The Mediating Effect of Entrepreneurial Self-Efficacy between Business Incubator Funding and Business Success: A Conceptual Paper

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Abstract: Business incubation plays a crucial role in sustaining business success in both emerging and developing countries. Business incubators help businesses in developing countries effectively use innovation to reduce poverty and sustain social and economic development and growth. This conceptual paper focuses on the effect of funding in business incubator practices on business success in the context of Palestine. Additionally, this study strives to establish the mediating effect of entrepreneurial self-efficacy on the relationship between funding and business success. This study will apply a quantitative approach to collect data from businesses in Palestine. The Partial Least Squares (PLS) method will be used to analyze the data. This study adopted a resource-based view (RBV), which claims that resources, skills, and capabilities are valuable tangible and intangible resources that lead to business success. If empirically supported, the proposed framework may provide effective assistance for business incubators, entrepreneurs, business owners, and managers in developing countries such as Palestine. Therefore, the results of this study will help provide academic research, future research, government, and related agencies with guiding principles and information.

Keywords: Business Incubator; Funding; Entrepreneurial Self-Efficacy; Business Success.

1. Introduction and Background

The literature on entrepreneurship uses the economic viewpoints of revenue and worker growth to assess business success (Yong & Hassan, 2019). Previous studies have established a connection between business success and financial outcomes. However, recent scholarship has adopted a more nuanced perspective on business success, acknowledging that business owners frequently view outcomes other than financial ones as accomplishments (Rani et al., 2019). As non-financial objectives may result in alternative performance efforts, many entrepreneurs are motivated to launch a firm based on lifestyle or personal factors (Hatak & Zhou, 2019). Few studies have evaluated the success of entrepreneurs, despite the fact that many criteria have been employed to determine success rates and performance (Genty et al., 2015). In addition, research has demonstrated that knowing the characteristics that contribute to entrepreneurial success is important for businesses, particularly for entrepreneurs, investors, and economic stability (Okoye et al., 2017). Business incubations are tools that have emerged to help startup companies establish and grow their businesses. A business incubator is an organization or platform that provides administrative support, funding, and other aid to start-ups (Usupbaev, 2023).

The issue of funding for business incubators is crucial because it has a significant impact on whether enterprises survive. All entrepreneurs in a study on the difficulties faced by startups battled with financing their businesses (Setton & Rönkkö, 2020). Startups lack a trade history, in contrast to more established businesses, and bear risks related to investing in brand-new businesses that affect the financial structure of small businesses (Atherton, 2012). 2 Business actors require entrepreneurial self-efficacy in addition to business incubators, which shows confidence in their ability to choose the least hazardous course of action. Entrepreneurial self-efficacy is a conviction in one's ability to plan the resources of action necessary to manage future circumstances (Mei, et al., 2017). As a result, the primary goal of this research is to create a conceptual framework for academic understanding of how funding in business incubator practices affects business success and to investigate the mediating role of entrepreneurial self-efficacy in this relationship. The remainder of this paper is organized as follows: a literature review on business success, funding, and entrepreneurial self-efficacy. The discussion is supported by a review of the Resource-Based View (RBV) theory, a conceptual framework for the study, and a conclusion.
2. Literature Review

Overview of Palestine Business Incubation: Palestine is one of the developing countries located in the southern part of the Mediterranean shores which has been occupied since 1948 and divided into territories including the Gaza Strip in the South and the Westbank in the middle. Gaza Strip and the West Bank suffer from economic deterioration, and a high unemployment rate (OCHA, 2018). Geographic fragmentation has led to structural imbalances in the economy, resource access, and labor market, which have led to a significant dependency on external revenue sources, particularly foreign aid. The unemployment rate in Palestine was quite high. According to the Palestinian Central Bureau of Statistics, the annual average unemployment rate in Gaza grew by as much as 11 percentage points in 2023. Young people fare the worst, with rates of unemployment of at least 65% and labor underutilization of at least 77%. Despite having one of the youngest and best-educated populations in the Middle East, Palestine has an alarmingly high unemployment rate, particularly in the Gaza Strip (PCBS, 2023). Since the Gaza Strip has been under siege for more than ten years, the economy of Gaza has been severely damaged, and many young people have been unable to find fulfilling employment (PCBS, 2023).

