very unlikely to make profits in the initial years. And the profits they registered were subjected to more than 20% tax. She felt that the government should waive the taxes in the initial stage of development of the start-up. She believed that most entrepreneurs would deploy their profits to further investment or business expansion. Due to this, government policies were viewed as ineffective in nurturing infant industries and it was favoring the Bumiputeras.

5.2.4 Government Programmes and Bureaucratic Support to Assist New Firms

Michelle agreed that the government programmes were created to support new businesses. However, the delivery of the programmes were not effective because the government bureaucrats were incompetent and were not helpful. The government personnel were uncertain about the requirements and rules and could not provide them

with satisfactory answers. She would like to see that these bureaucrats change their attitude as only this would make the application process more pleasant.

5.2.5 Education and Training for Entrepreneurship

Shirley acknowledged that entrepreneurial training programmes, especially for new entrepreneurs to gain better knowledge in business, was beneficial. However, the owners of Hotsauce did not benefit from any of these programmes as they learnt business through their working experiences in the family business. According to Shirley, the best way to learn to do business was through involvement in a business.

As for the education system in Malaysia, Shirley pointed out that tertiary colleges and universities were good in preparing graduates to venture into business; however, the teaching provided in primary and secondary schools was inadequate to prepare students for business. Even though government was trying to encourage graduates to choose entrepreneurship as a career, but commerce was not a compulsory subject in the school system. It seemed that the education development plan under the 9MP was unable to promote entrepreneurial as career with regards to the curriculum. She stated that the government should re-look at the education policies and make the necessary changes to provide basic business knowledge in secondary schools, if not in primary schools.

5.2.6 Technology and Innovation

On technology and R&D, the company highlighted that the government tried to encourage start-ups to embrace technology under the 9MP but it did not seem to be very supportive. In Hotsauce's case, the grant of 20% for the acquisition of machine was given much later by SME Corp. Shirley believed that the government had sufficient subsidies for new companies to acquire technology but this depended on the company that was

applying for the subsidies. She felt discriminated against in that the government provided Bumiputera companies with more funds. Also, new companies could not afford the latest technology because it required huge investments. Hence, government was ineffective in promoting the adoption of technology and innovation among start-ups.

5.2.7 Commercial and Professional Infrastructure for Entrepreneurs

The government had done a good job establishing a viable commercial and professional infrastructure and made it easy to engage professional legal and accounting services. These professionals had greatly assisted Hotsauce in its business operation. The company did not have to worry about issues pertaining to legal or finance.

5.2.8 Access to Physical Infrastructure for Entrepreneurs

Michelle and Shirley stressed that infrastructure was crucial for their firm's operation and productivity and that the government had provided good physical infrastructure to develop start-ups. However, basic utilities were considered to be very expensive, particularly when the usage exceeded a certain quota. They felt the government should subsidize more in this area to support start-ups in its endeavour to develop infant industries.

- **What Were the Factors Contributing to Business Sustainability?**

5.2.9 Business Performance

Despite the bureaucratic red tape, discrimination, incompetency of bureaucrats and that the government was not helpful in providing fund to assist Hotsauce, the brothers were satisfied with the business performance. The company had started its operation with 25 employees in 2009 and this number had increased to 51 in 2013. The total sales volume had increased from RM1,461,941 in 2009 to RM1,917,383 in 2010 and to RM2,260,274

in 2011, representing an increase of about 31% of revenue in 2010 and 18% in 2011.

Table 5.2 provides the financial information on Hotsauce.

Table 5.2: Hotsauce – Financial Information, 2008-2011

	2008 (RM)	2009 (RM)	2010 (RM)	2011 (RM)
Revenue	-	1,461,941	1,917,383	2,260,274
Cost of Sales	(8,339)	(1,475,482)	(1,835,235)	(2,150,225)
Gross Profit	-	(13,541)	82,148	110,049
(Loss)/Profit before taxation	(21,140)	(124,943)	(118,363)	(126,028)

Hotsauce managed to register gross profits since 2010 even though the business was making a loss. Michelle indicated that the return-on-investment was usually slow for a new company, until a huge market is created. She added that they were targeted to meet the breakeven point by the end of 2013 with great marketing and exporting when profitability would be registered after that.

Considering the factors contributing to Hotsauce's sustainability, Michelle informed that the two brothers spotted the opportunities to serve the demand for instant sauces in the market. It was very difficult to penetrate the market in the initial stages because pre-prepared sauces were practically unknown in the domestic market. Hotsauce had to invest heavily in marketing in order to introduce the products to the market. Michelle said:

"I would like to call it as educating the market instead because people don't really know the products. Don't be surprised if people don't even know how to cook with the instant sauce even though we put simple instructions on the packages. We spent a lot of money to promote our products through all kinds of exhibition and cooking demonstrations in supermarkets."

5.2.10 Managerial Skills and Human Capital

Michelle attributed the success of Hotsauce to the two brothers who had marketing foresight and yet took the risk of investing in this venture. She revealed that the brothers had leadership qualities respected by the employees. The brothers trusted their employees and often delegated authority and power to them to carry out their duties.

Shirley indicated that right recruitment of employees with committed and loyal R&D team members were important factors contributing to business performance. The company retained good employees by offering them bonuses and incentives as well as in-house training to ensure that they were equipped with the necessary knowledge and skills.

5.2.11 Good Marketing Skills, Capacity to Compete and Availability of Raw Materials

The two brothers were determined and put great emphasis on marketing in order to create their own brand. This was because they both believed that having an own brand was critical in capturing customers' loyalty. Fortunately, Hotsauce had successfully established a strong foothold in Malaysia. Their products can be easily be found in hypermarkets, supermarkets, minimarkets and wet markets.

The management highlighted that Hotsauce had constantly increased its product range in order to meet and exceed consumers' expectations. They indicated that the food market was getting more competitive as compared to the initial stages when they were penetrating the market. Hence, it was important for the company to keep producing more varieties and quality sauces to capture market demand and outdo the competitors.

It was essential to build a good relationship with suppliers as the availability of raw materials was very critical in the food manufacturing industry. Michelle indicated that most of her suppliers had been very helpful and supportive. Having good rapport with the suppliers enabled Hotsauce to obtain raw materials at reasonable prices with good credit terms. More importantly, the materials supplied by suppliers were of good quality.

5.2.12 Investment in Technology, Research and Development and Market Abroad

As for investment in technology, Shirley pointed out that the advanced state-of-the-art machinery and processing techniques enabled them to produce better and quality sauce with distinctive flavours and taste. Good packaging also enabled them to market the sauce locally and for export. R&D was important for Hotsauce and people were employed exclusively for R&D in order to produce more types of quality paste for local customers as well as for the overseas markets. Shirley revealed that Hotsauce adopted an internationally recognized quality management system to ensure that their products conformed to international standards.

The management praised their R&D personnel for doing an excellent job in introducing more types of quality instant sauce. Hotsauce's mission was to introduce products that contained nutritional values, unique flavours and the natural goodness of Asian food to the world and to continue delivering their best to the consumers. The experience gained from running the family trading business had helped the two brothers to market the products in Brunei, Singapore, Vietnam and the Middle East.

5.2.13 Availability of Capital

The issue related to financial resources in starting the business was pointed out. It was important that the company had sufficient funds from their own resources to start a

business. In addition, good support from commercial financial institutions were equally important to start a business if the owners did not have enough capital. As for Hotsauce, the owners had injected RM100,000 when they started the business.

The brothers also managed to obtain a banker's acceptance amounting to RM150,000 with an interest rate of 2.43% and term loans of RM600,000 with an interest rate of 4.05% from OCBC Bank. The brothers had built a good relationship with OCBC Bank when they were in the trading company and were happy with the rates offered to Hotsauce. The loans were secured by properties belonging to the two brothers and a corporate guarantee by their trading company. Apparently, it was a lot easier to apply for a loan from a commercial bank and the customer representatives were helpful and friendly. The approval of loans only took about two to three months and the requirements were not as tedious as compared to government institutions.

5.2.14 Handling Economic Crisis

Michelle indicated that Hotsauce was not badly affected by the financial crisis. However, there were delays in taking off. The actual targeted date for production was by the end of 2008, but it was delayed till March 2009. She mentioned that certain work seemed to progress slower and was behind schedule; like the installation of the machinery. However, the brothers had enough funds, patience and preparation to face difficulties. Despite the economic downturn, the company continued to market their products maintain sales turnover. The two brothers were very positive and were looking forward to a better performance in the future. They would like to expand the production lines in order to increase the output but at a steady pace.

5.3 Case 3 – Alqas Boutique Sendirian Berhad

5.3.1 Company Background

Alqas Boutique Sendirian Berhad (hereafter referred to as Alqas) is a boutique selling Muslim clothes like baju kurung, tunic and jubah to the local market in Sarawak. Alqas was founded by a couple named Fauzi and Maslinda on 12 May 2006. They started the business with a paid-up capital of RM10,000, whereby Fauzi contributed 60% of the funds and 40% came from Maslinda.

The interview was conducted with Fauzi on the 8 November 2013. Fauzi had prior working experience, as a part-time assistant selling women clothes and accessories while he was studying. Maslinda also had prior experience working for a boutique. Fauzi mentioned that it was easier to work with a partner who had the same background and shared his dream.

In 2006, there was high demand for chic Muslim-designed fashion, a trend especially among young ladies. Fauzi's working experience had helped him to kindle the passion he had for high fashion, a factor that allowed him to spot opportunities arising from growing demand for modern Malay-type clothes such as the kebaya and baju kurung. He decided to run a boutique after he graduated from college. His lecturer encouraged him to apply for the loan scheme that had been created for graduates,⁴⁴ because the interest rate was lower, compared to commercial banks. Fauzi and Maslinda managed to obtain the Graduate Entrepreneurs Business Loan, amounting to RM100,000, with an interest rate

⁴⁴ Under this fund, the government had an allocation for graduates who wanted to venture into business. Each graduate was entitled to apply for a loan amounting to RM50,000.

of 4% from Permodalan Usahawan Nasional Berhad (PUNB).⁴⁵

- **Has Government Intervention Been Effective?**

5.3.2 Funding Sources

Fauzi and Maslinda were happy with the loan offered by PUNB. According to Fauzi, a business plan was required when they submitted the loan application. It was easy to apply for a loan, as long as the procedures were followed. The loan was released within three months. When asked why he did not consider applying for the grant allocated for start-ups, Fauzi explained that there were not many schemes available for starting a boutique. The only grant that he could apply for was for the rental for the shop lot. He hinted that the process of applying for the start-up grant would take longer and the funds would only be released later, with proven receipts. Accordingly, he needed the fund for his business. In this case, the government had sufficient funds and was effective to nurture infant industries.

5.3.3 Government Policies

Fauzi held an extremely positive view about government policies. He strongly believed that the government was earnest about developing start-ups under the 9MP. After all, the government needed new businesses to increase the country's output. He expressed his appreciation for the assistance and support rendered by the government in helping him to set up Alqas.

⁴⁵ Perbadanan Usahawan Nasional Berhad (PUNB) is also known as Bumiputera Entrepreneurs Retail Project Fund (PROSPER) in English. The objective of PROSPER is to enhance and upgrade the participation of Bumiputera entrepreneurs in the retail business. The conditions imposed by PROSPER are that the retail business must be wholly-owned by a Bumiputera above 18 years old; it must constitute a viable project costing not more than RM1 million; the company's assets have not been charged to any loan facility obtained from a financial institution; and a business location has been identified. The person who applies for the fund must be able to source his own funds, of at least 10% of the project's costs, and he must not have any adverse record with any financial institution.

According to Fauzi, it was very easy to register the company and to obtain the trading license from the local authority. As for company taxes imposed by government, Fauzi was quite happy to pay them out of the profits he made since the business started in 2007. He thought that he should repay the support the government had given him. In view of this, government policies favoured start-ups.

5.3.4 Government Programmes and Bureaucratic Support to Assist New Firms

Fauzi said that government programmes had been helpful in assisting new companies. Besides, people working for the government were approachable and helpful, as long as all their requirements were fulfilled, like submitting the relevant documents. He believed that the government felt that the development of a thriving entrepreneurial community was imperative if Vision 2020 was to achieve.

5.3.5 Education and Training for Entrepreneurship

Fauzi pointed out that the entrepreneurial programmes provided by the government were good. He recalled that he attended a programme in 2006 and benefited from it, especially how to run a business and deal with customers. He mentioned:

“The business-oriented training was very enriching. Not only that I learnt a lot from the training but I also got the chance to share with others and learnt from their experiences. The interaction with other entrepreneurs gave me a different perspective of doing business. I got a lot of tips from them. I knew I had to work very hard especially in the initial stage. As long as I have faith in my business, I’m sure it will bear fruits. More importantly, customers are always right in the service industry because they are the source of income to the business.”

Addressing the government's strategy in promoting "entrepreneurship as career of choice" in self-employment, Fauzi stressed that Malaysia's education in primary and secondary school did not include the learning of business. The business and management courses offered by colleges or institutions would benefit those interested in business. He pointed out that entrepreneurial knowledge or the learning of business acumen should be inculcated from young, if the government's intention was to build an entrepreneurial society.

5.3.6 Technology and Innovation

Fauzi did not apply for assistance on technology and R&D because it was not required for running a boutique. It is a very simple business whereby the shop displays all the clothes so that customers can view it and try on the sizes before they made the decision to buy. As a whole, a new business could not afford the cost of the latest technology or to invest in R&D. Fauzi was of the opinion that government was lacking in terms of its promotion of the adoption of technology and innovation.

However, having IT knowledge and computer skills had helped him with stock tracking and the keeping of the accounting records. He also tried to market Muslim-type clothes on line, but sales through this method had not been very high. He thought that people still preferred to see the physical clothes, whereby they could assess the quality of the product as well as ensure the size was a good fit.

5.3.7 Commercial and Professional Infrastructure for Entrepreneurs

Fauzi praised the government for creating a viable commercial and professional infrastructure to support new companies. He had benefited from a great pool of

contractors, suppliers as well as the professional services provided by a company secretary, legal advisor and accountant.

5.3.8 Access to Physical Infrastructure for Entrepreneurs

Fauzi elaborated that the government had been putting a lot of effort into building the infrastructure for SMEs in order to encourage potential businesspeople. He mentioned that it was easy to get access to utilities while communication services through the use of phones and the internet was of a high quality. This had indeed increased the efficiency of business operation. The utilities and communications charges were reasonable.

- **What Were the Factors Contributing to Business Sustainability?**

5.3.9 Business Performance

Alqas has been performing well since the business commenced in 2007. Table 5.3 indicates that Alqas' revenues had increased from around RM436,000 in 2007 to RM973,000 in 2008. It further increased to around RM3 million in 2012. Fauzi was happy with the company's performance as gross profits had been increasing since 2007, though not the net profits. This was due to high costs incurred for shop renovation. The positive point is that the company was making profits since it started business in 2007.

Table 5.3: Alqas – Financial Information, 2007-2012

	2007 (RM'000)	2008 (RM'000)	2009 (RM'000)	2010 (RM'000)	2011 (RM'000)	2012 (RM'000)
Revenue	436	973	1,600	1,960	2,332	3,046
Cost of Sales	(272)	(675)	(900)	(1,154)	(1,304)	(1,774)
Gross Profit	164	298	700	806	1,028	1,272

As for the factors that contributed to his business sustainability, apart from the benefits of a government loan and an entrepreneurial training programme, Fauzi disclosed that having prior experience and passion were critical. For example, he had a special liking for Muslim fashion, especially for ladies. According to Fauzi, it was essential to update the fashion in the boutique business in order to be ahead of the competition. His main concern was that customers were always looking for new design of clothes but also wanted them at good bargains; meeting these demands required much effort, including keeping a close eye on changing fashion trends. Having said that, he maintained that the conventional style was important because there was still a good demand for authentic Muslim wear.

When asked about the difficulty in starting the business, Fauzi indicated that things were running quite smoothly because everything was done in a timely manner. He had a clear concept of running a boutique that he dreamt of when he was working in a boutique. He did a lot of homework about the industry, even when he was doing his degree. He spotted a shop-lot strategically located in Satok Mall. He had even prepared the business plan for a loan application in advance, so that he could submit it to PUNB once he had secured the shop lot.

5.3.10 Good Marketing Skills and Availability of Raw Materials

Fauzi revealed that having good marketing skills was very important in the services industry. According to him, it was critical to have good rapport with customers. And, customers would definitely return if good services were provided, together with good discounts. He would carry out promotions from time to time, especially before special festivals, such as Hari Raya, Awal Muharam and so forth, in order to attract new

customers as well as retain the existing ones. Normally, sales would increase during a promotion. It was the best way to clear the old stocks too.

Apart from building strong relationships with customers, Fauzi shared that having a good rapport with the suppliers was important. The suppliers were able to provide him with products with the latest design as well as the conventional styles at reasonable prices. Most clothes were locally made which was cheaper than those that were being imported from the Middle Eastern countries like Saudi Arabia.

5.3.11 Availability of Capital

Fauzi indicated that having enough funds to start a business was important too. The financial support from the government institution have helped him enormously. According to Fauzi, starting a business entailed having adequate access to money, to rent a shop lot, to renovate it, to buy equipment and to pay deposits to suppliers. He also stressed that no immediate returns on an investment was to be expected. As for Alqas, it took half a year for the renovation to be completed, to get the clothes from suppliers and to display them properly before the opening. Fortunately for Alqas, sales increased when the business commenced in January 2007.

Fauzi soon started thinking of business expansion and subsequently opened a few more outlets, but only after his business picked up. He had, in all, six outlets covering the Kuching area, with outlets in Jalan Kulas, Kuching Sentral and Boulevard Shopping Mall. The experience he had garnered from running the first outlet had given him a better idea of how to run the new outlets he had created. In fact, opening additional outlets became easier after he ran the first outlet as he knew how to solve problems quickly.

5.3.12 Managerial Skills and Human Capital

When asked about the recruitment of employees, Fauzi preferred to hire local people because they could speak the local dialect. He believed that happy employees would perform better and stay with the company, provided they were well taken care of. The problems he normally encountered were workers leaving without notice, after they got their salary. However, he was not worried because it was easy to hire new employees. Fortunately, Fauzi had quite a number of employees who were responsible and loyal to the company. He would try to keep these employees by offering them an annual bonus as well as salary increments. Fauzi had 23 employees working in six outlets.

5.3.13 Handling Economic Crisis and Future Plan

Alqas was not affected by the 2008 financial crisis because the business was run on cash terms and the company had no debts or collection issues. Fauzi indicated that having sufficient cash flow to handle day-to-day operating costs had indeed given him a strong buffer, in case of an emergency. Fauzi said:

“More importantly, was to remain positive and strive to do the best despite the economic downturn. Stay focused and keep building strong relationships with customers and suppliers were the keys to overcoming difficulties.”

As for future plans, Fauzi had no intention of opening more outlets as managing six outlets was very challenging and required a lot of time and effort. He managed to get a term loan of RM1,170,000 from Maybank Berhad to buy a building to start a new outlet in 2011. In the long term, he intends to buy over all the shop lots he is currently renting. Besides that, his intention is to employ one staff specifically dedicated to handling the on-line business as he felt that would be a growing preference for on-line shopping.

5.4 Case 4 – Best Satay Sendirian Berhad

5.4.1 Company Background

Best Satay Sendirian Berhad (hereafter referred to as Best Satay), a company offering satay⁴⁶ catering, is located in Shah Alam, Selangor. Initially, Best Satay set up a kiosk at the Pavilion Kuala Lumpur Shopping Mall, located in Bukit Bintang, in the heart of the city, but the outlet was closed within a year. The main reason was due to the high rental cost and the low sales volume. Since then, the owners focused on satay catering.

