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Empowering Entrepreneurial Ecosystem: A Conceptual Paper on Exploring the Impact of Government Support on SMEs in Malaysia

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Abstract: SMEs continue to be a backbone for the development and growth of the economy in countries around the world. The success of SMEs depends on the effectiveness of EEs. One of the components of EEs that may contribute to the success of SMEs is government support. This paper proposes a conceptualization of the impact of government support (EE component), particularly on financial support and business support for SMEs in Selangor, Malaysia. This conceptual research provides important suggestions for researchers to assess the impact of government support on SME's business performance and also offers valuable insight for policymakers and other stakeholders to effectively design the initiatives that could enhance the growth and development of SMEs.

Keywords: *Entrepreneurial Ecosystem, SME, Government supports, Selangor*

1. Introduction and Background

Government involvement is critical in shaping the entrepreneurial ecosystem (EE). Previous researchers have found the value of government supports within EE by offering various support mechanisms such as training, financial assistance, informational support and marketing assistance (Petti, Compagnucci, & Tang, 2023; Wang, Li, Haq & Shahbaz, 2023; Feld, 2020). Other studies have highlighted the positive effects of government support on SMEs' business performance Yadewani, 2023; Nor, Hanafi & Saaidun, 2023; Kamilah and Kassim, 2021; Buba, Ramli, & Armanurah, 2021; Ishtiaq, Songling, Hassan & Hayat, 2020; Persada, Baihaqi, Awali, Saktia and Sutikno, 2020)and collaboration networks significantly enhance innovation performance (Lu, 2023). Similarly, government support is also important for entrepreneurs to sustain and maintain their persistence, especially after the pandemic of COVID-19 (Sahu & Panda, 2024; Otache & Usang, 2021). Studies done by Yang, Jaafar, Mamun, Salameh & Nawi (2022), Fitriasari (2020) and Ratnasingam, Khoo, Jegathesan, Wei, Abd Latib, Thanasegaran, Liat, Yi, Othman & Amir (2020) shown that effective interplay in governments supports contributes to enhancements of competitive advantage, survival and economic sustainability for SMEs. Government support can overcome the main obstacles of SMEs in accessing financial and other non-financial opportunities to improve performance (Nakku, Agbola, Miles, & Mahmood, 2020; Arshad, Ahmad, Ali & Khan, 2020).

Several studies have presented that the effectiveness of government supports is significantly different across industries depending on the nature of the industry, the characteristics of the firms within the industry as well as the external economic environment (Nguyen, Duy Van & Xuan, 2023; Guo, Zou, Zhang, Bo & Li, 2020). For instance, in the UK manufacturing sector, SMEs benefited from credit access, tax incentives and flexible regulations offered by the UK government to improve their firms' performance (Sohns & Wojcik, 2020). Similarly, in Pakistan's food industry tax relief significantly influenced SME performance Hassan, Ying, Ahmad & Ilyas, 2019) meanwhile study done in the SME foods industry in Korea acquired government certification support to maximize the SME's performance (Jeong, Shin, Kim, & Kim, 2021). This indicates that effective government support can assist SMEs enhance their competitiveness, innovation and resilience ultimately improving their overall performance.

Entrepreneurs in developed countries expect the government to fulfill their primary functions such as providing infrastructure, training, and financial opportunities to support an entrepreneurial environment. In Malaysia for instance, one of the nation's main agenda is nurturing the entrepreneurial environment. Ministries, state governments, and agencies plan and offer various support mechanisms such as creating a path for networking and collaboration, providing incubators and accelerators and funding opportunities. In 2023, the government of Malaysia allocated RM10.6 billion and implemented 225 programs to support 644, 731 SMEs by providing support mechanisms such as assess to financing, market access, human capital development and