The Palestinian economy struggles to generate jobs and lacks industrial resources. However, many people believe that there is no way for them to support their families or make a life. This reflects the reality that the market is too limited to accommodate the huge influx of recent graduates from universities each year. Thus, the information technology industry remains one of the few bright spots through business incubators, which offer a crucial channel for job creation and income opportunities, seeking to establish an innovative business, and encouraging the creation of jobs through the implementation of projects that can withstand economic downturns. BI in Palestine plays a vital part in the country’s economic growth, mainly to fight poverty and unemployment (Morras, et al., 2019). In addition, since the first incubator opened in 2004, eight incubators have been established in different parts of Gaza in Palestine by 2023, and the number of business incubators has increased dramatically. By offering facilities for starting new enterprises as well as financial and technological assistance, they are developing powerful partnerships in the development of new businesses (MAS, 2019). This section highlights the review studies vital to BS, funding in business incubator practices, entrepreneurial self-efficacy, and resource-based view (RBV).

Business Success: Al-Damen, (2021) defined business success as the ability of a business to contribute to jobs and wealth creation through business start-up, through a range of supporting resources including training, funding, marketing, and networking supports in an atmosphere conducive to new venture development, survival, and early-stage growth. BS is the degree to which a business succeeds in achieving its goals (Asri & Ferdous, 2015). In addition, both financial and non-financial factors may be used to gauge an entrepreneur’s BS (Rhodes & Butler, 2004). Non-financial measures include individual fulfillment, entrepreneurial self-efficacy, customer satisfaction, and development of the individual. Financial measures include financial revenue, profits, employees, rates, and return on assets, whereas non-financial measures measure BS by surviving and growing profitably and whether firms are on a path toward profitability or are only marginally profitable (Masuo et al., 2001). Incubator success often depends on the stakeholders' goals. Sometimes, the goals are not clear from the beginning, and the methods for gauging performance are not always related to these goals. When incubators establish fresh businesses, create employment, spread technology, and bring in money for stakeholders and the government, they are deemed to be successful. The success of businesses in technological incubators is typically seen in a classic linear manner, like the innovation process: a new firm or start-up would stay in the incubator for a few years, graduate, and develop ideally (Pidduck et al., 2023).

Business Incubator Funding: A business incubator is a facility that is specifically developed to advance the growth and success of new ventures through a range of supporting resources including infrastructure, business support services and networking supports in an atmosphere conducive to new venture development, survival and early-stage growth (Al-Damen, 2021). There are a few different ways to fund a startup incubator, including grants, loans, and private investment. Rosado-Cabero et al. (2023) emphasize that funding is very important in business incubator practices both public and private funds.
government such as support schemes, mediation of contacts to financiers, and direct support in the financing of innovation projects which entrepreneurs take while starting their business or enhancing the business (Dwivedi & Mishra, 2013). As a business incubator to help start-ups embark on their business, funding is important to ensure the success rate. Funding can be in the form of grants and loans. Normally, the source of funding will be Business incubations are tools that have emerged to help startup companies establish and grow their businesses. A business incubator is an organization or platform that provides administrative support, funding, and other aid to startups (Usupbaev, 2023). According to Van Dijk (2014), funding is a vital resource because it provides entrepreneurs with the start-up and expansion cash they need. The lack of early-stage funding during a start-up’s early stages of development is one of the key barriers to business growth and success. The so-called “valley of death,” the stage of a start-up where investments in R&D and business development still outnumber the sales and income produced, cannot be crossed by start-ups without early-stage funding. Funding can be termed to be a significant factor of any established company, especially for start-up businesses as it determines a substantial part of financial support contributes to 25% of the BS (Akinruwa, et al., 2013).