Best Satay was founded by Sarina Liew, a Chinese Muslim, with her daughter, Shahirah, on 20 February 2009 with a paid-up capital of RM2. In March 2009, the owners injected RM100,000 into the business, 40% from Sarina Liew and 60% from Shahirah. Interviews were conducted with their personnel named Rohayu on 14 November 2013 and followed up with their manager, Hafiza, who had been working for them since Best Satay was incorporated.

• Has Government Intervention Been Effective?

5.4.2 Funding Sources

Sarina Liew had been running a restaurant for more than 20 years before she opened Best Satay. Her signature dish was satay. Her daughter, Shahirah, knew that the government was encouraging people to venture into business and funds were allocated for new companies under the 9MP. Since there was a high demand for satay catering, she decided to establish Best Satay, mainly for satay catering and apply for grant from government. They managed to obtain a grant of RM30,000 (50% of the amount applied for) from SME Corp. The government grant was for the purchase of assets.

⁴⁶ Satay is a Southeast Asian dish consisting of small pieces of meat grilled on a skewer and served with a spiced sauce that typically contains peanuts.

Hafiza shared that the grant application was quite easy to complete. Certainly, bureaucratic procedures were involved when dealing with government agencies but that was unavoidable. As long as all the requirements were fulfilled and all the documents were submitted, the application would be approved. Here, the application was approved within three months and the fund was reimbursed by the government about three months later, after the receipts had been submitted. The government personnel were quite friendly and Hafiza had faced no difficulties during the application process. Hence, she believed that the government had sufficient subsidies for new companies and was effective to assist start-ups to grow. More importantly, entrepreneurs must take the initiative to put in the application.

5.4.3 Government Policies

Hafiza informed that it was easy to register a company and do business in Malaysia and that government policies were friendly and helpful in supporting new companies as a priority. Hafiza was of the opinion that the company taxes imposed by the government was reasonable because there were other countries that imposed higher rates. However, she proposed that the government to consider giving rebates to new companies in the initial stages of the start-up to encourage more people to venture into business.

5.4.4 Government Programmes and Bureaucratic Support to Assist New Firms

Rohayu and Hafiza were quite positive about government programmes and they believed that the government was determined to help start-ups and the bureaucrats were equipped to help those who approached them.

5.4.5 Education and Training for Entrepreneurship

With the entrepreneurial training programmes, Rohayu felt that the programmes were good for new business people, but the owners of Best Satay did not attend the programmes because they had experience in running a restaurant for more than 20 years. The mother loves cooking and her daughter had inherited her cooking skills. Rohayu indicated that passion and experience were important because certain skills could not be learnt through training or education.

As for the Malaysia education system, Rohayu stressed that the early education system was unable to inculcate an entrepreneurial culture. The main reason was that business was not taught in primary schools and commerce was not a compulsory subject to be taken by all the students in secondary level. It was highlighted that the government needed to revise the education system to equip the younger generation with business knowledge.

5.4.6 Technology and Innovation

Rohayu and Hafiza remained neutral on investment in technology and R&D because it was not required in satay catering. However, they admitted that IT knowledge was important to communicate with customers; software for confirming orders, for recording accounts, as well as keeping the customers' database.

5.4.7 Access to Physical Infrastructure and Commercial and Professional Infrastructure for Entrepreneurs

Rohayu praised the government for providing good physical infrastructure that had encouraged new ventures in Malaysia and attracted foreign companies to invest in the country as well. Besides, Malaysia had established a viable commercial and professional

infrastructure to support new companies. Such infrastructure had helped to increase the company's productivity and were deemed effective in developing start-ups.

- **What Were the Factors Contributing to Business Sustainability?**

5.4.8 Business Performance

Best Satay was not affected by the financial downturn because the company was only established in 2009. Furthermore, Best Satay was set up due to customers' demand. Having benefited from government grant, Best Satay's revenue had increased from RM342,601 in 2010 to RM512,536 in 2011 which almost doubled in the second year. Gross profits were RM162,705 in 2010 and RM267,121 in 2011. Best Satay managed to reduce losses by about 30% from RM276,829 in 2010 to RM210,800 in 2011. Table 5.4 provides the company's financial information.

Table 5.4: Best Satay – Financial Information, 2010-2011

	2010 (in RM)	2011 (in RM)
Revenue	342,601	512,536
Cost of Sales	(179,896)	(245,415)
Gross Profit	162,705	267,121
(Loss)/Profit before taxation	(276,829)	(210,800)

From the factors contributing to business sustainability, Hafiza disclosed that Sarina's passion and dream to open a restaurant was one of the factors for success. With her experience in running the restaurant, she decided to pass on her skills and knowledge to her daughter. She also recognized that there were great demands for satay catering. Best Satay was then set up to capture the demand of her customers for various occasions such as birthday parties and company functions.

5.4.9 Availability of Capital

Rohayu stressed that having enough start-up capital was important. Best Satay owners had injected a large amount of capital into the business. The financial support from the government played an important role in encouraging entrepreneurship. Here, commercial banks could also assist those who did not have enough funds to start a business. The owners of Best Satay managed to get a hire purchase loan from Malayan Banking Berhad (Maybank) as well as other loans from CIMB Bank Berhad.

5.4.10 Good Marketing Skills and Availability of Raw Materials

Hafiza stated that the owners had no difficulty marketing satay, even in the initial stage of the enterprise as they had built a clientele prior to starting the satay catering business. Most of Best Satay's customers were those who had visited the restaurant operated by the mother. They have tasted her signature dish, satay. The owners strongly believed in building good rapport with customers. No advertising was needed to promote the catering services because the existing customers would recommend by word of mouth to others. This was the best method of advertising in the food industry. Rohayu also indicated that it was essential to establish good relationships with the suppliers. In the satay catering business, fresh and quality raw meat was critical. Their suppliers were reliable and reasonable.

5.4.11 Managerial Skills and Human Capital

Hafiza and Rohayu revealed that Sarina and Shahirah were very kind and friendly. Even when Best Satay did not make profits, the employees would still get their annual bonuses. According to Hafiza, the employees would have monthly discussions with the owners to improve their services. Employees were free to raise any concerns and problems they encountered. The owners always shared their ideas and opinions with the staff.

When asked about staff employment, the owners preferred to recruit local employees because they knew the local delicacy. So far, the company did not encounter any problems recruiting local employees. More importantly, the employees were very committed and loyal to the company, one reason why this enterprise was doing well.

5.5 Case 5 – Agro Trading Sendirian Berhad

5.5.1 Company Background

Agro Trading Sendirian Berhad (hereafter referred to as Agro) is a company involved in the trading of agricultural machinery, such as road grass cutters and mist dusters, used in paddy fields. The company was incorporated on 29 October 2008 and is located in Kuala Lumpur. Agro was founded by a husband and wife team. Angie and Richard had started the business using their own savings, amounting to RM100,000 whereby 30% was Angie's share and the remaining 70% was from Richard. The interview was conducted with the wife, Angie, on 20 November 2013.

According to Angie, she was helping her husband, Richard, to manage the stocks while also being responsible for keep track of the of the company's accounts. Richard was the key person in charge of Agro. Richard worked for a company doing a similar business prior to incorporating Agro. His working experience allowed him to foresee the potentially great demand for agricultural machinery. He took the risk and ran his own business. Agro primary function was to import agricultural machinery from China and sell them locally.

- **Has Government Intervention Been Effective?**

5.5.2 Funding Sources

Agro submitted an application to SME Corp in March 2009 for a grant of RM64,600, which was equivalent to 12 months of rental. The application was approved within six months. 50% of the facility was granted and full reimbursement was received by November 2009. The owners were quite happy with the grant they had obtained. In this case, Angie claimed that the government had sufficient subsidies to nurture infant industries. Angie shared that it was not difficult to deal with the government agencies. It was normal having to encounter problems with the bureaucracy when dealing with the government. More importantly, was the need to follow the process and submit all the documents that were required.

5.5.3 Government Policies

Angie agreed that government policies favoured new companies. Doing business in Malaysia was easy, especially when registering the business. Agro was very fortunate to make profits since it started in 2009 and was paying a lot of taxes to the government. The taxes imposed by the Malaysian government were deemed reasonable as compared to other countries. If given a choice, Angie said she would like to have kept the profits made in the early years of the enterprise to expand the business. The government had to look into the possibility of encouraging more start-ups by reducing the taxes imposed on new companies in the early stages or until companies had achieved a certain percentage of profit margin. This would greatly help to promote entrepreneurship as a career.

5.5.4 Government Programmes and Bureaucratic Support to Assist New Firms

Angie disclosed that lots of programmes were available and the government had been supportive and encouraged people to venture into business. When asked about personnel

working for the government agencies, Angie revealed that the services provided by bureaucrats were rather average in quality as some of them were not competent. The company had to refer to a few government personnel to get things done. It required a lot of patience when dealing with government agencies as the bureaucrats should be better equipped to provide the services required by business owners. Accordingly, the bureaucrats were unable to support the government's endeavour to develop new ventures.

5.5.5 Education and Training for Entrepreneurship

Angie felt that the entrepreneurial development programmes provided by the government should help people aspiring to venture into business acquire the requisite knowledge. The owners did not take up the programmes because they were already active practitioners in the industry. For Richard, the best way to learn about business was to take calculated risks and be action-oriented. Learning the business was an on-going thing.

As for the education system, Angie indicated that the early education system in Malaysia was not equipped to build an entrepreneurial society because there was no subject called "business acumen" being taught in primary schools. Even though commerce was a subject being taught in secondary schools, it was not offered to all the students. However, universities and colleges had provided some very good business and management courses. Angie was of the view that parents would like their children to pursue business studies after completing secondary school so that one can venture into business as a career in future or inherit the family business. The government could include a simple business knowledge topic at the secondary school level and make it a compulsory subject if the government wanted to build an entrepreneurial society.

5.5.6 Technology and Innovation

Angie stressed that new companies could not afford the latest technology. Under normal circumstances, new companies tended to have limited funds and preferred to start a simple business rather than an enterprise that required heavy investment in technology. Besides, insufficient subsidies were provided by the government for new companies to acquire new technology and research. However, this was not a problem for her because Agro was not a technology company and did not invest in research either. The investment in computers and software to monitor the stock and for accounting purposes was different. Hence, government was seen as ineffective in promoting the adoption of technology and innovation among start-ups.

5.5.7 Access to Physical Infrastructure and Commercial and Professional Infrastructure for Entrepreneurs

Angie held a positive view of the physical infrastructure created by the government, such as well-constructed roads, high quality communications services and adequate utilities, key factor when trying to nurture an entrepreneurial society. On top of that, the commercial and professional infrastructure was very good. As a whole, the owners did not have to worry about the ancillary services provided. Given the support of the government in these forms, Angie argued that future businessmen should take the initiative to approach public agencies for help and long-term support. Angie believed that there were lots of opportunities for businessmen, if they developed an enterprise thoughtfully and in a responsible manner.

- **What Were the Factors Contributing to Business Sustainability?**

5.5.8 Business Performance

In assessing the firm's financial performance, Table 5.5 indicates that Agro's sales had increased from about RM3.3 million in 2009 to RM6.3 million in 2010 which was almost double the value. The profit had also increased from about RM111,000 in 2009 to RM182,000 in 2010, an increase of 64%. It further increased to about RM243,500 in 2011 but reduced slightly to about RM213,000 in 2012. The main reason for the fall was due to the increase in expenses to acquire a computer and software, motor vehicles, upkeeping of the office and buying additional furniture. The number of sales representatives had increased from 12 in the initial year to 20.

Table 5.5: Agro – Financial Information, 2009-2012

	2009 (in RM)	2010 (in RM)	2011 (in RM)	2012 (in RM)
Revenue	3,320,660	4,821,317	6,055,993	6,275,491
Cost of Sales	(2,625,810)	(3,758,525)	(4,717,764)	(4,663,388)
Gross Profit	694,850	1,062,792	1,338,229	1,612,103
(Loss)/Profit before taxation	111,078	182,052	243,455	213,259

On the issue of business sustainability, apart from fund granted by the government, good policies, institutions and infrastructures that were supportive of new ventures, Angie disclosed that Richard knew the market very well and was positive and certain about future demand for agricultural machinery. Angie stressed that it was fundamental to have passion and experience in business. Running a business in a familiar industry would definitely help to increase the chances of success.

When asked about the difficulties in setting up the business, it was revealed that things went quite smoothly. It also took some time to find a strategic shop lot at a reasonable price. The renovation and shipment of machinery from China required a lot of effort too.

5.5.9 Availability of Capital

Angie admitted that there were always risks when doing business. Having enough capital would be a good buffer because not all businesses would make money especially in the initial stages. Good support from financial institutions is important too for those who do not have enough funds to kick start their businesses. As for Agro, it managed to obtain a banking facility amounting to RM500,000 from RHB Bank, with their personal property used as collateral as well as a joint guarantee by them. Angie argued that it was a lot easier to deal with a commercial bank because the approval and fund was released faster than the government institutions.

5.5.10 Good Marketing Skills

According to Angie, it was critical to maintain good relationships with customers to ensure business sustainability. Satisfied customers would recommend the firm to other customers by word of mouth, a method of advertising that worked best for Agro. Marketing and distribution channels played an important role in machinery trading because machines must be delivered to customers on time and in good condition.

5.5.11 Supply of Raw Materials

Richard was fortunate that he had good contacts with the suppliers in China. Richard would visit them to inspect the machines and made sure that the machines were in good conditions. Due to this good relationship, the suppliers were willing to supply the machinery with good credit terms. This saved the owners from having to fund the

business with large amounts of capital. When the business picked up, they paid the suppliers earlier. In fact, the suppliers were very happy and offered them even better credit terms.

5.5.12 Capacity to Compete

In terms of market penetration, there was no problem initially because Richard had built up quite a strong clientele while with the previous company he had worked for before starting Agro. However, Angie disclosed that market competition was getting more aggressive because there were more and more companies selling similar products. Angie mentioned:

“Most probably, they also see the potential in the future like us. What they need to do is to set up a business and import the machinery from China. In fact, anyone can import machinery from China and sell. It was a lot easier to do business when we first started as compared to the current situation.”

In order to out beat the competitors, Richard would explore the Chinese market to determine if there were any new machines in the market that could be introduced in Malaysia. This served to meet the different needs of his company’s customers too.

5.5.13 Managerial Skills and Human Capital

When asked about employing workers, Angie revealed that she had difficulty employing sales representatives in the initial stage. Most of the experienced sales representatives would not like to work for newly established company like Agro because the salary offered was not competitive. Angie preferred to employ sales representatives who were willing to learn and had good communication skills. She believed that product knowledge

could be learnt. Basically, Richard would personally brief the employees about the products and they, in turn, had to convince the customers to buy their products.

Angie indicated that sales representatives needed to be rewarded for their performance. It was important to keep the employees happy because they were the key people dealing with customers directly. Good commissions and bonuses were offered based on their performance. Employees will perform better and stay with the company if they were well treated. Dealing with the employees was not a problem. Most of them were quite loyal and willing to work hard and were therefore appreciated. Without them, Agro would not be able to grow.

Agro was not affected by the economic downturn because the company had a strong clientele. In addition, the company also had enough cash flow to keep the business running. For Agro, its future plan was to look for bigger premises to expand the business. The good financial performance allowed for this. Agro did not expect to make a profit in the first year. Angie shared how Richard had put the effort and time into the business, and kept working industriously to keep in touch with the customers and fulfil the customers' requirements.

5.6 Case 6 – Evergreen Home Sendirian Berhad

5.6.1 Company Background

Evergreen Home Sendirian Berhad (hereafter referred to as Evergreen) offered environmental friendly furniture made from bio composite materials called rice husk.⁴⁷ Evergreen was a manufacturing related services company incorporated in 2007. The

⁴⁷ It was an alternative to wood which was depleting in Malaysia as a result of massive deforestation.

company is located in Bangi, Selangor. It was founded by Azizul and Azlinda. They started the business with RM50,000 paid up capital, whereby RM35,000 was contributed by Azizul and RM15,000 by Azlinda. The interview was conducted with Azizul on the 2 December 2013. Azizul was the key person in charge of Evergreen.

Azizul was an analyst working for a venture capital prior to starting Evergreen. Being an analyst, he helped the venture company to evaluate the viability of the projects based on his engineering expertise. His job exposed him to Standards and Industrial Research Institute of Malaysia (SIRIM).⁴⁸ He had built a very good relationship with SIRIM's officers over the years. He also knew that technology incubation was given emphasis to serve as catalysts for the creation and nurturing of new technology-based enterprises under the 9MP.⁴⁹

As a mechanical engineer, Azizul strongly supported the adoption of technology and R&D because it enabled the potential commercialization products and processes to produce higher value-added products. Working in the venture capital company allowed him to see the great potential of producing environmental friendly furniture made from rice husks. After all, rice husks were a waste product after the rice was extracted and Malaysia was a rice producing country. It had always been his dream to do something new and perhaps to benefit the community with environmental friendly products. He was using waste product in a productive way.

⁴⁸ SIRIM Berhad, formerly known as the Standards and Industrial Research Institute of Malaysia (SIRIM), is a corporate organization owned wholly by the Malaysian government, under the Minister of Finance Incorporated. SIRIM functions as the Malaysian government's national organization for standards and quality, and as a promoter of technological excellence among industries in Malaysia. SIRIM provides timely and focused research and innovative technologies that brings about improvements, impacts and competitive advantages to Malaysian industries. SIRIM's industrial R&D activities span a full range of technologies and solutions with commercial potential in energy and environmental technologies, plant and machinery expertise and medical technology.

⁴⁹ The technology incubator programmes were implemented by SIRIM, Technology Park Malaysia (TPM), Malaysian Technology Development Corporation (MTDC), Multimedia Development Corporation (MDEC) and Kulim Hi-Tech Park.

Azizul worked very closely with SIRIM officers before approaching the government for funds. After discussing with SIRIM and finalizing the total cost required, Evergreen was incorporated and a proposal was sent to Malaysian Technology Development Corporation (MTDC).⁵⁰ In this case, Azizul was officially appointed as licensor by SIRIM and Evergreen was to further develop the government's idea. He was lucky because his superior allowed him to continue to work for the venture capital company until his project was commercialized. Basically, he gained full support from his superior and SIRIM.

- **Has Government Intervention Been Effective?**

5.6.2 Funding Sources and Access to Physical Infrastructure

Azizul applied for a "Garage Fund" from MTDC amounting to RM400,000. The whole project was funded by the government and the incentives provided were used to outsource the R&D to SIRIM so that a new technology would be created to process rice husks into materials for making furniture. Clearly, Evergreen was all about investing in new technology and R&D.

For fund applications, Azizul revealed that it was easy to apply for funds because the government needed potential entrepreneurs who could commercialized projects. The application was approved within five months which Azizul thought was acceptable. The government was seen effective in nurturing infant industries by offering sufficient funds. Azizul mentioned:

⁵⁰ MTDC, a company wholly-owned by Khazanah Nasional Malaysia, the government's sovereign wealth fund, is in the business of Grant Management, Incubation, Advisory and Nurturing Services. The company was established in 1992 to promote the adoption of technologies by local companies via commercialization activities of local inventions or acquisition of foreign technologies.

MTDC has been the key player in commercialization and managing of the government funds since the 7th Malaysia Plan and it also has a well-established reputation as the key player in Malaysia in the promotion of technology-based companies. Under the 10th Malaysia Plan, the role of MTDC was expanded to create an effective ecosystem for commercialization of homegrown technologies – to groom a new generation of technopreneurs through comprehensive nurturing services that support them all the way from laboratory ideas to full commercialization.

“Bear in mind that it always involved bureaucracy when dealing with the government. It is just the procedure we have to follow. As long as we submit all the required information and documents, I’m sure the government will approve the application. I do believe that the government is genuine in helping to develop start-ups and would like them to thrive. That is why the government has been spending a lot of money in providing good physical infrastructure for entrepreneurs. Our utilities and access to communication services are very good indeed. If the company is doing well, it will contribute to economic growth. Our government will benefit in the end.”