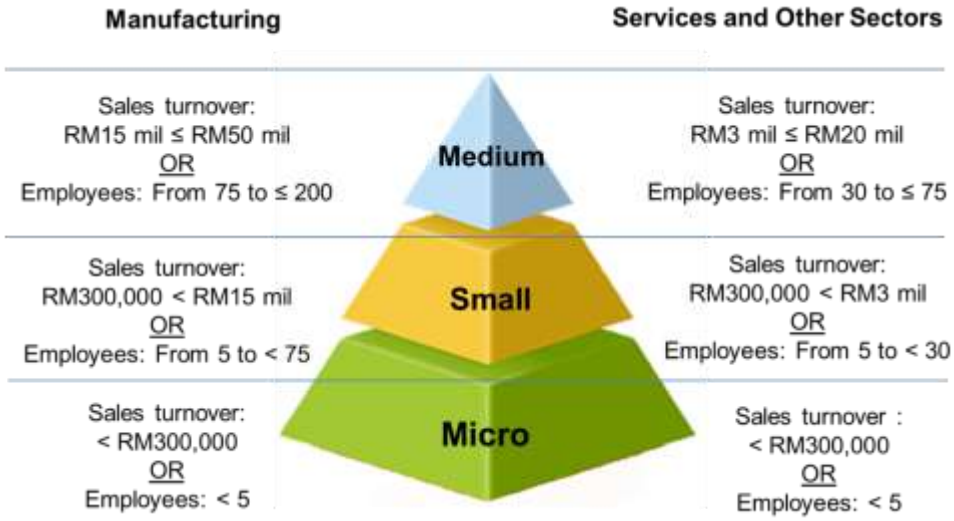
innovation and technology adoption (SME Corporation Malaysia, 2023). However, despite all the support mechanisms offered, limited study has yet to examine their effectiveness in enhancing SMEs' business performance. Thus, to address this gap, this paper will seek to provide an overview of the government support mechanisms such as financial support and business support (non-financial support) within EEs and how it can impact the SME's business performance in Selangor, Malaysia. Despite all studies done previously, there is still a lack of evidence on the relationship between government support and SME's performance in Selangor, Malaysia. Next, this paper will discuss the types of government support, SMEs in Malaysia and the impact on SMEs performance. This paper will add more to the literature review, particularly on government support within EEs and the impacts on SMEs and this work emphasizes interesting venues for future research. Lastly, this study will give valuable insights to policymakers and stakeholders to further design effective policies and strategies for SMEs.

2. Literature Review

SMEs in Malaysia

SMEs exhibit distinct traits including the ability to adapt and be agile in navigating dynamic situations, as well as possessing specialized competencies and limited resources (Silva, González-Loureiro, & Braga, 2021). According to Costa Melo, Queiroz, Junior, Sousa, Yushimito & Pereira (2023), two criteria are used to define the SMEs; sales turnover and number of full-time employees.

Figure 1: Source from SME Corporation.



According to SMEs Corporation Malaysia, SMEs are divided into three (3) three groups: micro enterprises (69.7%), small enterprises (28.5.%) and medium enterprises (1.8%) (SME Corp, 2023) and categorized into several categories such as services, manufacturing, agriculture, construction, and mining & quarrying. SMEs in the manufacturing industry are classified as companies whose annual revenue is below RM50 million or have a workforce of no more than 200 full-time employees meanwhile service and other sectors are identified as businesses that either have an annual revenue of RM20 million or less or employ no more than 75 full-time workers. In 2023, 1, 101, 725 SME establishments were recorded indicating an average annual growth rate of 5% between 2022 and 2023 (Annual report SME Corp, 2023). This definition is summarized in illustration 1.

Entrepreneurial Ecosystem (EE)

The concept of the entrepreneurial ecosystem (EE) has gained significant recognition and evolved in recent years. Cohen (2006) defines an entrepreneurial ecosystem as a connected network of individuals within a local geographical community who are addicted to promoting sustainable development by supporting and facilitating the establishment of new ventures. Subsequently, Isenberg's (2010) influential publication, followed by Feld's (2012), contributed to a significant role in fueling the increasing popularity of the ecosystem concept and gained attention among both policy practitioners and academics. This definition of an EE, as stated

by Stam (2015), has gained recognition and support from scholars, including Acs, Estrin, Mickiewicz & Szerb (2018). Acs et al., (2018) describe EEs as biotic communities encompassing the physical environment and its various interactions. Meanwhile, Van Rijnsoever (2020) views EE as a network of actors that collaborate and exchange resources under an institutional framework and infrastructure. In summary, EEs are characterized by their complexity, dynamic nature, constantly evolving, and operation in a holistic manner to describe the level and condition of entrepreneurship (Cohen, 2006; Shi and Shi, 2022).