**Entrepreneurial Self-Efficacy:** According to Campo (2011) defined entrepreneurial self-efficacy as the degree to which one believes that he or she is able to successfully start a new business venture. Self-efficacy in entrepreneurship refers to the conviction that one can effectively launch and manage a firm. It is a crucial element in entrepreneurship because it affects the choice to launch a firm, the amount of work put into it, and tenacity in the face of difficulties (Bandura, 1977). Segal, et al. (2005) defined entrepreneurial self-efficacy as one's confidence in their capability and ability to succeed in the process of starting a business. Goal beliefs and control beliefs comprise a multidimensional concept known as entrepreneurial self-efficacy. The goal beliefs of an entrepreneur are evaluations of their capacity to participate in actions that will result in successful task or outcome fulfillment during business start-ups. According to Drnovék et al. (2010), control beliefs are an entrepreneur’s perceptions of their capacity to rein in negative ideas and strengthen positive ones while pursuing goals.

**Funding (Business Incubators Practices) and Business Success:** Business incubators, which are a major factor in corporate success, are crucial to economic growth. By creating new jobs and expanding into new industries, they are helping increase employment. Business incubators enable greater productivity without necessarily altering input through thorough innovation. Despite their tremendous contribution, they have an extremely poor survival rate. Owing to their youth and small size, the difficulties they encounter are frequently related to resource constraints (Serio et al., 2020). Startups frequently have financial difficulties, and these issues have a big impact on whether or not they survive. Owing to their features, such as being more reliant on resources and requiring more funding to continue, HW startups in particular face this problem (Pikkupeura & Qawir, 2023). According to Olkiewicz et al. (2018), business incubation practices help entrepreneurs in the initial phases of their ventures. It entails offering tools, such as funds, to assist entrepreneurs in expanding their businesses which can help enterprises thrive by providing them with capital. According to Batra et al. (2003), ensuring accessibility to funds enhances business growth and development and in turn, influences overall BS. Therefore, this study proposes the following hypothesis:

**H1:** There is a significant relationship between funding and business success.

**Funding (Business Incubators Practices) and Entrepreneurial Self-Efficacy:** Funding is a crucial resource, and entrepreneurial self-efficacy may affect its effectiveness, to improve the chances of BS, it is crucial to consider ESE when sponsoring business incubation programs (Baria, & Arshadb, 2020). Individuals with high self-efficacy have the ability to achieve entrepreneurship goals, as they are more likely to perceive the possibility of high profit, social recognition personal satisfaction, and to predict failure. Similarly, it is reported that young entrepreneurs’ abilities and expectations determine their career choices (Fitzsimmons & Douglas, 2011). The association between financing for business incubation and BS has been linked to entrepreneurial self-efficacy, which has been identified as a potent mediator. Therefore, this study proposes the following hypothesis:

**H2:** There is a significant relationship between funding and entrepreneurial self-efficacy.

**Entrepreneurial Self-Efficacy and Business Success:** One of the earliest contributions to the study of entrepreneurial self-efficacy focused on how it affects the establishment of entrepreneurial intentions. Boyd,
& Vozikis (1994) extended Bird's (1988) model of entrepreneurial intent by proposing that self-efficacy is a key mediator in determining both the strength of entrepreneurial intentions and the chance that those intentions would result in entrepreneurial activities. Gatewood and her colleagues discovered that personal efficacy influenced the development of nascent entrepreneurs' attributions for starting new businesses when they further examined the effects of self-efficacy on entrepreneurial intentions on populations of nascent entrepreneurs (Carter, et al., 2003). Entrepreneurial self-efficacy in launching a new firm is a critical component in raising the chance of business start-up activity, as demonstrated by Rauch and Frese (2007). According to Yarima & Hashim, (2016), a graduate with entrepreneurship training might not necessarily become an entrepreneur unless he/she possesses entrepreneurial self-confidence Therefore, this study proposes the following hypothesis:

**H3**: There is a significant relationship between entrepreneurial self-efficacy and business success.

The Mediating Role of Entrepreneurial Self-Efficacy in Funding and Business Success: The relationship between funding in business incubations and BS has been linked to entrepreneurial self-efficacy, which has been identified as a possible mediator. ESE may impact the efficiency of funding for business incubation. According to Kiran and Bose (2020), entrepreneurs with high entrepreneurial self-efficacy levels are more likely to wisely use funds. According to Al-Damen, (2021), there is a high impact of business incubator on BS at business incubators, this can boost BS. The varying definitions of success among business owners demonstrate the subjectivity of the idea of success in the entrepreneurial industry. Every entrepreneur has a different understanding of what success is for them and how it should be assessed. Therefore, using financial indicators alone to determine whether a firm will succeed is insufficient. This study explored the possibility that other psychological traits of non-financial indicators, such as entrepreneurial self-efficacy, also contribute to BS. According to Bandura (1977), entrepreneurial self-efficacy may be applied to task-specific effects, which indicates that a person who manages a business and possesses the self-efficacy construct can firmly hold on to their conviction in their ability to complete the job in entrepreneurial activities. Several studies have examined the relationship between ESE and business success. Miao et al. (2017) found a favorable correlation between entrepreneurial self-efficacy and BS, and ESE impacts economic performance and is favorably correlated with it. In other words, BS depends on entrepreneurial self-efficacy consequently. The findings of Caglayan & Demir (2014) confirm that BS is associated positively with getting funds. Also, Krishnan, et al. (2012) report similar findings that access to funds significantly affects BS; this study proposes the following hypothesis:

**H4**: Entrepreneurial self-efficacy mediates the relationship between funding and business success.

3. Proposed Conceptual Framework and Underpinning Theory for the Study

Based on a literature review, this study proposes a conceptual framework, as shown in Fig.1. Entrepreneurial self-efficacy is a mediating variable in the relationship between funding in business incubator practices and business success. Additionally, it would be interesting to observe the effect of funding on entrepreneurial self-efficacy and business success in the Palestinian scenario. Fig. 1: Conceptual Framework According to Penrose's resource-based view (RBV) hypothesis, businesses with the most effective managerial resources would be able to achieve the highest levels of development and profitability (Penrose, 1959). Which are produced using its special resources (Wernerfelt, 1984; Barney, 1991). RBV is a strategy for enhancing a start-up's competitive advantage that can be traced back to the effective use of priceless tangible or intangible resources. The importance of information, particularly in internal and external situations, is another point the RBV makes (Barney, 1991). Furthermore, the RBV's theoretical approach is crucial, especially for small businesses, which are likely to rely substantially on the traits and abilities of their owners (Lerner & Almor, 2002). In this study, we concentrated on both tangible and intangible resources, particularly the entrepreneur's self-efficacy. According to Shamsudeen, Keat, and Hassan (2017), entrepreneurial self-efficacy is an entrepreneurial quality that is intangible and valued among organizational resources that gives a start-up a competitive edge over its rivals and fosters business success. Thus, the proposed framework seeks to confirm the relationship between entrepreneurial self-efficacy and funding for business success, derived from the RBV theory.
4. Conclusion

In Palestine, due to the limited resources and the high unemployment rate, entrepreneurship has become a national priority and an opportunity for wealth-seeking individuals. It impacts the level of economic and social welfare (Tajpour & Hosseini, 2021). Entrepreneurial self-efficacy is crucial to the success of their businesses. Incubation funding is a crucial resource, and entrepreneurship self-efficacy may affect its effectiveness, to improve the chances of business success, it is crucial to consider entrepreneurial self-efficacy when sponsoring business incubation programs (Sulistyowati, 2023). The notion of entrepreneurial self-efficacy was used in this study to define the conceptual framework of the significance of funding as a business incubator practice for business success by acting as a mediator between the interactions of the independent and dependent variables. Although the present research demonstrates the significance of entrepreneurial self-efficacy in business success, this study contends that this link may be strengthened by incorporating entrepreneurial business success. Additionally, for these linkages to be robust, this conceptual framework requires independent empirical research. Therefore, future empirical research should investigate the connection between business success and (business incubator practices) such as training, funding, marketing, and networking. This demonstrates that entrepreneurial self-efficacy can accurately predict a business's success. This result is consistent with other studies on the relationship between entrepreneurial self-efficacy and business success (Rosli and Hatinah, 2016). Thus, the findings of this study are consistent with those of other studies (Baria, and Arshadb, 2020; Cabrera and Mauricio, 2017; Franco et al., 2016; French et al., 2017; Lo, et al., 2016). Furthermore, additional activities used in business incubators, including training, marketing, networking, and monitoring, may be incorporated to further verify the research and assess the impact of entrepreneurial self-efficacy on the development of a business.

References