5.6.3 Government Policies, Technology, Research and Development

Azizul agreed that the government had created very good policies under the 9MP to support the development of infant industries, especially to promote the creation of new technology-based enterprises. The government also had adequate subsidies for new companies and fully supported them in acquiring new technology and research. It was all up to those who were interested, coming with great ideas to take the initiative to approach the government. He felt that it would be very difficult for start-ups to embrace the latest technology using one’s own capital because investment in the latest technology was very costly. He appreciated the support rendered by the government even though he claimed that the project was a failure.

When the project was completed, he discovered that the objectives were not achievable due to technical issues. The products were not durable and the modifications required the use of metal. This defeated the purpose of producing fully environmental friendly furniture. Azizul further elaborated that it was a good attempt for the government agency like SIRIM to carry out the R&D because individual or small businesses could not afford

the research cost. Even though SIRIM had the expertise in the field but the agency was not able to test the viability of the technology until it was commercialized.

As for company taxes, Evergreen was exempted from paying taxes in the initial stage because the project was fully funded by the government. He indicated that Malaysia's company taxes were quite reasonable because there were other countries that imposed higher taxes on companies. In fact, Azizul was willing to pay taxes if the company was doing well. It was a good way to repay the support given by the government as well as help the country's development.

5.6.4 Education and Training for Entrepreneurship

Azizul indicated that the entrepreneurial development programmes provided by the government were good. With great technical know-how but no business experience, he had indeed benefited from the programmes, like learning about business and some basic accounting which he could apply in his business. He did not learn commerce in secondary school as it was not a subject offered to science stream students at that time. Hence, Malaysian early education system was unable to produce the right human capital in the economy.

Azizul suggested that the government include some basic business knowledge into the teaching subjects to promote entrepreneurship as a career of choice. By doing this, it is not only creates an entrepreneurial society but equips everyone with some basic business knowledge that can be applied in daily life. It will also increase the chances of young people doing well when they ventured into business.

- **What Were the Factors Contributing to Business Failure**

5.6.5 Business Performance

Even though government was very supportive of new technology-based enterprises and the project undertaken by Evergreen was fully funded by the government, the business was not performing well. Azizul launched the products in 2010 and only managed to generate slightly more than RM16,000 worth of sales throughout the first year. In 2011, the sales dropped slightly to RM15,500 and there was no revenue at all in 2012. Table 5.6 provides financial information on Evergreen.

Table 5.6: Evergreen – Financial Information, 2010-2012

	2010 (in RM)	2011 (in RM)	2012 (in RM)
Revenue	16,240	15,500	0
Cost of Sales	(17,216)	(12,996)	0
Gross Profit	(976)	2,504	0
(Loss)/Profit before taxation	(55,534)	(40,400)	(16,288)

Azizul admitted that the project was a failure. Initially, Azizul was determined to commercialize the project and introduce the environmental furniture locally. Unfortunately, he received a very low level of acceptance. He had difficulty introducing the products. According to Azizul, Malaysians were reluctant to accept the new concept of environmental friendly furniture. They preferred the conventional furniture that was made from wood and came with modern designs. Those who were very rich preferred to buy imported furniture and were willing to pay higher prices rather than support locally made products.

Azizul explained that the scenario was totally different in Europe. People there had higher acceptance of furniture made from environment friendly materials that were certified by

forest management. In Malaysia, in his opinion, trees were simply cut down without thinking of the consequences to the environment. He would like to see better environmentally friendly approaches to development and was sad that hills were being flattened by developers for property development.

5.6.6 Lack of Marketing Skills

Azizul indicated that he was good with technology but did not have business or marketing skills. Even though there were no competitors when the project was launched, he found difficulty in marketing the products. He expected the market to accept the environmental concept but his market perception was wrong. He realized that it was very important to identify the market's need and produce products that had demand.

When asked if the government supported Evergreen by buying over the furniture, Azizul revealed that the government did not buy the products. However, there will be a new policy by the government for it to buy such new products in attempt to support start-ups that embraced new technology or innovation. With this, it would surely help those new companies that adopted new technology to produce new products. Clearly, projects funded by the government did not guarantee success. However, Azizul encouraged potential entrepreneurs to take the chances offered by the government. According to Azizul:

“Not all ventures will fail. I do see some projects were materialized. The entrepreneurs are happy that their efforts bear fruits eventually. Anyway, it was good to try and support the government in the commercialization of research and technology even though it didn't bear fruit like I expected. But I have yet to give up. I'm thinking of using other materials like bamboo to produce furniture. I will try my best and hope that my ventures will be successful in future.”

CHAPTER 6: ANALYSIS

This analysis consists of two parts. The first part addresses Research Objective 1 that is to assess the impact of policies, incentives and programmes introduced to help develop start-ups during the 9MP. The second part tackles Research Objective 2 which aims to examine the factors contributing to the sustainability of start-ups. In this chapter, the data collected from 36 respondents, along with the information gathered from the six case studies will be analyzed in detail.

Part 1: Effectiveness of State Intervention

The main focus of this study is to research the impact of state intervention to create an enabling business environment to nurture start-ups. This was one primary goal of the 9MP. Firms incorporated during the 9MP period that had approached SME Corp for financial assistance or support offered through its range of programmes in their initial stage of incorporation are reviewed in this study. An assessment of the functioning of the start-ups after responding to state intervention would help to provide insights into the value of the institutions, policies and incentives under the 9MP. What follows are the results gathered based on the EFCs adopted from the GEM model to explore the effectiveness of state intervention in creating an entrepreneurial climate to nurture these start-ups during 9MP. The information gathered from the case studies in assessing EFCs is summarized in Appendix C.

6.1 Financial Support

Developmental state theory argues that the state plays an important role to steer the necessary resources to the private sector in order to achieve its developmental goals. One of the concerns of the developmental state is to create effective and productive state-

business ties (Johnson, 1982; Wade 1990). This dimension of state intervention, involving state support of firms, is because of the need to nurture entrepreneurial domestic companies. Such aid involves also helping them secure financial support while mitigating their risks in these ventures. Financial support from the state is crucial because firms rely on bank credit when they need to raise funds, a situation particularly true for start-ups (Cumings, 1999; Haggard, 1990; Johnson, 1982; Wade, 1990). Commercial banks tend to be extremely cautious when deciding whether to support business ventures by new firms.

In Malaysia, the literature indicates that major problems faced by SMEs include inadequate initial capital due to a high degree of reliance on a firm's own limited resources, and difficulty in securing external sources from financial institutions to sustain business operations. In the Malaysian context, these financial-based issues are a major concern of start-ups too (Aris, 2006; Devadason, 1993; Hashim, 2011).

The government has recognized the important need to assist SMEs solve problems related to financing. As a response, the government expanded funding to facilitate the incorporation of start-ups. The government continued to create policies targeted at developing SMEs and numerous institutions and agencies were established to provide funding to assist SMEs.⁵¹ Since many ministries and agencies were trying to promote entrepreneurial activities, Prime Minister Abdullah Ahmad Badawi attempted to streamline these schemes in order to increase the efficiency of the public service delivery system during the 9MP. With this, SME Corp was established in 2008 to act as the government's principal agency striving to streamline, coordinate and monitor SME development.

⁵¹ Refer to Appendix D for more information on agencies and financial institutions in Malaysia.

It was evident that there were institutional reforms and significant intervention to assist SMEs, including infant companies. Several government agencies were established to dispense pre-seed and seed funding to assist start-ups to transform ideas into commercially viable products and ventures (Lim, 1986; Hashim, 2011). Table 6.1 summarizes the different funds offered to start-ups and their objectives.

Table 6.1: Funding Start-ups

No.	Ministry	Agency	Programme	Objective	Sector
1	Ministry of International Trade & Industry (MITI)	Malaysian Industrial Development Finance Berhad (MIDF)	Soft Loan Schemes for Service Sector	Provide financing assistance for creation of new services entrepreneurs.	Services
2	MITI	MIDF	Soft Loan for SMEs	Provide assistance to new companies in projects, fixed assets and working capital financing.	Manufacturing & Services
3	MITI	Bank Perusahaan Kecil dan Sederhana Malaysia Berhad (SME Bank)	Tabung Usahawan Siswazah	Provide more opportunity for the graduates to venture into entrepreneurship.	All
4	MITI	SME Bank	Young Entrepreneur Fund	Assist young entrepreneurs (18-30 years of age) involved in business activities.	Services
5	MITI	SME Corporation Malaysia (SME Corp)	Bumiputera Enterprise Enhancement Programme	Develop potential Bumiputera SMEs with a comprehensive assistance package, comprising of financial assistance and advisory services in all states.	All
6	Ministry of Finance (MoF)	Malaysian Technology Development Corporation (MTDC)	Business Start-Up Fund	Encourage and facilitate the growth of technology entrepreneurs and new companies.	All

Table 6.1, continued

No.	Ministry	Agency	Programme	Objective	Sector
7	MoF	Cradle Fund Sendirian Berhad	Angel Tax Incentive	Designed to help technology-based start-ups to raise funding by offering tax incentives to investors who have invested in these companies.	All
8	Ministry of Agriculture and Agro-based Industry (MOA)	TEKUN Nasional	TEKUN Financing	Provide micro-finance facility for working capital requirements to assist Bumiputera entrepreneurs in their new small-sized businesses and to implement projects.	All
9	MOA	Lembaga Pertubuhan Peladang	Tabung Pembangunan Usahaniaga Peladang	Create agro-entrepreneurs capable of undertaking production, processing and large-scale services and quality products.	Agriculture
10	MOA	Bank Pertanian Malaysia Berhad (Agro Bank)	Paddy - I	Provide financial assistance to Malaysian paddy growers.	Agriculture
11	MOA	Agro Bank	Skim Kredit Pengeluaran Makanan	Provide financial assistance to Malaysian entrepreneurs.	Agriculture
12	MOA	Agro Bank	Perusahaan Kecil dan Sederhana	Provide financial assistance to Malaysian entrepreneurs.	Agriculture
13	Ministry of Rural & Regional Development	Bank Kerjasama Rakyat /SME Bank	Rural Economy Funding Scheme	Provision of financing for rural entrepreneurs.	All
14	Ministry of Rural & Regional Development	Majlis Amanah Rakyat	Skim Pembiayaan Mudah Jaya	Provision of financing facilities to Bumiputera entrepreneurs.	All
15	Amanah Ikhtiar Malaysia	Amanah Ikhtiar Malaysia	Ikhtiar Financing Scheme	Provide financing to poor households to enable them to undertake viable economic activity.	All

Table 6.1, continued

No.	Ministry	Agency	Programme	Objective	Sector
16	Bank Negara Malaysia	Bank Negara Malaysia	Micro Enterprise Fund	Provide micro enterprises continuous access to financing.	All
17	Perbadanan Usahawan Nasional Berhad (PUNB)	PUNB	SME Scheme	Increase the number of Bumiputera entrepreneurs (ICT/Engineering etc.).	Manufacturing & Services
18	PUNB	PUNB	PROSPER Usahawan Muda	Assist young Bumiputeras to embark on retail and distribution businesses through structured and systematic development mechanism.	Services

Source: Financing from SME Corp Malaysia Official Website. Retrieved from <http://www.smecorp.gov.my/index.php/en/policies/2015-12-21-09-09-49/sme-statistics> on 20 May 2016.

It is observed that some of these schemes had been established during the previous two decades. Certain agencies had a specific targeted sector, while some targeted all sectors. There were also duplications of funding, in that funds were provided to similar targeted groups. The government's intention to create SME Corp as a one-stop agency did not coincide with the implementation. It seemed that there were many agencies or channels for new ventures without effective coordination. Delivering government incentives through many channels creates confusion, indicating lack of integration among the agencies. This leads to a lack of transparency to the target groups (Saleh & Ndubisi, 2006).

In this study, 13 out of 36 respondents (36.11%) received government funding (see Table 6.2). Nine companies applied for matching grants and four were reimbursed in six months. For some, it took two years to obtain reimbursements. It was evident from the case studies that the application procedures involved a long processing time as numerous

supporting documents were required (see Table 6.3).⁵² Four companies that had applied for loans from government institutions such as SME Corp, TEKUN Nasional, MTDC or PUNB were able to receive the funds within six months, indicating that the application for business loans was easier, compared to grants. Nevertheless, start-ups preferred to apply for grants because it was provided free by the government.

Table 6.2: Funds Received by Companies under Survey

Co.	Government Funds	Agency	Funds Released
1	Matching grant for start-ups	SME Corp	2 years
3	Matching grant for manufacturers	SME Corp	10 months
4	Tekun Financing – Loan	TEKUN Nasional	6 months
6	SME Loan	SME Corp	5-6 months
9	Grant for renting the factory and packaging	SME Corp	2 years
18	Matching grant for certification and quality management system	SME Corp	6 months
21	6 months rental for women entrepreneurs	SME Corp	6 months
22	Grant for SMEs in service sector	SME Corp	1 year
23	Start-up grant	SME Corp	6 months
26	Business start-ups loan	PUNB	3-6 months
28	Matching grant for purchase of assets	SME Corp	6 months
29	Grant for 6 months of rental	SME Corp	9 months
31	Business start-ups fund	MTDC	5 months

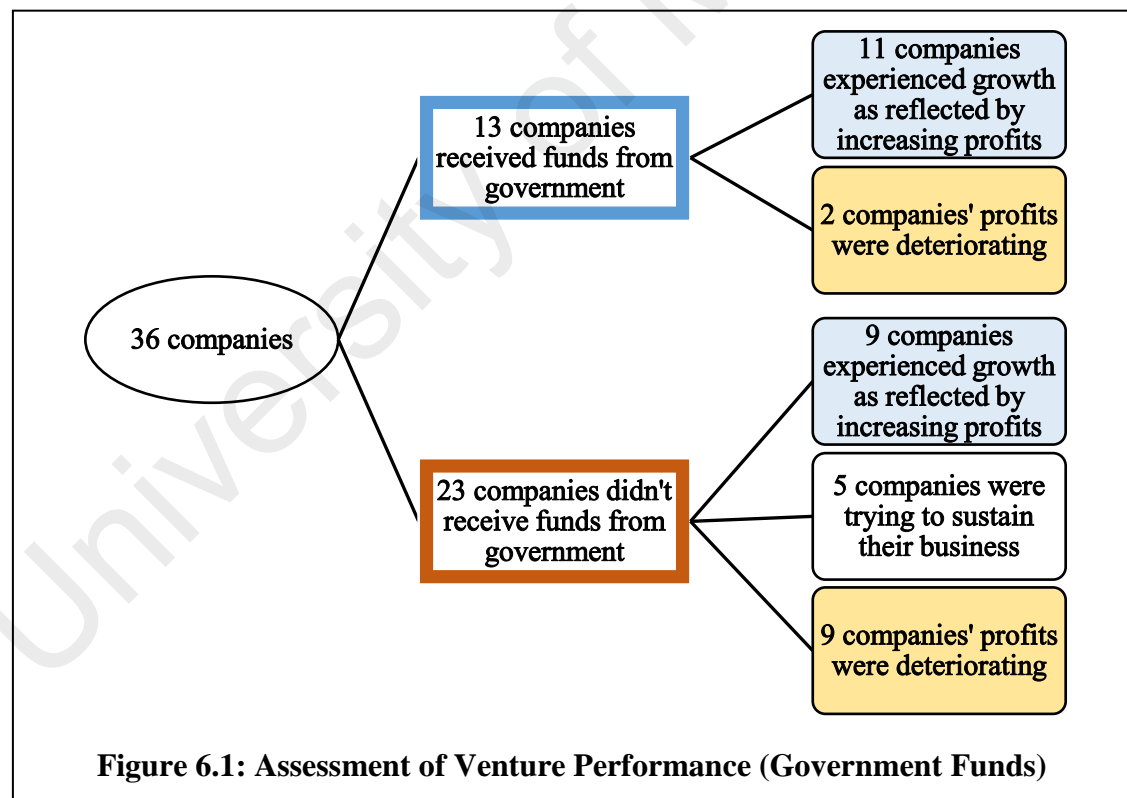
⁵² Azuddin of Tracking and Shirley of Hotsauce revealed their frustration in getting government funds, due mainly to the tedious application process as much information was required during the application stage. Others claimed that bureaucratic red-tape was unavoidable when dealing with government agencies.

Table 6.3: Summary of Fund Applications for Case Studies' Respondents

Company	Fund Applied	Amount Applied	Approved	Amount Approved	Remarks
Tracking	Matching grant from SME Corp	RM100,000	1 year	RM20,000 (20%) - fully reimbursed 1 year after approval	- Application process was tedious and had to submit a lot of documents. - Government fund was unable to sustain start-ups.
Hotsauce	Matching grant for manufacturers from SME Corp	RM200,000	6 months	RM40,000 (20%) - released 4 months after the approval	- Application was cumbersome and a lot of documents were required. - The government had increased the fund allocation, but was not generous in distribution.
Alqas	Graduate Entrepreneurs Business Loan from PUNB	RM100,000 loan with 4% interest rate	3 months	Fully released after approval	- It was easy to apply for a loan, as long as procedures were followed and all necessary documents were submitted.
Best Satay	Matching Grant for purchase of assets from SME Corp	RM60,000	3 months	RM30,000 (50%) - released 3 months after submitting the receipts	- Bureaucratic red-tape was unavoidable. - Application would be approved if all requirements were fulfilled. - Government was supportive and had sufficient subsidies for new companies.
Agro	Grant for 6 months of rental from SME Corp	RM64,600	6 months	RM32,300 (50%) - released 3 months after approval	- Bureaucratic red-tape was inevitable. It is most important to follow the process and submit all the documents required. - Government had sufficient funds for new companies.
Evergreen	"Garage Fund" from MTDC	RM400,000	5 months	Fully granted in 5 months	- Government had enough funds for entrepreneurs embracing technology. - There was bureaucracy involved. More importantly, is to follow the procedures.

6.1.1 Venture Performance

Among the start-ups that participated in this study, profits were used to measure their venture performance, in order to obtain a clearer understanding of their business position. Increasing profits represented good returns on business investment, and therefore was taken to be an indication of good performance. The assessment of venture performance in Figure 6.1 reveals that only nine out of 23 companies without funding from government experienced growth, as reflected by an increase in their profits. On the other hand, 11 out of 13 companies that received government funds were profitable. This indicated that companies with funding from the government had higher chance of sustaining their business.



Even though two companies had benefited from government financial assistance, they were still exposed to the danger of failure, indicating inadequate monitoring by agencies of start-ups that had obtained funding. The lack of evaluation of the schemes prevented

government agencies from taking informed decisions about how to improve the way they were being employed. In conclusion, while government financial assistance was imperative, consistent follow-up on the employment of these funds would have had greater impact on the sustainability of start-ups.

6.1.2 Access to Funds

With regard to the funding, this EFC is to gather the viewpoints of respondents pertaining to government financial institutions and whether they have received financial support, including grants, loans and incentives at their point of incorporation. How funds were awarded, and their aims, do not necessarily coincide with the imperatives of their business strategies. Table 6.4 represents the data collected from the survey.

Table 6.4: Data on Access to Funds

No	Item	Mean	SD
a.	There is difficulty for new companies in applying for funds.	3.67	1.01
b.	There are sufficient government subsidies for new companies.	2.83	1.25
c.	New companies can get the required funds in about a month.	2.20	1.07

The results reveal that new companies found difficulty in applying for funds from government institutions and that insufficient funds were allocated for the development of start-ups. Although the government had increased the funding under the 9MP and delivered it through its agencies, there were numerous complaints by respondents regarding the strict qualification criteria and procedures for accessing the funds. Moreover, the bureaucracy involved was seen by the respondents as a potentially serious barrier when trying to undertake entrepreneurial activities. Hence, many who did not get

the funds were of the opinion that insufficient funding was available. This also helps explain the low rating on sufficiency of funds provided by the government.