Understanding and valuing the EEs is now widely acknowledged as a crucial approach for fostering economic growth. Supportive EEs are significant contributors in generating employment opportunities, nurturing wealth creation and economic prosperity (Malecki, 2018), thriving on innovations (Shami, Mamun, Safiah & Nurulizwa, 2020) and the application of new technologies, and lastly, gaining competitive advantage in the global economy. According to Weerasekara and Bhanugopan (2023), quality EEs require commitment, dedication, and connection among the EEs components. EEs perform as a foundation structure that supports entrepreneurial activities in specific geographical areas. Prior research founded common EE components categories into the following six (6) components; policy, finance, culture, human capital, market and support (Isenberg, 2011, Stam, 2015; Spigel, 2017) and each of these components is interconnected and their actions may influence the performances of each other (Stam & Van de ven, 2021; Tekic & Kurnosova, 2024).

Support Mechanisms for SMEs by Government and Agencies.

Many countries realized the contribution of SMEs to economic growth and development (Pulka, *et al*., 2021). SMEs assist in the job creation, growth of GDP and export earnings. Latest statistics from the Department of Statistics Malaysia 2023, SMEs GDP generated RM707.6 billion in 2023. All five sectors in SMEs (services, manufacturing, agriculture, construction, and mining & quarrying) significantly contribute to the GDP in 2023 whereby the service and manufacturing sectors highly contribute to the total SMEs' GDP (84.8%). SMEs' GDP grew by 5% as opposed to the country's overall GDP of 3.6%. SMEs also contribute to 39.1% in 2023 from 38.4% in 2022 (Department of Statistics Malaysia, 2023). Considering the contributions and importance of SMEs in Malaysia, the Malaysian government continuously developed and offered various support mechanisms to SMEs through the ministry, state governments and agencies. These support mechanisms can be categorized into two (2) key elements: (1) financial opportunities (2) business supports such as incubators and accelerators, training and mentorships and networking opportunities.

Financial Supports: Government financial support is one of the components that can boost the SME's performance and contribute to the economy (Jayeola, Sidek, Rahman, Mahomed & Hu, 2022). A study done by Cheong, Lee & Weissmann (2020) provides evidence government support particularly credit access and tax structure positively affect SME performance. In Malaysia, for instance, the government offers various funding opportunities to assist entrepreneurs in their businesses. For example, Budget 2023: Building a Civilized Malaysia allocates funds totaling RM40 billion to provide financial facilities and financing guarantees for the benefit of SMEs (MEDC, 2023). In addition, MEDC also offers a variety of funding sources to entrepreneurs under their agencies; (1)Tekun Nasional such as Business TEKUN Financing Scheme, TEKUN Friends Funding Scheme, and Indian Community Entrepreneur Development Scheme (SPUMI). All these funding schemes provide financing facilities to assist the entrepreneur get funding from RM1000 up to RM100,000 with a repayment period of up to 10 years. (2) National Corporation Limited provides a Franchise Financing Scheme, Pre-Franchise BIT Financing Scheme, Women's Franchise Entrepreneurship Financing Scheme (SWEET) and Youth Franchise Entrepreneurship Financing Scheme (YOUNITY) to entrepreneurs that embark on the franchise industry. (3) Malaysia Effort Trust (Amanah Ikhtiar Malaysia) also provides business capital to entrepreneurs such as the I-Young Scheme, the i-Friendly Scheme, and i- the Heroine Scheme. These schemes offer funding for Malaysian entrepreneurs from RM5000 to RM30 000 with a repayment period of up to 2 years (MEDC, 2023).

Furthermore, other ministry such as the Ministry of Rural and Regional Development (MRRD) offers many financing and training programs such as Right Start Program (PSR), Rural Economy Financing Scheme (SPED), Rural Entrepreneurship Strengthening Support Program (SPKLB), Income Enhancement Program and Desamall Online. RM 90.81 million has been allocated for rural economic endeavors that include a range of initiatives including community economic development programs and entrepreneurship projects with a specific emphasis on promoting the digitalization of business (under the Budget 2023: Building a Civilized

Malaysia). MRRD has allocated RM1.7 million in 2023 to support the Entrepreneur Digitization Program (Desamall Online), aiming to assist 1000 entrepreneurs in digitizing their businesses (MRRD,2023). These funding sources allow entrepreneurs to secure capital and sustain their business in the industry. This paper summarizes the current financial opportunities available for SMEs in Table 1. By leveraging these mechanisms effectively, entrepreneurs can enhance their chances of growth and success by minimizing the challenge and increasing access to resources. A study done by A study done by Cheong et.al., (2020) proved that credit has a positive correlation with SME performance and attracts investors. Tehseen, Johara, Halbusi, Islam & Fattah (2021), further found SMEs' performance is reflected by financial support. However, empirical studies done by various studies argue government financial supports have no significant effects on SMEs performance (e.g. Luo, Liu, Zhang, Xu & Guo, 2021; Wang et al., 2021; Zulu-Chisanga, Chabala & Mandawa-Bray, 2020). Similarly, studies in Korea's SME foods industry also present government support does not affect SME performance. (Jeong et al., 2021). Therefore, this study proposes the following hypothesis to examine the relationship between financial support and SMEs' business performance.

H1: Government financial support has a positive effect on the SME's business performance.

Table 1: Financial opportunities available for SMEs in Malaysia year 2023

Sector	Initiatives	Ministry/Government Agencies
Manufacturing and services	1. Business TEKUN Financing Scheme, 2. TEKUN Friends Funding Scheme 3. Indian Community Entrepreneur Development Scheme (SPUMI).	1. Tekun Nasional
	2. Tube Grant for start-up venture (Youth Bumiputera).	2. SME Corp
	3. Franchise Financing Scheme, 4. Pre-Franchise BIT Financing Scheme, 5. Women's Franchise Entrepreneurship Financing Scheme (SWEET) 6. Youth Franchise Entrepreneurship Financing Scheme (YOUNITY).	3. National Corporation Limited
	7. I-Young Scheme, 8. i-Friendly Scheme 9. i- Heroine Scheme. 10. Right Start Program (PSR), 11. Rural Economy Financing Scheme (SPED), 12. Rural Entrepreneurship Strengthening Support Program (SPKLB) 13. Income Enhancement Program and Desamall Online.	4. Malaysia Effort Trust (Amanah Ikhtiar Malaysia) 5. Ministry of Rural and Regional Development (MRRD)

Business Support: Prior studies have found that business support positively affects SME business performance. For instance, in Nigeria, government support is a key player in contributing to the competencies, capability and competitiveness of SMEs (Shamsuddin, Management, Idrus, Islam, Maulana & Ibrahim (2020). Further, a study in South Africa indicated that incubators/accelerators and training assist SMEs in enhancing their performance (Kanayo, Maria, & Ebenezer, 2023). Similarly, Poland, the Czech Republic, Hungary, and Slovakia benefit significantly from the incubator programs that focus on improving product quality and innovation capabilities (Siwiec, 2023). According to Nguyen & Vu (2021), non-financial support such as training and advisory services are as important as financial support.

Incubators and accelerators play an important role in connecting entrepreneurs with industry experts,

enabling resource exchange and thus offering guidance and support to entrepreneurs Cearra, Saiz-Santos & Barrutia, 2021; Hern´andez-Chea, Mahdad, Minh, Hjortsø, 2021). Entrepreneurs may benefit from the incubator programs whereby the knowledge they gain will assist them in creating new opportunities, combating challenges and seeking solutions (Tabas, Kansheba & Theodoraki, 2024). Moreover, these programs not only assist SMEs during their crucial early stages but also nurture innovation and diversification, create employment opportunities and enhance entrepreneurial competencies (Al-Baimani, Clifton, Jones & Pugh, 2021). According to Harris (2021), incubators are a transformation agency in the EEs. Business incubators are characterized as property-based organizations that foster the expansion of entrepreneurial companies (Tracey, Dalpiaz, & Phillips, 2018; Nixon & Valliere, 2021) and serve as orchestrators of EE (Del Sarto, Isabelle, & Di Minin, 2020; Giudici Giudici, Reinmoeller & Ravasi, 2018), These property-based organizations provide a pool of resources, encouraging interactions among entrepreneurs to develop skills, and tying entrepreneurial ventures to the external business community.

Meanwhile, an accelerator is "a fixed-term, cohort-based program for startups, including mentorships, and/ or educational components, that culminates in a graduation event (Cohen, Fehder, Hochberg & Murray, 2019). By joining accelerator programs, entrepreneurs, especially startups, may gain various benefits such as enhancing their innovation performance (Del Sarto et al., 2022) access to resources and networks, fast-track developments, enhanced credibility and visibility within the industry and among potential investors and gaining structured learning and mentorship (Klerk, Miles, & Bliemel, 2024). In Malaysia, the Ministry of Science, Technology, and Innovation (MOSTI) known as MaGIC (Malaysian Global Innovation & Creativity Centre) offers pre-accelerator, and accelerator programs as well as valuable resources to support startups and entrepreneurs at various phases of their journey. This incubator's primary objective revolves around cultivating a vibrant EE in Malaysia (MaGIC, 2023). Another incubator, Selangor Information Technology & Digital Economy Corporation (Sidec), one of the Selangor government agencies also assists start-ups, provides mentoring, and training, and connects entrepreneurs to a network (Sidec, 2023).