In the case of Tracking, lack of knowledge about the conditions under which grants were offered by the government is possibly the reason why Azuddin was upset that he did not get the full grant. According to Jalilah Baba, the former Director General and Chief Executive Office of MIDA, Azuddin did not understand the whole process of the grant application and how reimbursement was made. Jalilah highlighted that most of the grants that had been approved were usually “matching grants” whereby the process began with the applicant sending in an application for the identified funding, for an amount of, say, RM100,000. Should the applicant meet the application criteria, the authority would then approve a partial grant, say RM50,000. The applicant is required to submit another application for reimbursement, after the stipulated amount had been spent. Then, an audit had to be conducted to determine if the company’s spending fell within the qualifying criteria, stipulated in the initial project proposal. The applicant would receive the approved partial grant only if all conditions were met (*Malaysian Business*, 16 August 2014: pp. 58-9).

Jalilah mentioned that many were frustrated because their applications were subjected to great scrutiny, with many rejections. This explained the high rate of unsuccessful applications among the respondents. Jalilah further added that the stringent requirements were necessary, especially for grants or incentives applications, to ensure that the funds would not be abused. It was revealed that Tracking was unaware of how the funding system worked. Hence, lack of knowledge among applicants about the system could be a factor hampering new firms from securing government funding.

The positive note is that Best Satay, Agro,⁵³ Alqas⁵⁴ and Evergreen⁵⁵ were satisfied with the funds granted by the government. Even though they claimed that bureaucratic red-tape was inevitable when dealing with the government institutions, they had overcome the bureaucratic process by following procedures and fulfilling the requirements. These case studies confirmed that state had sufficient funds and the institutions had responded appropriately to their needs and had helped them with their business development. This viewpoint implies that there was great connection between what start-ups wanted and understanding of form of state support by public institutions to meet their needs. Hence, this EFC confirmed that a proper institutional framework was in place for the state to support infant industries. However, the applicants must have clear picture about the system and must be willing to cooperate with the institutions to ensure the application is successful.

6.2 Government Policies to Assist New Firms

Under the developmental state model, the state plays a key role in defining policies for the development of private firms. Within the context of a particular development strategy, governments would develop discrete policies targeted at particular sectors and firms, such as tax incentives and various regulatory controls, to improve the enabling environment for entrepreneurship and business development (Bennett, 2014; Haggard, 1990).

Under the 9MP, the government was determined to enhance the business environment in order to increase the efficiency of the public service delivery system. Accordingly,

⁵³ Best Satay and Agro had clear understanding of the grant they had applied for and were willing to cooperate with the government agency.

⁵⁴ Fauzi of Alqas, who knew exactly how the system worked, decided to apply for start-up loans because capital was needed to start the business.

⁵⁵ Azizul of Evergreen knew that the government was encouraging start-ups to embrace new manufacturing technology and R&D to facilitate the development of new products. Hence, he approached MTDC for funds and his project was fully funded by the government.

improvements to the public sector delivery system were made to remove unnecessary bureaucracy, to reform the administration of district and local authorities, to review the investment-related regulatory framework and to enhance the use of ICT in day-to-day operations (Malaysia 2006: p. 29). This EFC examined the level of support to which state policies and their implementation favoured new firms (see Table 6.5).

Table 6.5: Data on Government Policies

No	Item	Mean	SD
a.	It is not unduly difficult for new companies to cope with government bureaucracy, regulations and licensing requirements.	3.71	1.04
b.	Support for new companies is a high priority of government policy.	3.00	1.01
c.	New companies can get most of the required permits and licenses in about a week.	2.50	1.13
d.	The amount of taxes is NOT a burden for new companies.	2.31	1.09

The score of 3.71 indicates that it was not difficult to deal with bureaucratic institutions that help start-ups. Fauzi of Alqas, Hafiza of Best Satay, Angie of Agro and Azizul of Evergreen realized that the bureaucracy has a systematic way of doing things and that the procedures implemented by the government were to ensure proper recording. They revealed that applications would be successful if applicants followed procedures and fulfilled the requirements set by government institutions. The onus was on the start-ups to submit their applications in good form.

Even though the data indicated a neutral view of the government's endeavours to support new companies,⁵⁶ all the respondents in the case studies confirmed that the government had created good policies to develop infant industries under the 9MP. It was easy to

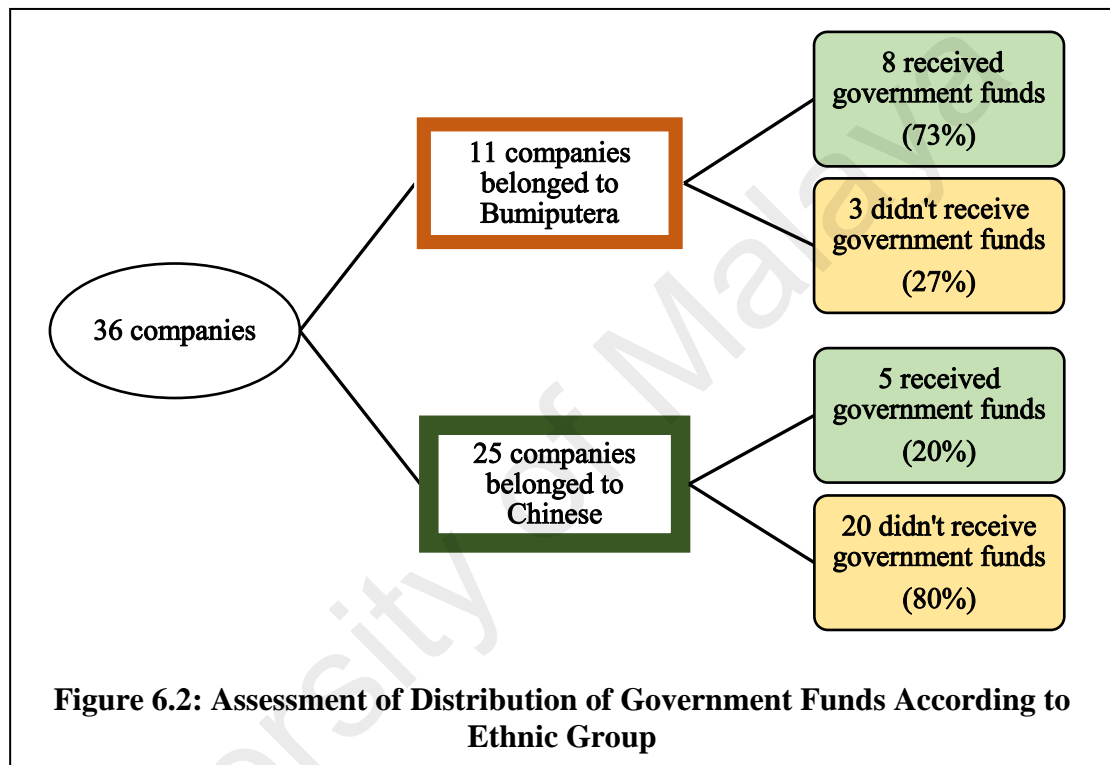
⁵⁶ The mode for this question was 4 (14 respondents), but it was averaged by the low rating of 1 (four respondents) and 2 (six respondents) among those who failed to receive financial assistance from government.

register a company and do business in Malaysia. The World Bank Report 2014 ranked Malaysia as the 6th most business-friendly country in the world. This was strongly supported by the Malaysian government's ongoing commitment to pursue pro-business and pragmatic policies to ensure a vibrant business environment for business development (*Malaysian Business*, 1 April 2014).

Under the 9MP, the regulatory framework and processes were streamlined through the consolidation of licensing requirements, while turn-around times for corporate and other approvals would be further shortened with the aim of encouraging business efficiency and cost-effectiveness (Malaysia, 2006). Even though the respondents were unlikely to get the required permits or licenses within a week, they did not face difficulty when applying for the permits or licenses from the local authority.

However, government policies also came in for criticism with respect to its tax regime from the data collected. Taxes imposed were considered high by most of the respondents, including Azuddin of Tracking and Shirley of Hotsauce. They stressed that most new companies would like to retain the profits made in the early stage for emergency use or for other purposes like business expansion or reinvestment. On the other hand, Fauzi of Alqas, Hafiza of Best Satay, Angie of Agro and Azizul of Evergreen were happy with the taxes imposed because there were other countries imposing higher taxes on companies, for example in Australia and Japan. The corporate tax rate in Australia was at 30% since 2002, while Japan's corporate tax rate stood at 33.06% in 2015. As for Malaysia, the corporate tax rate was 28% in 2005 and 2006; it dropped to 27% in 2007 and 26% in 2008 and it has stood at 25% since 2009. Clearly, the Malaysian government had been revising the corporate rate, introducing tax deductions to make it favourable to the companies.

A concern raised by Hotsauce was that the government had favoured Bumiputera-owned firms. Figure 6.2 points out that eight out of the 11 Bumiputera companies received government funds. The high success rate of applications among Bumiputera businesses was seen to be given priority by the government. This is also evident in the case of Alqas,⁵⁷ Evergreen⁵⁸ and Best Satay.⁵⁹



On the other hand, 25 out of 36 companies belonged to Chinese and only five were granted financial assistance. Companies that failed in their applications were mostly due to their lack of knowledge about how the system worked. Most of them were discouraged by cumbersome application procedures, time consuming bureaucratic procedures for approval of funds and their inability to submit all the documents required. As for those skeptical applicants, they were reluctant to reveal certain information to the government.

⁵⁷ Fauzi managed to obtain a Graduate Entrepreneurs Business Loan amounting to RM100,000 from PUNB.

⁵⁸ The commercialization project by Azizul of Evergreen was fully funded by MTDC.

⁵⁹ Best Satay was provided a 50% grant to purchase assets.

Since selective patronage during government interventions had been the norm since the early 1970s, research indicates that Chinese businesses are more reluctant to engage in any government related activities, especially when required to comply with legal requirements due to the fear that it may slow down their business process (Thiruchelvam et al., 2012). This helps to explain the high failure cases for Chinese business applications. Nevertheless, Agro was happy with the grant⁶⁰ provided by government and informed that it was not difficult to deal with the government agencies. This signified that non-Bumiputera firms were also given opportunity to the initiatives created by the 9MP. It could be concluded that government was determined and had created good policies to support the development of infant industries under 9MP. But interestingly failures not due to ethnic factor.

6.3 Government Programmes and Bureaucratic Support to Assist New Firms

Under a developmental state, the state is a “catalytic” agency engaging through numerous institutions to coordinate the private sector under the direction of a meritocratic bureaucracy to conceive and implement policies in order to attain developmental objectives (Haggard, 1990; Johnson, 1982; Wade 1990). A similar form of state intervention was envisioned under the 9MP, whereby efforts continued to be made to improve counter services at all agencies with the establishment of the Customer Service Office. Training programmes involving courteous customer service were implemented to equip the bureaucrats with the necessary knowledge and skills to perform their duties (Malaysia, 2006).

⁶⁰ Agro was provided a 50% grant, which was equivalent to six months of rental for the shop lot.

This EFC refers to the presence of adequate government programmes to assist new firms. It also examines the accessibility and quality of government programmes, as well as the effectiveness and competency of bureaucrats to conceive and implement policies (*GEM Malaysian Report, 2009*). The data collected is presented in Table 6.6. The overall ratings captured negative views among the respondents. There were inadequate government programmes and access to government assistance programmes was unlikely to be resolved through a single agency. For this reason, government programmes were viewed as ineffective in supporting the new companies.

Table 6.6: Data on Government Programmes and Bureaucratic Support

No	Item	Mean	SD
a.	There are an adequate number of government programmes for new companies.	2.81	0.92
b.	A wide range of government assistance programmes for new companies can be obtained through contact with a single agency.	2.78	1.05
c.	Government programmes aimed at supporting new companies are effective.	2.69	0.95
d.	Anyone who requires help from government programmes for a new company can get what they need.	2.67	1.04
e.	Personnel working for the government agencies are competent and effective in supporting new companies.	2.64	1.02

Under the 9MP, it was evident that different assistance programmes were offered to SMEs, including the start-ups through numerous institutions. Interestingly, different views from the respondents were noted about the programmes offered by government. Their evaluations were greatly affected by their experience in dealing with government agencies, particularly during their fund applications. Companies that were responded to by government institutions with financial aids were more positive towards these public sector programmes. They were also more enthusiastic about taking the advantage of these programmes. The programmes that were utilized are presented in Table 6.7.

Table 6.7: Government Programmes Utilized by Respondents

Government Programmes	Benefits of the Programmes	Companies
MITI – training for Kaizen	Kaizen means “continuous improvement”. It is a methodology and a mind-set that gets everyone in the workplace involved in making change on a daily basis.	Company 2
Cradle fund CGP programme – Cradle Fund Sendirian Berhad	The CGP is a market-driven programme intended to bring together key players in the entrepreneurial ecosystem to train existing entrepreneurs to grow their businesses to greater heights, via coaching, networking and showcase events.	Company 4, Company 23
SME Corp 1-innocert certification	The main objective of the certification is to encourage entrepreneurs to venture into high technology and innovation-driven industries.	Company 23
Management training programme – SME Corp	Enhance the capability of the business owners in the areas of business strategies, innovation, productivity and human capital development.	Company 6
Skills upgrading programme – SME Corp	To enhance the knowledge and skills of the workforce in order to increase the productivity of SMEs.	Company 9, Company 18, Company 22, Company 16, Company 24
Trade seminar – Matrade	Learning how to trade.	Company 13, Company 24
Entrepreneurial development programme – SME Corp	This programme aims to enhance entrepreneur skills.	Company 26, Company 31

Eight out of 12 companies (in bold) had received funds from the government. Seven companies were from industries in the manufacturing sector and five were involved in the services sector. This indicated that firms in the manufacturing sector were more likely to utilize government programmes, as compared to those in the services sector. On the contrary, companies being rejected by the government in their fund application tended to have a negative impression of the programmes offered as well as of the bureaucrats. This may have contributed to low ratings for these initiatives.

During the implementation of assistance programmes, even though the 9MP stressed that the public delivery system would be improved, the respondents did not see tangible support of this. The problem of the poor delivery of policies was attributed by the

respondents to the presence incompetent bureaucrats. This is also confirmed by the lowest rating of 2.64 under this EFC. According to Tracking, Hotsauce and Agro, the bureaucrats were uncertain about core issues and they ended up referring to different parties in order to solve their problems. This has resulted in entrepreneurial SMEs, including start-ups, continued to encounter difficulties when seeking government support. The low adoption of government assistance signaled that the incompetency of bureaucrats could be one of the stumbling blocks that discouraged start-ups. This revealed that well-designed programmes and policies could face major drawbacks if the public service delivery was weak in execution. This further suggested that institutional capacity was inadequate to support new enterprises.

6.4 Education and Training for Entrepreneurship

The developmental state stresses the importance of investment in education to ensure quality human capital was available in the economy. (Francks, 1992; Pempel, 1999). Besides, empirical studies also suggest that developing countries could catch up with the developed world if they increased levels of human development (Ocampo & Rob Vos, 2008). In Malaysia, literacy rates and educational progress were very impressive, even in the 1960s (Booth, 2001). Meanwhile, the national education participation rate has improved with significant increases made at the pre-school and tertiary levels. Opportunities for skill enhancement and lifelong learning were also expanded through the establishment of community colleges and open universities (Malaysia, 2006).

The Ministry of Education was determined to raise the quality of the nation's human capital during the period of the 9MP, as a means to achieve its National Mission.⁶¹ This

⁶¹ According to the mission, human capital development would be holistic, encompassing the acquisition of knowledge and skills or intellectual capital including science and technology and entrepreneurial capabilities.

was to be done through comprehensive improvement of the education and lifelong learning delivery systems. Recognizing the importance of self-employment in employment creation and economic growth, emphasis was given to the development of entrepreneurial skills at all levels of education and training to facilitate the creation of an entrepreneurial society as well as school leavers and graduates (Malaysia 2006). This EFC, presented in Table 6.8, refers to the extent of business knowledge features in the educational system at all levels, primary schools, secondary schools, colleges and universities, as well as its relevance to the development of entrepreneurial skills.

Table 6.8: Data on Education and Training for Entrepreneurship

No	Item	Mean	SD
a.	The vocational, professional and continuing education system in Malaysia provides good and adequate preparation for starting up companies.	3.08	0.97
b.	The level of business and management education (colleges and universities) in Malaysia provides sound and adequate preparation for start-ups.	3.00	0.99
c.	The entrepreneurial training programmes in Malaysia provide sound and adequate preparation for start-ups.	2.89	0.98
d.	Teaching in primary and secondary education in Malaysia provides adequate attention to entrepreneurship and new firm creation.	2.36	0.99

These results reveal that the emphasis on developing a society where entrepreneurial capacity can emerge was inadequate. This reflects that education on entrepreneurship was still lacking among Malaysians. Nevertheless, the higher education sector, including the vocational, professional and continuing education systems, was reported to be providing more programmes and adequate preparation for students to be entrepreneurial.⁶²

⁶² The mode for questions a and b were 4. However, it was watered down by the low rating of 2 among the respondents.

Most respondents from the case studies revealed that they preferred to venture into business where they had prior experience or knowledge of their current field, as illustrated in Table 6.9. As a result, the entrepreneurial development programmes were under-utilized. They highlighted that there were niches for enterprising ideas and business owners were skillful in spotting opportunities in the market and took advantage of them.

Table 6.9: Summary of Business Owners' Education Background and Working Experience – Case Studies

Company	Education Background	Business Involved	Working Experience
Tracking - Azuddin	Degree in Commerce, Melbourne	Offers vehicle tracking services	Working for Touch n' Go allowed Azuddin to foresee the potentially great opportunities arising from installing tracking devices on commercial vehicles that would allow customers to track the location of their vehicles. His employment with Touch n' Go had given him the advantage of building a clientele.
Hotsauce - Two Chinese brothers	Secondary school	Manufacturing of condiment sauces	After few years of operating their family's food trading company, the brothers foresaw the opportunities arising from increasing demand for pre-prepared sauces that provide simple and relaxing ways to prepare an easy-to-cook meal for the family. Hence, they decided to manufacture condiment sauces.
Alqas - Fauzi	Degree in biotechnology	Boutique selling Malay design clothes	He had prior working experience, as a part time assistant selling women clothes and accessories while he was studying. He spotted the opportunities arising from high demand for the latest fashion.
Best Satay - Sarina (mother) & Shahirah (daughter)	Sarina - did not obtain an education. Shahirah - secondary school	Satay catering	Sarina had been running a restaurant for more than 20 years before she opened Best Satay. Her signature dish was satay. Best Satay was set up due to customers' demand. Shahirah has been assisting her mother since she was young.
Agro - Richard	Secondary school	Trading of agricultural machinery	After Richard left secondary school, he worked for a company doing a similar business to Agro. His working experience allowed him to foresee the potentially great opportunities arising from growing demand for agricultural-based machinery.
Evergreen - Azizul	Mechanical engineer	Produce environmental-friendly furniture made from rice husk	Azizul was an analyst working for a venture capital company prior to starting Evergreen. His job exposed him to SIRIM and he took the opportunity to work closely with the SIRIM in commercializing the project.

The respondents from Tracking, Hotsauce, Best Satay and Agro who claimed that the entrepreneurial training opportunities were good, but they did not utilize these programmes. Even though the two brothers of Hotsauce, Richard of Agro and Shahirah of Best Satay obtained education only up to secondary school, they were able to take advantage of the opportunities in the market and were able to generate increasing revenue since they started their enterprises. They claimed that it was most important for businesspeople to take up the challenge and get involved in businesses they were familiar with because the best way of learning business was by doing it.

There is increasing evidence that successful entrepreneurs transpire from a combination of work experience, study and development of appropriate skills. This support the view that entrepreneurial competencies can be influenced by education and training (Hisrich & Peters, 1995; Timmons, 1989). This is evident in the case of Tracking⁶³ and Alqas.⁶⁴ As for Azizul, his technical knowledge alone did not guarantee success to his environmental concept. When reality set in, he understood the importance of having business and marketing skills, indicating the value of entrepreneurial knowledge.

It is observed that respondents with tertiary level qualifications like Fauzi of Alqas and Azizul of Evergreen were more inclined to use government programmes. Both Fauzi and Azizul had benefited from attending the programmes offered by SME Corp to learn about operating a business as well as to acquire accounting knowledge that could be applied in their companies. They were also better equipped at getting and using government funds.⁶⁵

⁶³ Azuddin of Tracking was equipped with business knowledge because he had a degree in Commerce. His previous experience and knowledge of the industry helped him to manage the business well.

⁶⁴ Fauzi of Alqas had prior working experience in a boutique and along with the knowledge acquired from the training he received, he enjoyed good business performance, eventually operating six outlets covering the Kuching area.

⁶⁵ Fauzi of Alqas applied for the Graduate Entrepreneurs Business Loan because he needed capital to operate the boutique, while a commercial project by Azizul of Evergreen was fully funded by MTDC.

In practice, there are programmes designed to stimulate entrepreneurial capabilities among graduates in order to help them set up their own businesses. In the United Kingdom, enterprise education is being widely introduced in primary, secondary and higher education in order to stimulate the development of enterprising young people with personal enterprise attributes. The main objective is to motivate students to become small business owners, while the longer term objective is for them to become entrepreneurs (Mohd Saleh & Gibb, 1996).

In Malaysia, primary and secondary schools were criticized for not including business as a learning subject. The education system was seen as crucial in equipping students with skills that contribute to entrepreneurship for the future, but it was not positively entrenched. The absence of business learning in school signified that the education system did not coincide with government's effort to promote "entrepreneurship as career of choice". As a result, government was unable to provide appropriate education to develop the right type of human capital for economy.

6.5 Technology and Innovation

Developmental state theory highlights that the state sought to increase productivity growth through active acquisition of new foreign technology and to increase the efficiency of domestic producers through competition with foreign produces (Dobson, 1998; Francks, 1992; Ocampo & Rob Vos, 2008). Generally, economic growth is subjected to two main constraints. First, the ability to increase resources, namely labour, capital and natural resources. Second, the resources can be used more efficiently by applying appropriate technology that is intrinsically linked to changes in the structure of production (Okposin, Abdul Hamid & Ong, 1999).

Accordingly, governments can contribute to development strategy by stimulating the rise of a knowledge economy, as well as technology innovation through universities and R&D centres. Appropriate support and incentives for firms to build up their technological capacity and sustain R&D is necessary to ensure productivity growth (Benett, 2014). In this regard, efforts were geared towards enhancing the capability of research institutions and universities to generate new technologies required for product and process innovations as well as to improve mechanisms for effective technology transfer under the 9MP. Realizing that financing is a key enabling factor for innovation, measures were undertaken to improve funding mechanisms to strengthen R&D capability (Malaysia, 2006: p. 268). This EFC in Table 6.10 examines the ease at which new technological advancements can be accessed, the extent to which national R&D leads to new commercial opportunities and whether R&D and funding are available for new and growing firms (*GEM Malaysian Report, 2009*).

Table 6.10: Data on Technology and Research

Item	Item	Mean	SD
a.	Science parks and business incubators provide effective support for new companies.	2.89	0.85
b.	New technology, science and other knowledge are efficiently transferred from universities and public research centers to new companies.	2.75	0.91
c.	New companies have just as much access to new research and technology as large established firms.	2.64	0.96
d.	There are adequate government subsidies for new companies to acquire new technology and research.	2.50	1.06
e.	New companies can afford the latest technology.	2.28	0.94

During the 9MP, the principal aim of the policy was the development of a competitive, innovative and technologically strong SME sector that was able to contribute to the domestic economy and compete globally. In an attempt to promote innovative new ventures, the government promoted the setting up of science parks and technology

incubators for the purpose of nurturing new firms as well as expanding capacity for innovations and related services (Malaysia, 2006: p. 127).

This assessment found that science parks and business incubators were unable to attract much interest among the respondents. Similarly, new technology, science and other knowledge have not been efficiently transferred from universities and public research centers to new companies. These findings are consistent with previous research that argue that low R&D investment by industry implies weak university-industry collaboration and technology transfer (see, for example, Rasiah & Chandran, 2009). With the preference for development of R&D in universities and a bias towards large corporations⁶⁶ because of their strong financial standing and technical resources, the respondents revealed that they did not have much access to new research and technology.

It is also observed that the poor response to availability of funds provided for companies to acquire technology or research could be attributed to the shortage of qualified science and technology applicants, particularly those who could perform R&D activities. In the case studies, Azuddin of Tracking, who had degree in Commerce admitted that he was not an engineer who was equipped to carry out research. Due to this, industries also did not view universities or research institutions as an important source of innovation.

Finance was the factor limiting the adoption of technology and research among start-ups. This was because most of these start-ups could not afford the latest technology and the expense of investing in R&D. For this reason, the respondents preferred to start a business that required little investment in high-technology and research, which was also confirmed by Agro. In addition, their limited knowledge in using technology and lack of innovation

⁶⁶ This was supported by Azuddin of Tracking who raised his dissatisfaction towards the government for helping only established or big corporations.

ideas led them to offer “me too” products.⁶⁷ This also helps to explain the respondents’ general lack of ambition for technology and innovation ventures, a factor that negatively impacted on the overall aspirations of the respondents. Furthermore, substantial investments in R&D did not always guarantee market success. Moreover, even the government agency was not always able to commercialize a project, as in the case of Evergreen, undermining the viability of the projects by start-ups. Hence this EFC indicates that the government was ineffective in promoting the adoption of technology and innovation by start-ups.

6.6 Commercial and Professional Infrastructure for Entrepreneurs

Companies registered in Malaysia usually have to deal with a number of regulations, policies, standards, guidelines and code of ethics.⁶⁸ It is also a requirement under the Companies Act that every private limited company appoint an approved company auditor to audit its accounts. Companies are required to submit an audited annual report to CCM.

When incorporating a company, the availability of a well-functioning professional infrastructure is imperative, particularly to support start-ups. This is especially true when new business owners require much advice about legal, finance and banking matters in their business operations. Equally important is the availability of commercial support like suppliers to provide them with raw materials. Under this EFC, opinions were collected about the presence of commercial, accounting, banking other legal services and institutions to reflect their effectiveness to promote the emergence of new businesses

⁶⁷ “Me too” products refer to products that already exist in the market. Since these products were of little difference from other products of the same sort, these start-ups were subjected to much competition.

⁶⁸ In Malaysia, the requirements to form a private limited company are:

- (i) a minimum of two subscribers of the shares of the company (Section 14 CA);
- (ii) a minimum of two directors (Section 122); and
- (iii) a company secretary who can be either:
 - an individual who is a member of a professional body prescribes by the Minister of Domestic Trade Cooperative and Consumerism; or
 - an individual licensed by the Companies Commission of Malaysia (CCM).

(*GEM Malaysian Report, 2009*). Table 6.11 presents the data collected on commercial and professional infrastructure in supporting new ventures.

Table 6.11: Data on Commercial and Professional Infrastructure

No	Item	Mean	SD
a.	There are enough subcontractors, suppliers and consultants to support new companies.	3.39	0.80
b.	It is easy for new companies to get good professional legal and accounting services.	3.33	0.86
c.	It is easy for new companies to get good subcontractors, suppliers and consultants.	3.17	0.94
d.	It is easy for new companies to get good banking services (checking accounts, foreign exchange transaction, letters of credit, etc.).	3.11	0.95

The above figures indicate that Malaysia has a large pool of private service providers that were supportive of new companies. Similarly, it was easy for new companies to obtain good banking services that had helped them to expedite their business transactions, including international trade.

All the respondents from the case studies confirmed that it was easy to engage a company secretary and secure professional legal and accounting services that they could afford. The professional support had greatly assisted them in their business operations and encouraged entrepreneurial activities in the country. It was revealed that new companies preferred to outsource professional services involving the company secretary, legal matters and auditing services. The main reason was it is cheaper to engage them on piecemeal basis instead of hiring full-time professional managers. In the case of Hotsauce, they saw the need and hired a company secretary when the business was picking up. Based on this EFC, the government had done well to encourage the creation

of a viable commercial and professional infrastructure to support new firms and that these service providers played an important role in helping to develop infant industries.

6.7 Well-functioning Physical Infrastructure for Entrepreneurs

It is widely accepted that the provision of basic infrastructure services such as roads, utilities, communications and transportation should be in government hands, as is the case in most developing countries. These services are crucial in making a difference for economy-wide productivity growth. This is the role of developmental state in order to facilitate the creation of an entrepreneurial private sector, one that can achieve productivity growth (Ocampo & Rob Vos, 2008).

Under the 9MP, various measures were undertaken to increase the efficiency and reliability of infrastructure facilities and services, including roads and utilities like water supply, electricity, gas and sewerage services, in order to support trade and business activities. In addition, the thrust for infrastructure and utilities development was to increase the coverage of broadband networks in order to achieve greater adoption of online multimedia and internet-based applications to enhance the marketing of their products (Malaysia, 2006).

This EFC refers to access to physical resources, including physical infrastructure, as well as the availability of basic utilities and communication facilities that are important for the development of start-ups (*GEM Malaysian Report, 2009*). Overall, the assessment found that the Malaysian government was supportive in providing physical infrastructure that served to promote entrepreneurial development. It was also confirmed that these firms could secure access to utilities within a month and at an affordable cost (see Table 6.12).

Table 6.12: Data on Access to Physical Infrastructure for Entrepreneurs

No	Item	Mean	SD
a.	It is not too expensive for new or growing companies to get good access to communications (phone, internet, etc.).	3.56	0.94
b.	New companies can get good access to utilities (gas, water, electricity, and sewer) in about a month.	3.56	0.88
c.	New companies can get good access to communications (telephone, internet, etc.) in about a week.	3.36	0.99
d.	The physical infrastructure (roads, utilities, communications, and waste disposal) provides good support for new companies.	3.33	0.93
e.	New companies can afford the cost of basic utilities (gas, water, electricity, and sewer).	3.25	1.02

To ensure that all Malaysians shared the benefits of a knowledge-based economy, ongoing efforts to narrow the digital divide was further intensified during the 9MP period. The focus was on implementing the infrastructure plan for universal access to the Internet and making available more affordable ICT products and services. All the respondents had invested in ICT, confirming that the government had done a great job in increasing the coverage of broadband networks to encourage better adoption of online multimedia and internet-based applications. In fact, the adoption of internet had helped the companies to enhance the marketing of their products and services. As the respondents noted, more people are using internet to obtain information about products and services and by having access to it, this helped to increase the efficiency of doing business. Hence, government strategies to strengthen an enabling physical infrastructure and enhance information management for SMEs were effective in helping to sustain start-ups. This was also crucial to enhance productivity within these start-ups.

Part 2: Analysis of Factors Contributing to Sustainability of Start-ups in Malaysia:

Organizational Resources and Competencies

Understanding the contributing factors to the performance of domestic start-ups from the lens of entrepreneurs is essential given the high failure rate of such companies. This section will examine the internal aspects of SMEs, specifically, the organisation resources and competencies of business owners that could have high impact on the performance of firms. In addressing Research Objective 2, the information gathered in this analysis helps to provide crucial lessons for potential businessmen about business survival techniques that can be adopted by new firms.

6.8 Monetary Resources

The literature indicates that the problems faced by SMEs include inadequate initial capital, lack of facilities and difficulty securing external sources of financing, particularly in the Malaysian context (Aris, 2006; Hashim, 2011). Since funding is one of the crucial ingredients for the development of start-up enterprises, a clear understanding of the financing requirements is extremely important, especially for new companies. This section will gather the opinions pertaining to the availability of financial resources and good support from financial institutions in contributing to the sustainability of new companies (see Table 6.13).

Table 6.13: Data on Access to Finance

No	Item	Mean	SD
a.	Availability of working capital/ financial resources	3.83	0.70
b.	Good support from financial institutions	3.42	0.91

The figures above indicate that having sufficient financial resources and good support from financial institutions were important to sustain the business. 86% of the respondents funded their business using their own capital because borrowing from financial institutions was regarded as risky.⁶⁹ Understandably, most of the funds came from their own savings, friends or family. Only a very small percentage of funds was drawn from financial institutions at the later stage (see Table 6.14). It is observed that companies involved in manufacturing which required higher capital were more likely to obtain loans from financial institutions.

Table 6.14: Breakdown of Capital Resources

Initial Capital	Used Own Capital	Own capital and Loan From Commercial Bank
Less than RM10,000	6	
RM10,000-RM50,000	6	
RM50,001-RM100,000	9	
RM100,001-RM500,000	10	3
More than RM500,000		2
Total	31	5

All the cases revealed that good support from financial institutions could assist those who did not have enough funds to develop their business like in the case of Alqas and Evergreen. Similarly, Tracking,⁷⁰ Hotsauce,⁷¹ Agro⁷² and Best Satay⁷³ confirmed that commercial banks helped them to develop their business in addition to matching grants received from government agencies. Alqas also managed to get a term loan financing

⁶⁹ Azuddin of Tracking stressed that servicing the fixed-interest charges and the definite dates of repayment for borrowings could put intense pressure on the cash flow of the business.

⁷⁰ Tracking secured a loan from RHB Bank.

⁷¹ Hotsauce managed to obtain banker's acceptance and term loans from OCBC Bank.

⁷² Agro secured a facility amounting to RM500,000 from RHB Bank.

⁷³ Best Satay obtained loans from Maybank and CIMB Bank.

from Malayan Banking to buy a building in order to start a new outlet in 2011. They claimed that the commercial banks were more flexible on lending criteria for SMEs, including the start-ups.

Evidently, having sufficient funds to start a business, particularly from one's own resources was critical to ensure business sustainability because it was interest free. Good support from financial institutions played an important role too in helping to develop the business, particularly for those who did not have enough funds. In line with the assessment on financial support in the EFCs, this proves that the government's efforts to enhance access to financing by SMEs, which involves developing and strengthening of institutional arrangements to support the financing needs of small business, have had a positive impact towards developing the start-up enterprises under the 9MP.

6.9 Investment in Technology

Low levels of technological capabilities among SMEs hinders their growth. Technological developments have permitted product differentiation and made possible more flexible production and supply arrangements. Such changes are needed if the demands of an increasing number of market segments are to be met. Similarly, information technology (IT) has opened new avenues for businesses to get easy access to information and consumers. In fact, IT is becoming a common denominator in the growth and competitive stance of today's organization. Many firms are investing in it and have become dependent on IT (Hisrich & Peters, 1995; Kotler, 2003). This section also confirmed that investment in technology and IT were important to sustain the business as a whole (see Table 6.15).

Table 6.15: Data on Investment in Technology

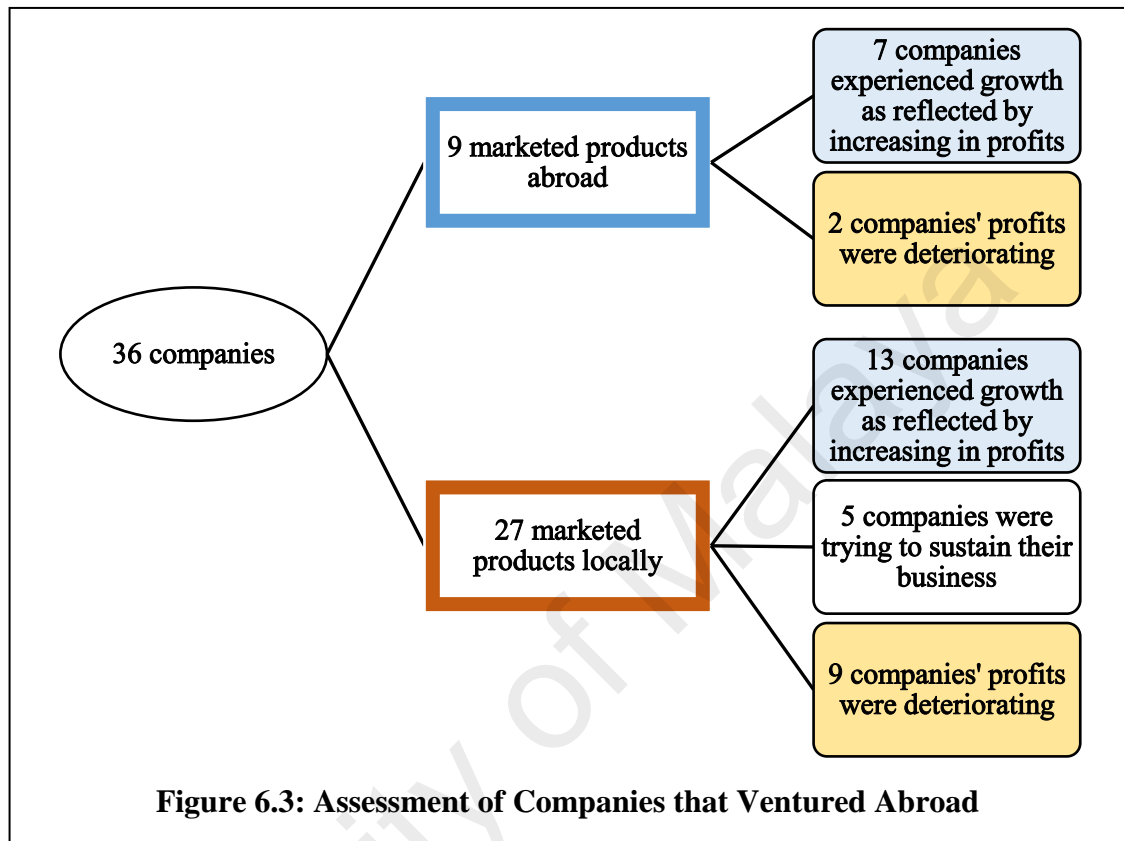
No	Item	Mean	SD
a.	Availability of latest technology to increase production and to reduce costs	3.46	0.76
b.	Availability of financial resources to invest in latest technology	3.42	1.10
c.	Investment in IT equipment and maintenance	3.34	0.77
d.	Up to date information on IT development	3.29	0.79
e.	Knowledgeable and trained IT personnel	3.17	0.81

Most of these firms preferred to operate a simple business which required little investment in high-technology due to limited capital resources and knowledge in the use of technology. However, they believed that investing in the latest technology would benefit the company, in terms of reducing operation costs and increasing production and efficiency of doing business. Certainly, the availability of financial resources would encourage companies to invest in the latest technology.

During the implementation of the 9MP, the Malaysian government had encouraged manufacturers to target production for the global market in order to seize new and wider opportunities from more diversified markets. The shift from dependence on the domestic market to production for the export market would necessitate firms to increase production capacity in order to enjoy the benefits of economies of scale, which would induce greater utilization of technology (Malaysia, 1996). The results reveal that nine out of 15 manufacturing companies ventured abroad.

Figure 6.3 presents that seven of these nine companies experienced growth in their profits. On the other hand, 13 of these 27 companies marketed their products domestically and were registering business growth, while 14 companies were struggling. This indicated

that venturing abroad would significantly increase the chances of business growth, because of wider access to new markets.



The assessment on EFCs further confirmed that the government had done well to increase the coverage of broadband networks infrastructure and that most of the companies had invested in IT and their employees were computer literate. However, it is observed that they did not leverage enough on ICT to capture markets overseas as only nine companies ventured abroad.