The Ministry of Entrepreneur Development and Co-Operative (MEDC) together with agencies such as SME Corporation Malaysia and the Institute of National Entrepreneurship (INSKEN), has developed and executed various initiatives, programs, training, mentoring, and support to achieve the aspirations as Entrepreneurial nation by 2030. Programs conducted by SME Corp including MSME Week 2023, Global Linkages SME Program (GLOSMEP), SME Annual Showcase (SMIDEX) and SMEs Export Enhancement Program provide a platform for fostering networking and collaboration. These opportunities allow the entrepreneur to exhibit their products and services, share their knowledge, establish strategic business partnerships and create new business linkages and investment opportunities. Therefore, this study proposes the following hypothesis for the study of SMEs in Selangor, Malaysia.
H2: Government business support mechanisms have a positive effect on the SME's business performance.

Impact of Government Supports and SMEs' Business Performance: Hussaini and Muhammed (2018) described business performance as the capacity of firms to gain opportunities and encounter challenges by operating firms efficiently and profitably. To increase business performance, developing the right business strategies is essential and interconnected (Kadak & Laitinen, 2021) therefore the performance measurement must be aligned with the business strategies (Hansen, 2021). Business performance can be measured by assessing a firm's financial performance, innovation performance and market performance (Santos & Brito, 2012).

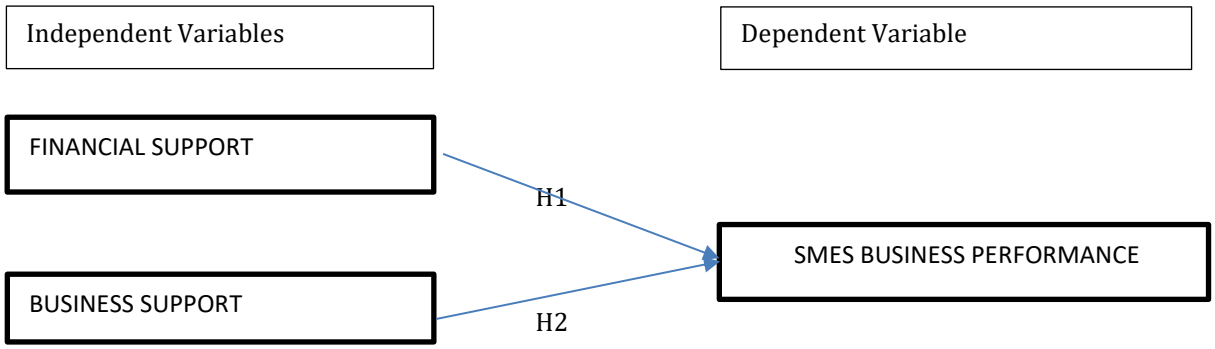
Adequate funding is important for entrepreneurs to start and grow in their journey. Government financial support is a crucial factor for SMEs in developing countries to overcome resource insufficiency meanwhile in advanced economies countries, the government provides a conducive environment to nurture entrepreneurial activities (Tekic & Kurnosova, 2024). This aligned with findings from Cheong et al., (2020) who suggest new initiatives and programs that offer non-debt funding should be introduced to improve the SME's performance. Past studies for instance studies done by Park, Lee & Kim (2020) and Aslam, Rehman & Nasir (2023) showed that government financial support played a crucial role in SMEs' performance and thus resulted in SMEs' sustainability. A study done by Kanayo et al., (2023) and Yusoff, Zainol, Kasuma, and Darma, (2021) among SMEs in South Africa and Malaysia respectively confirmed that government financial support contributes positively to SMEs' business performance. Subsidies, grants, and tax incentives received by SMEs in Malaysia

significantly impact the growth of SMEs (Kamilah & Kassim, 2021).