When discussing the benefits of internet technology, the respondents, in general, agreed that the capitalization of ICT strategies could accelerate e-commerce opportunities, enabling them to display their products. Moreover, it was easy for them to search for information as well as exchange information in a more timely and efficient manner with sound IT services. Importantly too, the software helped them to track stocks, keep

accounting records well and create a customers' database, as well as reach out to potential customers and enhance collaboration with suppliers. Even Fauzi of Alqas intended to employ a staff specifically dedicated to handling on-line business.

6.10 Innovation (Investment in Research and Development)

The low volume of R&D is one hindrance to the development of SMEs in Malaysia. The most frequently indicated barriers constraining innovation are lack of funds and the high risk of innovative projects. This applies both to SMEs and large firms (Ndubisi & Saleh, 2006). In the 9MP, its second thrust prescribes raising the capacity for knowledge and innovation. However, most of the firms under-invested in R&D and were not enthusiastic about producing new or innovative products. Apart from their limited resources, they lacked innovative ideas due to insufficient appropriate skills to perform R&D. Only eight out of 36 respondents introduced new products and services (see Table 6.16).

Table 6.16: New Products/Services Introduced by Companies under Survey

Company	New Product Introduced	Venture Performance
Company 1 (Tracking) - Vehicle tracking services	Personal Tracking Devices	Increased profits
Company 3 (Hotsauce) - Manufacturing of condiment sauces	Instant sauces like assam fish sauce, chicken curry sauce, tom yam sauce, vegetarian sauce, etc.	Increased profits
Company 5: - Retailer of ice cream, beverage and confectionery	Ice cream cake	Profits decreased
Company 9: - Manufacturing of health care products	Fresh goat milk	Increased profits
Company 16: - Manufacturing of microwavable frozen food	Mama Mia Dessert, rendang beef coriander with rice	Profits decreased
Company 21: - Manufacturing of optical lenses	Pre-coated prescription multi focal lens	Profits decreased
Company 24: - Oil & gas service provider	Conductive tank and dispenser chamber	Increased profits
Company 31 (Evergreen) - Manufacturing of furniture	Alternative for wood furniture.	Profits decreased

It is observed that their innovation activities were evidently largely geared towards incremental improvements or marginal adaptations to meet local needs, rather than the design and development of new products. Manufacturing companies were more likely to invest in R&D. The observation of these manufacturing firms suggested that they would introduce fundamentally new products into their own range of outputs using the existing technology. The products that they introduced did not require much R&D and some of the products were already available in the market. Four of the eight companies that introduced new products to the market were not able to reap profits as expected; but their performance was deteriorating, signaling their failure to introduce new products. This signals that investment in R&D did not guarantee success.

In the case of Evergreen, it was all about investing in R&D to commercialize the technology in order to make rice husk into materials for making furniture. However, the project failed to meet the objective of producing fully environmental friendly furniture because metal was used to strengthen the furniture. Even though Evergreen was a first mover, by introducing environmental friendly furniture made from rice husk, there was no demand in the local market. This indicated that it is imperative to identify market demand first and only then to produce the products, as confirmed by the data in Table 6.17.

Table 6.17: Data on Investment in Research and Development

Item	Item	Mean	SD
a.	Able to identify market needs and produce products that are in demand	3.29	1.14
b.	Availability of financial resources to invest in R&D	3.27	1.20
c.	Employ staff exclusively for R&D	3.00	1.11
d.	Outsource R&D to other companies	2.79	1.05

This study also indicates that the availability of financial resources would encourage companies to invest in R&D. In this respect, institutional support for financing becomes vital. However, this will only take place if the business owners believe in the value of R&D. Since this study reveals that start-ups lacked innovative ideas, they mostly remained neutral on the recruitment of staff exclusively for R&D. They were also not keen to outsource R&D to other companies. Nevertheless, having in-house R&D as well as the recruitment of a dedicated R&D team would boost the chances of survival by meeting the constantly changing needs of the market as demonstrated in the case of Hotsauce.

6.11 Managerial Skills

Most studies have attributed business failures to poor management competency. The profitability, growth and survival of a new firm depends very much on how well the business owners conduct and manage the business (Hashim, 2011; Penrose, 1972). The literature indicates that poor management in SMEs was mostly attributed to the owners' lack of experience in the business or lack of management experience. As a result, it is their weaknesses in business that contributes to closure of the company. Hence, this section examines whether managerial skills is an important factor contributing to business sustainability, as presented in Table 6.18.

Table 6.18: Data on Managerial Skills

No	Item	Mean	SD
a.	A visionary, capable and strong leadership	4.03	0.74
b.	A committed, supportive and strong management team	4.03	0.77
c.	A good and responsive organization system	3.89	0.71
d.	A good human resource management practices	3.83	0.74
	i) Recruitment of right employees	4.08	0.73
	ii) Employees' satisfaction, morale and development	3.97	0.65
	iii) Low staff turnover	3.78	0.90
	iv) Provide training for employees to acquire necessary knowledge and skills	3.67	0.76
e.	Good financial management - proper record keeping and strong cash flow	3.78	0.76

The above figures confirm that good managerial skills were essential to ensure business sustainability. Two required criteria for business owners were visionary leadership and a committed management team. In the case of Tracking, Hotsauce, Alqas, Best Satay and Agro, the owners were able to foresee great demand for their products and services through their working experience. Undoubtedly, the owners played an extremely important leadership role as they got involved fully with the business operations, especially in the initial stage of their new ventures. These entrepreneurs affirmed personal initiatives as one major key to business sustainability.

The study shows that these owners were practicing a mixture of management style, involving autocratic, democratic and paternalistic features. The autocratic style of management was used particularly in setting direction and vision for the company, while holding the responsibility of making decisions in the initial stage. Their employees would adhere to the guidelines and policies formulated by them. As companies were growing, a

democratic and paternalistic style of management would take place. The employees were encouraged to contribute their input in decision making.⁷⁴

A responsive organization system was critical too for the company to recognize changes so that immediate action could be taken. For example, Azuddin of Tracking recognized the need to have more experienced technicians stationed in all the states in order to have full coverage in the peninsula. The company was performing well because the owner was responsive to market demand and was able to direct resources towards satisfying customer needs.

The respondents also demonstrated their skills in human resource management. Even though Tracking, Alqas and Agro had encountered problems dealing with employees in the initial stage, they were able to tackle these problems. Most of the respondents from the case studies appreciated and recognized the value of their employees and had retained good employees by offering them bonuses, salary increments and incentives.

According to Fritz (1993), it was rather time consuming and required a lot of attention to keep proper maintenance of files and records, especially when the owners were struggling with business uncertainty in the early stages. They could not afford to hire an accountant or even a book-keeper to help them with records and accounts during the early days of their business. Bad record-keeping is one of the major causes of business failure among small companies.

In Malaysia, it is mandatory for private and limited companies to have proper accounting records and companies are required to submit annual accounting reports to the CCM. The

⁷⁴ For example, Azuddin of Tracking and his business partner would share their ideas with the employees and worked very closely with them. As for Best Satay, the owners would have monthly discussions with the employees in order to improve their services.

positive point is that the assessment on EFCs informed that Malaysia has a large pool of private service providers that were supporting the new firms well and that the respondents were able to engage accountants easily to handle accounting matters. In fact, good financial information provided by the accountants served to guide the business owners in making financial decisions. It can be concluded that good managerial skills were imperative to sustain the business.

6.12 Marketing Management

Lim (1986) recognized that some small firms in Malaysia lack knowledge of marketing techniques. Accordingly, marketing involves not only identifying the needs of customers, but also fulfilling those needs with the right products and services, managing customer relations, effective promotion and maintaining customer loyalty (Hashim, 2011; Ndubisi & Saleh, 2006). The data on marketing management is illustrated in Table 6.19.

Table 6.19: Data on Marketing Management

No	Item	Mean	SD
a.	A good customer and client relationship (knowing what your customers want)	4.31	1.06
b.	Good networks with suppliers	4.14	1.03
c.	Continuously improve product quality	4.00	1.01
d.	Marketing or distribution channels	3.94	1.19
e.	Having own brand	3.63	0.97
f.	Promotion	3.59	1.05

The results in this section were positive. The high rating emphasized the importance of knowing the needs of customers. As consumer needs have become increasingly sophisticated, it is clear that if a company is to survive, it needs to cope with changing market trends and continue to improve the quality of its products or services in order to

fulfil the changing needs of customers. This could be seen in the case of Tracking,⁷⁵ Hotsauce,⁷⁶ Alqas,⁷⁷ and Agro.⁷⁸ Good customer relationship management allowed these companies to respond to the needs of their customers. The failed case of Evergreen further attested to the significance of understanding the customers' needs.⁷⁹

Apart from building a good relationship with customers, the respondents also maintained a similarly good relationship with their suppliers. Due to this good relationship, they were able to obtain materials they needed at a reasonable price. More importantly, the materials supplied by suppliers were of good quality and this is critical for the food industry like Hotsauce and Best Satay. The distribution channels also played a critical role. In this regard, a well-functioning infrastructure built by the government for SMEs greatly contributed to high productivity. Companies were witnessing lower prices of goods and services, reduced inventory costs, and lower administration as a result of their close relationship with suppliers and distributors. A reduction in operating costs helped the companies to have greater room for price wars, which enhanced their sustainability (Allen, 2012; Gabriel, 1994; Kotler 2003).

Promotion and branding are a vital part of a business. Evidently, companies are using branding as a strategy tool in business with increasing regularity to build a strong image that captures the minds of consumers. In the case of Hotsauce, the owners emphasized marketing in order to create their own brand, as a means to capture customer loyalty.⁸⁰

⁷⁵ Tracking was capable of customizing its devices to accommodate customers' needs.

⁷⁶ Hotsauce constantly introduced more varieties of sauces to meet local and overseas demand.

⁷⁷ Alqas kept updating the latest design of Muslim clothes in his boutiques.

⁷⁸ Agro continued to introduce new machines in the market.

⁷⁹ Azizul did not succeed in his business endeavours mainly because he was unable to identify customers' needs and failed to generate demand for his environmental friendly furniture.

⁸⁰ They invested heavily by participating in exhibitions and cooking demos in supermarkets to create awareness in the market.

On the potency of word-of-mouth communication, Tracking, Best Satay⁸¹ and Agro informed that satisfied customers had become self-appointed ambassadors or mouthpieces for the company, spreading positive and favourable word-of-mouth communication about their products and services. New patrons came on board due to these referrals and this had a significant impact on their profits. These are the signs of business sustainability. These companies were good at leveraging on the advantages of being small by deploying relationship marketing strategies to attract and retain customers for the long-term.

From the responses obtained in the Census, 66.67% of the respondents had undertaken promotion of their products and services. They believed that they had to invest in advertising and marketing in order to generate traffic and influence customers to buy their products. The preferred promotional tools used to create awareness were:

- 1) websites;
- 2) media advertising;
- 3) participation in exhibitions; and
- 4) through agents and distributors.

This study confirms that good marketing management is essential to ensure business sustainability. Apart from building a good relationship with customers and striving to fulfil their needs, good rapport with suppliers and distributors was equally imperative, while branding created product awareness and boosted the company's image. More importantly, satisfied customers remain loyal to the company and recommend to friends, while word-of-mouth is the best advertising.

⁸¹ According to Best Satay, word-of-mouth was the best method of advertising for the food industry. This worked best for Agro too.

6.13 Availability of Raw Materials

A shortage of raw materials can lead to business failure. Undeniably, such shortages can have a serious repercussion as companies would not be able to produce the targeted quantity to meet market demand. At the worst, it could lead to business failure (Hashim, 2011; Kotler, 2003). The survey confirmed that availability of raw materials was important in contributing to business sustainability, as presented in Table 6.20.

Table 6.20: Data on Availability of Raw Materials

No	Item	Mean	SD
a.	Availability of raw materials	3.64	1.02
b.	The pricing for raw materials are reasonable	3.44	1.00
c.	Easy to find substitute for raw materials	3.36	0.96
d.	Availability of credit facility for raw materials	3.19	0.86

This study informed that most respondents did not have problems with raw materials. The cases revealed that having a good relationship with suppliers enabled these companies to obtain raw materials at a reasonable price and on good credit terms. This is essential to ensure pricing stability because an increase in the pricing of raw materials could result in an increase of fixed costs to production. Therefore, it can be concluded that the availability of raw materials is important to ensure smooth business operations and a good relationship with suppliers served as an advantage for the business, particularly when having shortages of financial resources.

6.14 Availability of Labour

According to Lim (1986), Malaysian SMEs were seriously affected by the shortage of skilled labour. The main reason for this is that they have to compete with large corporations that offer workers a higher salary and better working conditions. Fresh

graduates would opt for larger firms, as compared to start-ups that are not stable and without a reputation. Similarly, Navaratnam (2006) claimed that Malaysian firms prefer to hire cheap foreign workers in order to cut costs and these workers are reportedly willing to work under almost any given condition. This section will review the issue of the availability of workers in contributing to the sustainability of start-up enterprises (see Table 6.21).

Table 6.21: Data on Availability of Labour

No	Item	Mean	SD
a.	Availability of local workers	3.56	0.73
b.	Availability of foreign workers	2.97	1.03

The research findings indicate that there were sufficient local workers to sustain the business. 22 respondents (61%) did not face any difficulty in recruiting local employees, including Hotsauce, Best Satay, Alqas and Evergreen. As for the rest of the respondents (14 companies), the problems identified were unavailability of experienced workers, poor attitude, indiscipline and high turnover.

Unlike the statement made by the Navaratnam (2006), only 12 of the 36 companies recruited foreign workers and nine had difficulty recruiting them, particularly engaging employment agents and getting working permits. Accordingly, most foreign workers were uneducated and lacked experience and skills. It consumed a lot of time to train them. It was also necessary for the company to provide them with accommodation and this increased the cost of employing foreign workers. None of the respondents from the case studies employed foreign workers, indicating that such employees were not important for business sustainability.

The positive note is that there was sufficient supply of local workers in the market which had contributed to business survival among start-ups. For companies that was not able to recruit skilled workers like Tracking and Agro, in-house training by the owners or experienced staff was effective enough to ensure employees were equipped with necessary knowledge and skills. The respondents appreciated their employees and tried to retain them with bonuses, salary increments and other incentives.

6.15 Capacity to Compete

Competition law is essentially legislation that contains legal provisions that prohibits sellers (firms) from using business practices that can potentially reduce competition and harm the welfare of consumers. A key aspect of competition law is consumer welfare which is to be enhanced by prohibiting anti-competitive business conducts. There are markets in which there are only few sellers, each with large market shares. In such markets, the sellers can collude to raise prices to the detriment of consumers. Such market failures, which have been long recognized, provide the justification for competition policies. Competition policies have benefited new companies entering the markets because they are protected by price war and not suppressed by big players in the market (Allen, 2012; Benett, 2014; Lee, 2014).

In Malaysia, the Competition Act 2010 was gazetted on 10 June 2010. Since this study was carried out in 2013 and companies were not operating in a monopolized market, no question was asked pertaining to competition law because these companies already operated in a market protected by competition law. The literature review indicates that SMEs in Malaysia faced intensified global competition as well as competition from other producers. Hence, inability to compete with competitors is one difficulty frequently

encountered by small businesses. This section serves to gather opinions on the capacity to compete in the market and this data is presented in Table 6.22.

Table 6.22: Data on Capacity to Compete

No	Item	Mean	SD
a.	Able to compete with existing competitors	3.89	1.00
b.	Knowing competitors' planning or strategies	3.80	0.95
c.	Having good business linkages, industry clusters and networking with competitors	3.57	0.97

The case studies revealed that competition was intense because there were more new businesses entering the market, while also having to compete with bigger and established companies. Consequentially, knowing well the strategies of competitors would enable the business owners to match or exceed their competitor's standard in order to compete with them and sustain the business. In fact, the forces of competition are usually very strong for small companies. Sometimes, the forces could be more than for large companies, which breeds a continuing emphasis on efficiency. Hence, keeping an eye on competitors and positioning the products accordingly is vital for staying in business (Calverley, 2010; Reynolds, Storey, & Westhead, 1994). This could be seen in the case of Tracking, in its ability to customize the tracking devices that were reliable and suited the customers' business requirement.⁸² Similarly, Hotsauce's R&D team constantly introduced more varieties sauces, and of a high quality, to capture local and overseas markets in order to outdo their competitors.

It was difficult for a company to stand alone and compete in an aggressive business environment. Most of the respondents were of the opinion that forming networks with

⁸² Unlike his competitors who could not rectify problems because they imported the products directly from China and contracted it to car dealers for installation, Azuddin had experienced technicians stationed in few states to ensure prompt action was taken when there was an emergency. This gave him the competitive advantage because he could rectify the problem and offer immediate solutions since his company designed the devices.

partner firms would be a good way of doing business and increasing their chances of surviving. However, being a start-up company, most of the owners were very cautious and were fearful that their competitors might undermine them one day. Hence, they preferred to run the business on their own and collaboration was seen as a threat rather than opportunity.

6.16 Financial Crisis in 2008 & 2009

Economic conditions are external factors beyond the control of businesses and could have a major impact to these enterprises. Since this study covers the period 2005-2010 and Malaysia was affected by the economic crisis that happened in 2008-9, this section is included to gather information as to whether the companies were affected by this crisis as well as determine what approaches or plans they had in place to ensure their business survival.

An interesting observation is that most of the respondents were not badly affected by the crisis. The main reason was due to the size of their business which was rather small and the low volume in production. In addition they had no debts and had abided by low operating costs, being new in the market. In the case of Tracking, the recurring revenue model helped to generate continuous income. The only impact the company encountered was a delay in the monthly collections. Despite the economic downturn, Hotsauce continued to create brand awareness through all participating exhibitions as well as cooking demos in supermarkets while Best Satay and Agro already had a strong clientele in hand.

Witnessing the impact of the financial crisis in 2008, the respondents emphasized the importance of having strong cash flow to keep the business running. They also kept

building strong relationships with customers and suppliers to overcome any difficulty. Having been faced with the economic crisis, some companies took cost cutting measures. This included cutting manpower and reducing operation activities, working hours and working days.

6.17 Conclusion

Table 6.23 highlights the interaction between the state and business. It summarizes the findings collected from the 36 respondents and six case studies. Based on the assessment of the seven EFCs, it is evident that a large pool of commercial and professional service providers and well-functioning physical infrastructure created by the government under the 9MP had greatly encouraged entrepreneurial activity in Malaysia.

Table 6.23: Part 1: State-Business Interaction

No	Form of State Intervention	Result (36 companies)	Result (Case Studies)	Analysis
1	Access to funds	<ul style="list-style-type: none"> -13 companies received funds -Funds were not fully utilized due to stringent requirements. -Insufficient funds allocated for the development of start-ups. 	<ul style="list-style-type: none"> -Alqas, Best Satay, Agro confirmed that government fund had contributed to their business development. -Bureaucratic red tape. -Follow the procedures & submit all the required documents. -Government had sufficient fund. -Misconception attributable to lack of knowledge about the grants (Tracking). 	<ul style="list-style-type: none"> -Funds available but must meet criteria. So not everyone gets it. -Many didn't get the fund were of the opinion that there were insufficient fund. -Cases confirmed that state had sufficient fund & responded to their needs - Indicates great connection between what start-ups wanted & understanding of state institutions towards their needs. -Stringent criteria were needed to prevent unnecessary fund abused. -Proper institutional framework in place for state to support business under 9MP. -However, there was inadequate monitoring by agencies of start-ups that obtained funding.
2	Government Policies in Assisting New Firms	<ul style="list-style-type: none"> -Not difficult to deal with bureaucracy. -Neutral towards government policies. 	<ul style="list-style-type: none"> -Government had created good policies to help start-ups. -Discrimination felt by Hotsauce: Government 	<ul style="list-style-type: none"> -Malaysia is unique as developmental state agenda applied well but also need to develop BCIC-both polices were key thrust in the 9MP. -Failures not due to ethnic factor.