In SMEs, innovation is also critical for survival, and competitiveness and creates competitive advantages (Khan, Thuy & Tram, 2023; Marzi, Manesh, Caputo, Pellegrini & Vla, 2023; Severo, Sbardelotto, de Guimarães & Vasconcelos, 2020). Creativity and innovative ideas are needed for SMEs to produce the quality, values, and effectiveness of their businesses (Feng, Zhenzhen & Wang, 2022). Various studies demonstrated the positive correlations between government support and SME business performance (Chen, Amoako, Quansah, Danso & Jidda, 2023; Khan et al., 2023). However, SMEs have limited access to invest in innovation due to limited resources on finance. For instance, a survey done by SME Bank (2020) found that one of the main obstacles to SMEs is funding. The financial products offered by financial institutions did not fulfill entrepreneurs' demands due to high financing charges and low funding amounts. Hence, government support mechanisms such as tax incentives, subsidies, and technical support are critical to SMEs then spur innovation in firms leading to higher business performance (Chen et al., 2023; Songling, Ishtiag, Anwar & Ahmed, 2018). Lastly, by having positive government support, SMEs can enhance their relationships with the state entities thus increasing access to design unique policies and financial assistance. SMEs have the potential to boost their market performance when they can explore opportunities to design unique policies and financial assistance from effective government support (Nor et. al., 2023; Zaato, Ismail, Uthamaputhran, & Owusu-Ansah, 2020).

Integrating the proposed hypothesis, this study developed the following conceptual framework for further analysis.

Figure 1: Conceptual model: the impact of the entrepreneurial ecosystem (Government support) on the Business Performance of SMEs in Selangor, Malaysia.



Source: Own elaboration.

3. Research Methodology

This study will adopt a cross-sectional design and the target population will be SMEs in Selangor, Malaysia. Moreover, a quantitative research method will be applied to examine the impact of government support on SMEs. Selangor will be selected as an area of study because the area is the most developed state that contribute almost a quarter (25.9%) contribution to the National GDP in 2023 (DOSM, 2023). Therefore, it is crucial to understand the impact of government support on SME performance in Selangor, Malaysia. Convenience sampling will be used in selecting the SMEs to take part in this study. The survey will be used by focusing on government support mechanisms; financial support (funding opportunities) and business support (networking and collaboration, incubators and accelerators). The survey will also collect data on the performance of SMEs. This study will measure SMEs' business performance inspired by the works of Santos and Brito (2012). Meanwhile, all the items for the availability of government financial support will be adopted from Acs, Szerb and Autio (2015).

Table 2: Sources of Variable

Variables	Items	Sources
Government Support		
Financial Support	12	Acs, Szerb and Autio (2015).
Business Support	13	Shamsuddin (2014)
SMEs Performance	16	Santos & Brito (2012)

SPSS and SEM will be used to analyze the data. In early analysis, reliability analysis will be conducted to assess the internal consistency of the measurement scales for instance, Cronbach's alpha will indicate if those questions are reliably measuring the same underlying concept before examining relationship factors. Next, this study will incorporate the exploratory factor analysis (EFA) to identify underlying factors influencing SME performance that might be related to government support. EFA can reveal if these measures group together into broader factors such as financial performance or innovation performance. SPSS and SEM will be considered to test complex relationships between variables and further assist in examining how different government support programs may directly or indirectly influence SME performance factors in Selangor. Hence, the findings of this study will provide a comprehensive understanding of how government support has an impact on the performance of SMEs in Selangor, Malaysia.

4. Conclusion

The impact of government support within EEs has gained significant attention in academic research. Government support is essential in SMEs' performance and the effectiveness of such support often depends on various factors such as the nature of industries and the size of the firms. By providing financial support, SMEs can improve their accessibility to capital and resources resulting to increasing in performance Anwar & Li, 2021). However, the effectiveness of government financial support is not universally positive. Zulu-Chisanga et al., (2020) and Jeong et al., (2021) studies indicate that government financial support may not have a direct impact on SME performance and suggest other factors such as inter-firm collaboration and managerial ties are crucial for enhancing the impact of government support. This further emphasizes that in certain circumstances, government financial support may not have a significant impact on SME performance. Meanwhile, business supports such as incubators and accelerators, networking and collaborations, and training are also vital for SME performance. Government business support may assist SMEs in increasing their short-term performance by reducing debts and increasing sales (Kim et.al., 2021). Therefore, the purpose of this paper is to advance the literature review on government support within EEs and also this work emphasizes interesting venues for future research. First, how does government support affect SMEs' performances? and how effectively does each government support affect SMEs' performance?

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