Table 6.23, continued

No	Form of State Intervention	Result (36 companies)	Result (Case Studies)	Analysis
		-Taxes was a burden.	preferred to help Bumiputeras. -4 companies were happy with the taxes imposed.	-It was also evident that non-Bumiputera firms were given priority. State had created good policies to support the development of infant industries under 9MP. But interestingly failures not due to ethnic factor.
3	Government Programmes and Bureaucratic Support for Assisting New Companies	-12 companies benefited from government assistance programmes. -Inadequate programmes offered to new companies. Bureaucrats were incompetent.	-Government programmes were good. -3 companies commented that bureaucrats were incompetent.	-Under the 9MP, various assistance programmes were offered. -Programmes were good, but problems with public delivery system (confirmed by PM Abdullah). -Low adoption of the assistance programmes indicated that the bureaucrats could be stumbling blocks that discourage start-ups. Institutional capacity was inadequate to support new enterprises.
4	Technology & Innovation	-3 companies received incentives to acquire new technology. -New technology & science had not been efficiently transferred from universities & public research centers to new companies. -Start-ups could not afford the latest technology. Not interested in science parks & business incubators projects.	-Government had favoured the big corporations. --Government had sufficient fund. --Invested in ICT. --Good for SIRIM to carry out the R&D because small business cannot afford the R&D cost. Even though SIRIM has the expertise but not able to test the viability of the technology until it was commercialized.	-The principal SME policy under 9MP was the development of a competitive, innovative and technologically strong SME sector that is able to contribute to domestic economy. -However, technology & innovation were not desired by most start-ups due to limited resources & knowledge. New products they introduced were from their range of output. -Due to this, state had favoured big corporations because they had better financial standing and technical resources. -Moreover, the government agency was not always able to commercialize a project, as in the case of Evergreen, undermining viability of projects of start-ups. Technology & Innovation support were considered ineffective.
5	Education & Training	-Entrepreneurial development programmes, business & management education in Malaysia (tertiary) provided sound	-4 companies did not utilize the entrepreneurial training programmes even though it was good. They ventured into business which they had knowledge & experience.	-Entrepreneurial development programmes were under-utilized as business owners preferred to venture into business which they had knowledge & experience. -Absence of business learning in school signified that state effort to promote "entrepreneurship as career of choice" was

Table 6.23, continued

No	Form of State Intervention	Result (36 companies)	Result (Case Studies)	Analysis
		& adequate preparation for start-ups. Learning of business skills was not included in the primary & secondary school.	-Alqas & Evergreen had benefited from the entrepreneurial programmes.	unsuccessful. -State was ineffective in providing the right type of education to develop human capital for economy.
6	Commercial & Professional Infrastructure	-Sufficient subcontractors, suppliers, & consultant to support new firms. Easy access to good professional services.	Easy to engage good professional services.	-State had done well to encourage establishment of viable commercial & professional infrastructure to support new firms. Effective in developing infant industries.
7	Access to Physical Infrastructure	The physical infrastructure provided were good and the cost was affordable.	Start-ups benefiting from infrastructure built for SMEs.	State was effective in helping start-ups by providing great infrastructure. This is crucial for firms' productivity & business sustainability.

This study confirms that the government had created policies that favoured new ventures, regardless of the ethnicity of the owners of these companies. Despite the fact that start-up enterprises preferred to use their own capital, the respondents from the case studies including Alqas, Best Satay, Agro and Evergreen reported that sufficient funds were provided by the government to develop start-ups and that institutions were responding appropriately to their financial needs and had helped them with their business development. These companies also had a better understanding of the funding system and were more willing to follow the procedures and fulfilled all the requirements to ensure their application was successful. In these cases, they understood that the stringent criteria were needed to ensure that public funds were well-utilized and distributed in an accountable manner. The assessment of venture performance further proves that companies provided with funding by the government were profitable. Hence, proper

institutional framework was in place for the government to support business under the 9MP.

With regard to key constraints that limit entrepreneurship activity, these outcomes indicate that the 9MP's policies and programmes to deal with these issues were sound. Of much concern, however, was the poor public delivery system. The incompetency and ineffectiveness of bureaucratic officials were identified as a major hindrance to business development. The uncertainty of bureaucrats signaled that they were not equipped to assist start-up enterprises, indicating that the quality of the public delivery system was compromised. Due to this, the SMEs, including start-ups continued to face difficulties when seeking government support. The low adoption of government assistance further signaled that the incompetency of bureaucrats could be one of the stumbling blocks that discouraged start-ups. This revealed that institutional capacity was inadequate to support new enterprises.

With respect to entrepreneurial education, the training was not crucial because business owners preferred to venture into business which they had some knowledge of or had prior relevant experience in. Nevertheless, Alqas and Evergreen reported that they had benefited from attending the entrepreneurial programmes provided by SME Corp. Moreover, entrepreneurial education was not included in the primary and secondary school syllabus which suggested that relevant education did not coincide with the government's endeavor to promote "entrepreneurship as career of choice". The Malaysian education system was viewed as ineffective in terms of producing the right human capital to drive economic growth.

While the principal aim of the policy under 9MP was to develop a competitive, innovative and technologically sound SME sector, the poor score for technology and innovation is cause for concern. The respondents lacked ambition to embrace technology and innovation ventures. Apart from their limited capital and knowledge in using technology and lack of innovative ideas, these business people also lacked science and technology knowledge to perform R&D.

Even though Malaysian government had encouraged companies to target production for the global market in order to reap the benefits of economies scale, which would induce greater utilization of technology, only nine companies ventured abroad. The respondents did not leverage enough the advancement of ICT to seize business opportunities in the international market. This exposed their limited capabilities to meet global market challenges and that they were highly dependent on the small and protected domestic market. As a result, this caused an increase in the intensity of competition in the domestic markets having to compete for the same limited demand. In such a situation, certain firms might experience a reduction in its domestic market share in the long run, which could hinder their business performance.

In practice, most small firms managed to remain profitable by meeting the needs of some local or specialized market like Tracking, Alqas, Best Satay and Agro. In the case of Tracking and Agro, starting a business rather than working for others served as an avenue where they can have more independent lifestyle through self-employment. Indeed, many small businesses are more a survival strategy for their owners, rather than a venture leading to significant innovative advances or high income (Bennett, 2014).

An exceptional case was Evergreen, led by Azizul, a mechanical engineer who had the requisite science-based knowledge to create an enterprise to promote an environmentally sound product only to realize that there was no market demand for it. This case study drew attention to the crucial fact that substantial investments in technology and R&D did not always guarantee market success. In this case, a good idea did not pan out as expected, explaining business failure too. The government should expect such things to happen, but did not take action to help Evergreen. In addition, the project failed to meet the objective of producing fully environmental friendly furniture indicating that even the government agency was unable to commercialize the project. The failure of this project called for proper monitoring by the agencies to ensure that funds are well utilized. Consequentially, government resources committed to the development of infant industries were still seen as inadequate.

It is undeniable that the government plays an important role in creating conducive business environment for new ventures, but this factor alone does not explain why start-ups succeed or fail. There were, however, companies that managed to survive under a challenging environment and some of them continued to grow. Of the research undertaken to investigate the factors contributing to the sustainability of start-ups, this study confirms that an organization's resources and competencies have a high impact on its performance. This is because all the results gathered from the survey achieved a mean of above 3, as indicated in Figure 6.4. These factors served as driving forces for entrepreneurs to move forward, contributing as well to the sustainability of start-ups.

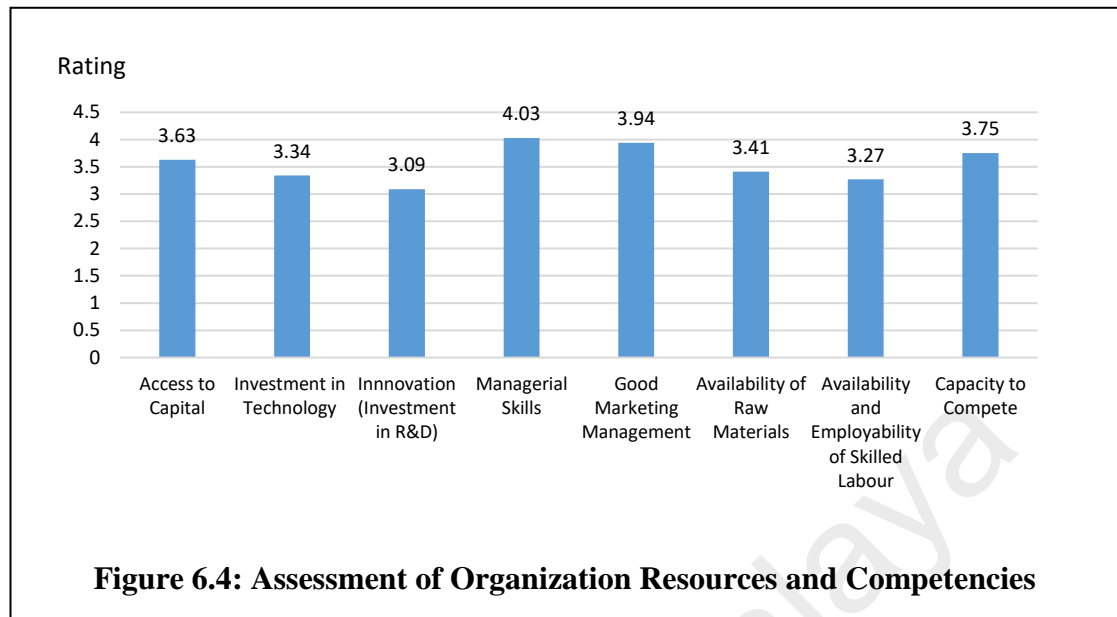


Figure 6.4 reveals that the three most important factors contributing to business sustainability were the business owners' resources and competencies, including good management and marketing management skills, and capacity to compete as these three categories achieved a very good mean score of 4.03, 3.94 and 3.75. The owners of Tracking, Hotsauce, Alqas, Best Satay and Agro demonstrated their skills in management and marketing as follows:

- They were able to spot the opportunities and identify the needs of customers in the market, based on their working and business experiences, and offered products or services that had demand.
- They were willing to take the risk to start the business, indicating they were visionary and had strong leadership.
- They were responsive to market changes and strived to direct sources towards satisfying the changing needs of customers.
- They were supported by a committed management team and they appreciated and had retained good employees, indicating they employed good human resource management.

- They had good financial management that enabled them to make good financial decisions and they had sufficient cash flow to handle daily operating expenses.
- They had built a good relationship with customers, suppliers and distributors.
- They had invested in some sort of advertisement or promotional tools to create product awareness and boosted the company's image, while word-of-mouth is the best advertising for them.

Their competencies in offering products or services that had demand as well as marketing skills had contributed to their capability to compete with their competitors. This was because they were able to identify the strategies adopted by their competitors and strived to outperform them. Azizul of Evergreen further testified that his technical knowledge was not sufficient but stressed the importance of having business and marketing skills, indicating the importance of entrepreneurial competencies. As for Azuddin of Tracking, his experience working for Touch n' Go and his education background – a degree in Commerce – had contributed to the great increase of revenue⁸³ his company had registered. Unfortunately, since the learning of business was not instituted in primary and secondary schools, the government has not been able to adequately inculcate an entrepreneurial culture among young people.

The next crucial factor was the need to have a firm grip on finances as most start-ups owners preferred to commence their business using their own resources. In addition, having strong cash flows gave them a great buffer, especially during a crisis. Good support from financial institutions was viewed as important in helping to develop the business, particularly for those who did not have enough funds. Contrary to the statement

⁸³ Tracking registered a substantial increase in revenue, from RM373,010 in 2009 to RM970,708 in 2010, which represented an increase of 160%. The revenue further increased to RM1,627,521 in 2011.

made by Navaratnam (2001) that banks and financial institutions in Malaysia were not very helpful mainly due to conservativeness in lending to SMEs, all the respondents in the case studies highlighted that good support from financial institutions had helped them with their business development.

The positive note is that most respondents did not face difficulty sourcing raw materials and had a good relationship with suppliers, allowing them to enjoy better pricing and credit terms. In addition, there was a sufficient supply of local workers in the market, a factor contributing to business survival. For companies that were not able to recruit skilled workers, like Tracking and Agro, in-house training by the owners or experienced staff was a good approach to equip the employees with necessary knowledge and skills needed to perform their jobs.

Even though investment in technology and innovation was a low priority, Hotsauce reported that investment in technology and R&D had contributed to their business performance. In addition, this study revealed that venturing abroad could boost business performance. Given that the government had provided good infrastructure including the coverage of broadband networks, companies that could leverage the ICT to capture overseas markets were more likely to sustain their business. More details about the impact of the 9MP as well as factors contributing to the sustainability of start-ups will be covered in greater depth in the next chapter.

CHAPTER 7: CONCLUSION

Start-ups, very much a subset of the corporate sector, can play a huge role in development. Recognizing this, the government has stressed the development of small firms, seen through the MDPs, particularly the 9MP, implemented during Abdullah's premiership. His government proposed a major strategy, "entrepreneurship as career of choice", in an effort to promote self-employment. He channeled huge financial support to SMEs and established support programmes, institutions and agencies to create an enabling environment to encourage private investment with the primary objective of stimulating rapid economic growth through entrepreneurial firms.

The results, however, were not as expected because start-ups continued to fail at a high rate. Hence, the need to assess the effectiveness of government intervention in creating a conducive business environment that shaped the development of infant industries in Malaysia. There is no study of the implementation of public policies to nurture start-ups, including under the 9MP. This is the first attempt to assess start-ups, a mode of enterprise that was actively encouraged under the 9MP.

In view of this, an internal assessment of the functioning of start-ups, using the GEM conceptual model, was employed to provide insights into the impact of state intervention to develop such enterprises during the start-up stage. This chapter sums up the core findings by answering the research questions. Having identified the challenges faced by start-ups, this chapter provides recommendations or lessons that can be learnt by the government and agencies responsible for the development of SMEs. In addition, guidelines are provided for adoption by new ventures to enhance their sustainability. This chapter also highlights the limitations of this study.

7.1 Implications for Theory - State and Business Interaction

While Abdullah was determined to develop the SMEs, including start-ups, and his intervention to create a conducive environment for these enterprises was an important aspect of developmental state, the outcomes were not promising as start-ups continued to fail at a high rate. This section addresses Research Question 1: why has state intervention through the 9MP not been effective in nurturing start-ups?

The ratings of all the entrepreneurial environment indicators were below average in terms of helping to develop start-ups, except for a well-functioning physical infrastructure and commercial and professional services access. The constraints that limited entrepreneurship activity cluster around the areas of funding, government policies, incompetent bureaucrats, school level entrepreneurship education and training, and technology and innovation. Consequentially, government resources committed to the promotion and development of infant industries were still seen as inadequate.

Apart from collecting quantitative data through a survey, case studies were used to gain real life experiences and opinions of start-ups that had dealt with government agencies. There is clearly a diversity of start-ups, in terms of the owners concerned. They had different resources available to them, i.e. some were well-educated while others had little or no education; some had business experience, while others had never run an enterprise; some had relevant working experience, others went into business for the first time; some had access to money, others had little or no money; some went into big ventures, especially those in the manufacturing sector, while most were in very small businesses that required little capital outlay because they were not willing to take the risk of investing too much of their savings in the start-ups. The heterogeneity that exists among people

who are in start-ups is an issue that has to be considered carefully when promulgating policies that are universal in nature.

7.1.1 Funding and Public Policies

A core dimension of a developmental state is that of the state's control of banks, a mechanism to ensure adequate funding is channeled to new firms in order to attain the government's developmental objectives. In line with this, one core strategy of the 9MP was to enhance the access of SMEs to financing. Evidently, there were attempts by the state to channel funds to start-ups for different purposes, as presented in Table 6.1. The case studies further confirm that various funding opportunities were created to serve the different needs of start-ups. These EFCs indicate that the government had conceived policies that were relevant to deal with the heterogeneity of companies that had to be catered to under the 9MP.

However, only 13 of the 36 respondents received government funding, signaling that there was a mismatch between state intervention to help SMEs to secure financial support and start-ups that eventually received such funds. This study reveals that some respondents were not able to comply with bureaucratic red-tape imposed by the government. The stringent requirements that fund applicants had to fulfil, poor knowledge about the funding system as well as unwillingness of applicants to divulge information about their enterprises to the government are reasons that hindered them from securing government funding. Due to this, government was not able to disburse funds sufficiently to the start-ups despite their good intention to assist such enterprises. The government recognized this problem and instituted attempts to streamline bureaucratic processes, an issue that was given priority under the 10MP.

In a developmental state, the state must also promulgate policies to nurture infant industries in terms of growth, productivity and competitiveness. With this, the state ensures only people who have entrepreneurial capacity are awarded rents in order to reduce wastage of government funds (Cummings, 1999; Wade, 1990). As noted in the literature review, while there was an acknowledged need to develop SMEs, the Malaysian government has persistently given priority to the creation of a BCIC to ensure effective Bumiputera participation in the economy. Such affirmative action-type policies were not able to promote the rise of a large number of dynamic individual businesses capable of ensuring industrial development (Jomo, 2001).

Under the premiership of Abdullah, he recognized that if the government was to nurture entrepreneurial SMEs, it had to do so by creating a supportive environment conducive to the viability of new industries without favouring any particular recipient (Gomez, 2009). This study provides evidence that Abdullah's government had created well-conceived policies for start-ups, without strictly enforcing attempts to redistribute corporate equity between ethnic groups. Moreover, most of the companies provided with funding by the government proven to be profitable. This indicated that a proper institutional framework was in place to nurture infant industries under the 9MP and that the government's financial assistance contributed to their business development.

7.1.2 Incompetency of Bureaucratic Support

A well-designed interventionist policy can only be good if the state can enforce it and the public delivery system is sufficiently developed to implement the agenda of interventionist policies (Francks, 1992; Neurath, 1988). When implementing the 9MP, the government acknowledged that it had a serious problem with its public delivery system. In view of this, one main thrust of the 9MP was to enhance the public service

delivery system in order to strengthen the government's institutional and implementation capacity.

However, the problem of the poor public delivery system was not adequately addressed. The uncertainty, lack of knowledge and slow response of bureaucrats signaled that they were incompetent, hampering state assistance of start-up enterprises. Even though the programmes provided by the government were good, due to the mismatch between government's intentions to improve policy implementation and poor delivery system in aiding start-ups, these enterprises did not appear to gain adequately from state assistance.

7.1.3 Improper Education System

Recognizing the importance of self-employment in employment creation and economic growth, the government emphasized the development of entrepreneurial skills at all levels of education under the 9MP. There was some focus too on creating the necessary training programmes to facilitate the creation of an entrepreneurial society. Evidently, the government expected business owners to participate in entrepreneurial training programmes to groom entrepreneurs. However, this was not seen as a critical issue by business owners who saw little or no benefit in these programmes. The case studies indicated that most of the owners of these companies had different backgrounds in terms of their working experience and education (see Table 6.9), but they shared common traits in venturing into business which they had knowledge of, or prior experience in, except for Evergreen. Due to this, the entrepreneurial training programmes were under-utilized.

The assessment on factors contributing to the sustainability of start-ups (see Figure 6.5) further confirmed that the most critical factors contributing to business sustainability were the owner's entrepreneurial competencies. Unfortunately, the learning pertaining to

business knowledge was absent in schools, signifying that this issue did not match with the government's efforts to promote "entrepreneurship as career of choice". What was missing was effective initiatives to "plant more seeds" in terms of nurturing individuals from young with essential business skills. Due to this, most people who wanted to start a business were not equipped with relevant business knowledge. They had to depend on their limited experience or knowledge, one factor leading to their incapability to sustain their business, also a reason why start-ups continue to fail at a high rate.

7.1.4 Technology and Innovation Initiatives

While the Taiwanese government took the lead in providing financing to support industrial innovation in order to encourage high-tech firms to undertake R&D activities, the promotion of technology- and innovation-driven strategies were given increased priority during the 9MP period in order to develop a competitive, innovative and technologically sound SME sector. Unlike the firms in Taiwan that have responded very well to the incentives provided by the government, this EFC reveals that the respondents did not find the government's efforts to promote technology upgrading and R&D attractive because they lacked science and technology knowledge.

Moreover, they could not afford the latest technology and the cost of investing in R&D, while those without a technical background would not take the initiative to approach the government for funds to commercialize new products. In addition, this study reveals that the respondents did not leverage enough the advancement of ICT to seize business opportunities in the international market but dependent on the limited domestic market. This accelerated the intensity of competition in the domestic markets, which could jeopardize their business performance in the long term.

The concept of the developmental state highlights the importance of education to provide quality human capital, including technicians, engineers and businesspeople who can drive economic growth. In the case of Malaysia, the quality of human capital is affected by the quality of education, where the decline was also noted by the government, compelling it to issue in 2012 a reform document entitled *Malaysian Education Blueprint*. The education system's inability to develop the right type of human capital for the economy is also hampering the quality of R&D among small and new firms, a view expressed by a number of the respondents.

Ndubisi and Saleh (2006) also claimed that Malaysia's technology policy focused mainly on a supply push strategy, spending on technology infrastructure and institutions to foster advances in science and technology, while neglecting the demand-pull strategy that stimulate the demand of specific technologies to nurture innovation capacity. As a result, start-ups found it difficult lining up with universities whose academics were keen on commercializing their research. Since most start-ups were not capable of performing R&D, the government had targeted large corporations for development of R&D because these enterprises were equipped with technical resources and were financially stable, a point noted by Tracking.

While the developmental state sought to increase productivity and efficiency of domestic producers through the active acquisition of new technology, the case study of Evergreen proves that substantial investments in R&D to commercialize technology did not always guarantee market success. This raises questions about the feasibility of projects undertaken by government agencies responsible for embracing new technology and R&D. Furthermore, the government did not set an example by supporting Evergreen's environmentally-friendly furniture, nor did it help to promote this product. Moreover, the

national innovation agenda failed to achieve the desired level of progress. The declining capacity of knowledge generation organizations was evidenced by the decrease in the number of researchers from 21.3 per 10,000 labour force in 2004 to 20.3 per 10,000 labour force in 2008 (Malaysia, 2011: p. 81).

This problem contributed to the low response by start-ups to the incentives provided to companies to acquire technology or embark on research. These issues indicate why the contribution of SMEs, which account for 97.3% of total business establishments, to GDP is still disproportionately low. SMEs contributed only 32% of real GDP during the 9MP, a pale shadow of the contribution of similar firms in industrializing countries such as Singapore, Taiwan, Hong Kong, Japan and South Korea; their contribution in these countries were as high as 60% (*SME Census 2011*). Although the government had emphasized the need to transfer new technology, science and knowledge to start-ups, until these reforms in the education system have been instituted, this is unlikely to happen.

7.2 Factors Contributing to the Sustainability of Start-ups

In order to address Research Question 2, the second objective here is to examine the factors contributing to the sustainability of start-ups. Apart from the substantial funding offered by the government, good infrastructure and policies that were supporting the development of infant industries under 9MP, this study confirms that an “organization’s resources and competencies” are crucial in order to enhance the sustainability of start-ups. This is summarized in Table 7.1, in descending order, from most important factor to the least important. These factors serve as a guideline for potential business owners, in order to increase the sustainability of business ventures.

Table 7.1: Factors Contributing to the Sustainability of Start-ups

No	Factors	Remarks
1	Managerial skills	<ul style="list-style-type: none"> • Had prior experience and knowledge. • Aware of opportunities arising in market, so started a business. • Had good market knowledge, able to respond rapidly to changing market demand and direct the resources towards satisfying customers' needs. • Had committed & supportive team members. • Had good managerial skills. Practiced autocratic style of management in setting direction and made decisions in the initial stage. As company grew, changed style of management by getting input from employees in decision making. • Had good human resource management practices. • Appreciated and recognized the value of their employees. • Financial information to make better judgement and business decisions (good financial management).
2	Good Marketing Management	<ul style="list-style-type: none"> • Able to spot the opportunities arising from customers' needs and offered products or services that have demand. • Had substantial clientele from previous working experience. • Had built good customer relationship. • Continued to improve products or services to fulfil customers' changing needs. • Had good rapport with suppliers and distributors. • Used wide range of promotion tools to create products awareness. • Had own brand to capture customers' loyalty.
3	Capacity to Compete	<ul style="list-style-type: none"> • Knew competitors' strategies. • Exceeded competitors' standard. • Identified market opportunities and threats so that effective marketing plan could be implemented.
4	Monetary Resources	<ul style="list-style-type: none"> • Had sufficient funds to start and run the business. • Good support from financial institutions to develop the business, particularly for those who did not have enough funds. • Had strong cash flow to keep the business running in case of emergency or crisis.
5	Availability of Raw Materials	<ul style="list-style-type: none"> • Easy to find substitute for the raw materials. • Created good rapport with suppliers which allowed for better pricing and good credit terms.
6	Investment in Technology	<ul style="list-style-type: none"> • Embraced technology to increase production and efficiency of doing business. • Availability of financial resources encouraged investment in technology. • Used ICT for business operations and to have greater accessibility to information and consumers. • Ventured abroad to seize wider markets.
7	Availability & Employability of Labour	<ul style="list-style-type: none"> • Great availability of local workers. • Had skills to train the hired labour. • Retained good employees by offering them bonus, salary increment and incentives.
8	Innovation (Investment in R&D)	<ul style="list-style-type: none"> • Invested in R&D, especially manufacturing companies. • Ability to identify market needs and offer products and services that have demand, which might not be necessarily innovative.

Table 7.1, continued

No	Factors	Remarks
		<ul style="list-style-type: none"> • Availability of financial resources encouraged the companies to invest in R&D. • Having in-house R&D and recruitment of dedicated R&D team to boost the chances of survival by meeting the constantly changing needs of the market.

Table 7.1 indicates that the most critical factors contributing to business sustainability were the business owner's entrepreneurial competencies, including good management and marketing skills and keeping ahead of their competitors. This is in line with Penrose's (1972: p. 22) argument that the survival and growth of a new firm depended very much on superior entrepreneurial ability. In view of this, for business owners without business knowledge, the entrepreneurial training programmes provided by SME Corp would be a good source to acquire relevant knowledge, as reported by Alqas and Evergreen. In addition, the case studies stressed the importance of being able to spot opportunities in the market so to offer products or services that have demand and only getting involved in businesses that one was familiar with. The case of Evergreen highlighted the importance of carry out market survey in order to ensure there would be demand for their product.

The case studies reveal that start-ups required good support from financial institutions, seen as essential to develop the business, particularly for those who did not have sufficient funds. While commercial banks had helped them with loans to develop their businesses, the financial support received from government agencies had also been crucial. Importantly too, the respondents understood their financial needs and approached government agencies accordingly. Moreover, and interestingly, companies were aware of the need for the bureaucracy to ensure proper recording of distribution of funds to trim wastage. These applicants had to put in the necessary effort, by being willing to provide the requisite information, respond to queries and to give full cooperation when dealing

with the relevant agency. This reciprocal relationship between government agencies and applicants was essential to ensure the applications were successful. Government institutions had responded to their financial needs in some way and helped them with their business development. It is therefore for the start-ups to take the initiative to approach government agencies for funding.

This study indicates the need for business owners to build a good relationship with suppliers in order to obtain raw materials at a better price and on good credit terms. A positive note was that potential owners did not have to worry about employing workers in the market because there was sufficient supply of local workers. For companies that were not able to recruit skilled workers, the business owners had to train fresh graduates with relevant knowledge and skills needed to perform their jobs, as noted in the cases of Tracking and Agro.

With competitive pressures, it is vital for firms, especially manufacturers, to harness new technology to increase productivity as well as invest in R&D for improved and new product development, to ensure their long-term survival. In view of this, start-ups were encouraged to respond more positively to various measures by the government to upgrade technology levels of industry in order to provide higher valued-added products and to stay competitive.

Companies found that internationalization of their existing products offered the possibility of increasing economies-of-scale with greater utilization of technology. Besides, venturing abroad helps to appreciably increase the profits, due to wider opportunities from diverse markets. Since the government had done a good job to increase the coverage of broadband networks, start-ups could invest in market research through

the use of ICT, in order to acquire better knowledge of overseas markets and increase their chances of venturing abroad.

This study also reveals that there are other strategies that new firms could employ in order to increase their business performance. Evidently, owners of start-ups preferred to run their business alone even though they were of the opinion that having good business links and forming networks with partner firms would increase the chances of survival. Evidently, there was a need for start-ups to be more flexible and responsive by forming strategic alliances, or teams of businesses, pooling their resources to gain economies of scale, and by complementing each other's strengths. These alliances⁸⁴ provide sources of talents for entrepreneurial ventures, a core factor that holds them together (Allen, 2012).

The government had organized various events to support the endeavours by SMEs to market their products, both domestically and abroad. For example, SME Corp annually organizes an exhibition known as SMIDEX.⁸⁵ In the case studies, Hotsauce, had successfully taken advantage of this exhibition, participating in it to increase its market share. Interestingly, there was no evidence that these start-ups had joined business associations like the SME Association of Malaysia⁸⁶ to widen their business networks.

⁸⁴ For start-ups, business alliances could consist of simple "bartering" with customers, suppliers and even competitors. For example, a manufacturing business can get a better price for component parts if it is willing to label the supplier's trademark on the final product. Alliances for R&D efforts are a common way to minimize long-term costs. Cooperative buying and mutual agreements are other ways to leverage the power of group buying. Although partnering arrangements are often with other businesses, start-ups can also find that trade associations, non-profit groups and local community organizations often offer great opportunities for financing on advertising and distribution expenses (Titus & Robins, 2005).

⁸⁵ This event provides the platform for participating companies to showcase and exhibit their products and services to potential customers (retrieved from <http://www.smidex.my> on 21 June 2017).

⁸⁶ The main objectives of the SME Association Malaysia are to provide support, services and solutions in the best interest of small firms. Since its inception in 1995, the Association has been organizing numerous mega and international conferences, seminars, awards, exhibitions and localized projects to educate, elevate and expose its members and SMEs in Malaysia. Start-ups can benefit from joining this Association because it is also actively engaged in dialogs with the various ministries of the government, to reflect and provide feedback on the needs and improvement required for stronger and more professional SME (retrieved from <http://smeam.org/en/about> on 23 June 2017).

7.3 Implications for Policy Reforms - Recommendations

The third research question and objective is to determine policy reforms that need to be introduced in order to ensure better implementation of interventionist policies to enhance the sustainability of start-ups. This section provides recommendations for the respective public agencies to improve state-business relations.

7.3.1 Enhance Policies

This study reveals that the government fund was an important factor contributing to business development. However, government regulations can easily disadvantage small businesses because of the diseconomies of scale of complying with regulatory procedures. Most of the impact is unintentional, in that the standardized regulations typically do not distinguish among companies of different sizes. This red tape applied by the government agencies places a greater burden on smaller enterprises, especially those owned by people who lack high education. There are also countless instances of qualified firms which do not obtain the incentives due to complicated processes and regulations.

This study calls for the government to circumvent bureaucratic procedures and simplify the application process in order to encourage applications from start-ups. The government should establish a special department to deal with applications submitted by new business owners in order to expedite the decision-making process and put more effort in delivering financial schemes to start-ups to ensure more enterprises gain access to the funds (Aram, 1983; Bennett, 2014).

This study also reveals that two companies (including Evergreen) that had received government funds were not able to sustain their business, and that poor monitoring and evaluation of the schemes prevented government agencies from taking necessary actions

to assist these companies. Therefore, government institutions should enhance monitoring of start-ups that have received funding, to ensure business performance. Unfortunately, very little was done in this way for start-ups. Constant evaluation and monitoring of the various incentives to ensure their effectiveness would certainly have improved company performance, given the increasing desire by government to enhance the impact of supporting programmes (Malaysia, 2011).

Moreover, policies emanating from the government should be based on entrepreneurial capacity to ensure public funds are well utilized. The assessment on factors contributing to the sustainability of start-ups (see Table 7.1) informs that when government wants to support start-ups, the following are the features to look for in the firms:

- 1) good managerial and marketing skills;
- 2) prior relevant experience and knowledge;
- 3) committed and supportive team members;
- 4) offers products or services that have demand;
- 5) uses wide range of promotion tools to create products awareness;
- 6) embraced technology to increase production and efficiency of doing business; and
- 7) used ICT for business operations and have great potential to venture abroad.

7.3.2 Meritocratic Bureaucracy to Support New Firms

Johnson's depiction of the developmental state is one that functions as agency offering numerous well-coordinated institutions and a meritocratic bureaucracy that is competent to support private firms (Johnson, 1999). In particular, the government's role in developing successful new ventures can be achieved through the development and enhancement of public support systems that works well to nurture infant industries. However, the respondents did not see such tangible support. The case studies on

Tracking, Hotsauce and Agro draw attention to the urgent need for the government to make public agencies far more responsive to the needs of start-ups. A core impediment to the delivery of high quality public service is the high level of incompetency among bureaucrats, an issue seen as a major stumbling block that discouraged start-ups.

Moreover, most of the assistance required by owners of start-ups are available although many of them were unaware of it. Perhaps, the first step for government is to increase awareness of the availability of existing assistance programmes so that start-ups will take advantage of such facilities. Besides, the government was viewed as unable to adopt an integrated approach to assist start-ups due to uncertainty of bureaucrats about key procedures. Hence, government agencies have to increase the level of coordination among the various assistance programmes and deliver them in an integrated package. For example, financial assistance must go hand-in-hand with various types of other non-financial support such as training, marketing and advisory services.

With the transformation of government as an effective facilitator of private sector-led growth under the 10MP, institutions should be equipped with a cadre of advisors with practical knowledge and experience required to assist start-ups. Sufficient attention should be given to providing appropriate training to bureaucrats so that they are equipped with necessary competencies to perform their duties. Periodical examination of the performance of bureaucrats is necessary to maintain efficient delivery of public services.

7.3.3 Enhance Entrepreneurial Education

In the formulation of entrepreneurial assistance programmes, the government should consider that almost all start-ups are managed by their owners. Many of them operate their enterprises on the basis of business experience and some of them have little formal

education. However, business experience has limitations and they need to be supplemented by professional training. Due to this, the need for more aggressive promotion of entrepreneurial training programmes to accelerate the development of entrepreneurs was evident improve the management capability of these enterprises.

The case studies also indicated problems with the education system, specifically in terms of equipping the young with adequate business skills in order to pursue entrepreneurship as career in future. This is a prerequisite for improving the business performance of small enterprises in upgrading the level of their entrepreneurial skills. Hence, there is a need for well-conceived government intervention in the education system, to design a school curriculum to equip the young with financial literacy and basic entrepreneurship skills (Hisrich & Peters, 1995; Malaysia, 2006).

The feedback from this EFC also indicated the need for the education system to provide students with the challenge to start businesses and work in a business as part of the educational process. This is because the case studies, including Tracking, Hotsauce, Alqas, Best Satay and Agro, revealed that their previous experience or knowledge had contributed to their sustainability. More courses should be provided in secondary schools and universities related to new ventures in which students can acquire “hands-on” experience and reduce psychological barriers to starting new businesses. The government could also consider increasing the participation of business mentors in tertiary institutions whereby experienced business people from different sectors could become mentors to students and would-be entrepreneurs. With this, students could learn and gain from the experiences of others (Bennett, 2014).

7.3.4 Promoting Innovative Culture

Technology development and innovation are key factors in sustaining Malaysia's competitiveness in the face of rapid globalization. During the 9MP period, the government shifted its focus from an investment-driven strategy to a productivity-driven strategy. While the government encouraged the use of new technologies to create a pool of new innovation-driven entrepreneurs, including among start-ups, one major concern is the quality of human capital with the requisite education to avail themselves to these incentives. Hence, government needs to intervene in the education system to ensure the right type of human capital is supplied to the economy.

Instead of waiting for start-up enterprises to seek the relevant assistance from the agencies, the government could reach out to potential businessmen by conducting roadshows targeting different SME sub-segments regularly. Government can also encourage innovation and knowledge sharing by having successful SMEs in those sub-segments to share their success stories during the roadshows in order to inspire more potential businessmen.

The case of Evergreen calls for government to set an example to support and promote the new products being commercialize by the start-ups. More importantly, effective promotion of innovation-driven entrepreneurship not only requires the provision of advisory services but the provision of extension services like introducing new methods of production that could bring new products to the market to the business owners who received incentives from the government agencies. Perhaps the industrial extension service would help to disseminate technical innovation among start-up businessmen. This could serve an essential strategy for start-up businessmen in taking the best advantage of these innovations into their business plan (Lim, Puthuchearry & Lee, 1979).

It would appear that the way forward will be to foster opportunity-driven entrepreneurship via innovations. This will boost productivity and push them into an innovation-driven type economy. Organizational cultures need to be primed to accept innovation and thus one of the biggest challenges for government is to establish an organizational culture that is conducive to innovative production of products and services. In view of this, government is to support innovation by creating an environment in which companies, research organizations, and individuals are better able to engage in innovative activity. However, this will require an education system that nurtures creative and analytical human capital that can serve as a powerful engine of innovation in an economy. (Malaysia, 2006; 2011)

7.4 Overall Study Implications

From this study, for the interventionist state under the 9MP to be effective, all the EFCs must be integrated. No single EFC should fail as shortcomings in any of these factors will hamper the government from developing SMEs, including start-ups, effectively. Even though the infrastructure may be well laid out and policies are well stipulated, poor implementation, bureaucratic incompetency, lack of commercial and business teaching at the earlier stage in the school curriculum and fear of technology and innovation can hinder the performance of start-ups as well as their contribution to the economic development.

While the government underlines the long-term strategy and specific programmes, start-ups on their part should keep abreast with these new developments and participate in government initiatives to fully benefit from the outcomes and always be proactive in looking for opportunities to enhance their business. In the case of Japan. Whittaker (1997: p. 173) notes that “the effectiveness of public policy in Japan is very much dependent on

the initiative of small firm owners themselves.” The government can play a facilitative and catalytic role, while SMEs including start-ups can be the driving force to achieve growth. In view of this, start-up enterprises play an important role in helping themselves. While greater flexibility has to be a core dimension of the government’s efforts to promote private sector participation in the economy, business owners must also develop a strong appetite for competition to become national, even global, champions.

7.5 Limitations and Suggestions for Future Research

The nature of this study required close cooperation from start-ups. However, a number of these companies did not respond to or participate in this survey due to the following reasons:

- 1) confidentiality issues; they were reluctant to divulge information about their companies;
- 2) no desire to cooperate because it was related to public policies and fear of political implications; and
- 3) they felt that their feedback may jeopardize their businesses when dealing with the government.

Most public policy interventions are subject to evaluation. However, valid evaluations for entrepreneurship support schemes are inherently difficult. Merely asking clients about a scheme, i.e. whether they are satisfied, is flawed by:

- (i) *adverse selection* from eligibility criteria; and
- (ii) *self-selection bias* that those using schemes are most likely to be favourable to them.

In this study, the case study method was used to overcome these problems. However, there was difficulty in getting consent from the firms to participate in the case study. More

case studies are required to secure further input from start-ups and to have wider coverage of the sample base.

This research focuses only on Malaysian start-ups that had approached SME Corp. The feedback from the respondents was related to their experience when dealing with SME Corp. Therefore, similar studies across other government agencies are recommended. This study focused on the initial stage of a business, so a longitudinal study is recommended to follow the performance of these start-ups and to investigate the competencies required during the different stages of growth.

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