

# Building Innovative Entrepreneur Community: Challenges and Future Outlook

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## Abstract

Bumiputera involvement in entrepreneurship activities and their performance remain a central focus of the Government. The launching of Bumiputera Economic Strengthening Agenda (BESA) is a manifestation of the government commitment to further support and provide a more comprehensive assistance to the Bumiputera. Thus, the objective of this study to discuss the fourth focus in BESA which is to intensify Bumiputera entrepreneurship and business activities by promoting innovative and creative activities in the business. The study makes two important contributions; (1) the study provides insight into the current innovation level and culture among local SMEs and (2) the study sheds some light on the requirement for firms to involve in innovative and creative activities. Thereby, this study advancing knowledge on the prerequisites for building innovative entrepreneur community.

**Keywords:** Innovation, Challenges, Government Support, SMEs

## 1. Introduction

Bumiputera<sup>1</sup> involvement in entrepreneurship activities and their performance remain a central focus of the Government. The launching of Bumiputera Economic Strengthening Agenda (BESA) is a manifestation of the government commitment to further support and provide a more comprehensive assistance to the Bumiputera. BESA is the continuation of the programs under the New Economic Policy (NEP) which was ended in 1990. NEP and BESA aimed to establish a nation with economic growth and equitable distribution of wealth among ethnics. BESA which was launched by Prime Minister Dato Seri Mohd Najib has outlined 5 focuses to strengthen Bumiputera entrepreneurs: namely;

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<sup>1</sup> 'Son of the soils' is referring to indigenous people in Malaysia.

- i. Enabling Bumiputera human capital
- ii. Strengthening the ownership of the Bumiputera equity in the corporate sector
- iii. Strengthening the ownership of Bumiputera non-financial assets
- iv. Intensifying Bumiputera entrepreneurship and business activities
- v. Strengthening the support service delivery ecosystem

Thus, the objective of this study is to discuss on the fourth focus in BESA, which is to intensify Bumiputera entrepreneurship and business activities. The focus is closely related to the entrepreneurial activity of Bumiputera in Malaysia as the government is aware of the need of Bumiputera entrepreneurs to have more quality and comprehensive support services. A continuous support for Bumiputera SMEs is provided since the government believed that Bumiputera involvement in entrepreneurship activities is still lacking, in turn, unable to achieve the government targeted figure. Furthermore, the performance of Bumiputera SMEs even now low compared to other ethnic groups. Evidently, the complexity to access funding and market constraint are among major problem faced by Bumiputera SMEs. Besides that, the usage of obsolete technologies and low level of innovation are identified as contributing factor for lack of performance and competitiveness of Bumiputera SMEs.

Therefore, among strategies to address this issue, the Government has allocated RM300 million to Amanah Ikhtiar Malaysia (AIM) which aim to assist 500,000 women SMEs by the year 2015. In addition, RM 700 million also allocated to the Economic Business Entrepreneurs Fund aimed to provide financial support to 370,000 SMEs by 2015, an increase of nearly 40% compared to the year 2013. In order to improve access to the market, the Government will also continue to give emphasis on the development of the vendor system. All ministries and Government-linked companies (GLCs) involve in the programs were urged to strengthen the vendor development programs.

Further, the Bumiputera SMEs' participation in GLC business activities was set up as a key performance indicator for all GLC's head. The step taken is to help Bumiputera SMEs to overcome market access constraint. On another development, the consortium of Bumiputera company was set up to address supply problems. However, there are lesson to be learned from the previous formation of consortium to curb price escalation of raw material during economic downturn in 2002. The establishment of the consortium through Malay Chamber of Commerce did not show satisfactory performance.

The most interesting finding in the fourth focus is that the commitment of the Government to build new Bumiputera entrepreneur community. The members of the communities are entrepreneurs who are competitive, innovative and dare to take risks. This community is also a passion and involved in knowledge-based activities such as information technology, biotechnology and green technology. A dedicated fund amounted RM100 million is provided to support the community activities.

It is a great challenge for the SMEs to ensure the success of the agenda. The government has come out with a more comprehensive support services to generate innovative and creative Bumiputera SMEs. It is the responsibility of the SMEs to fulfil the government aspiration.

However, there are requirements for the government and SMEs to fulfil so the agenda would become reality and leave not as a white elephant. Thus, this study will discuss the SMEs preparations in promoting innovation within their organizations. So, the Government's objective to have competitive Bumiputera SMEs becomes reality.

## **2. Purpose of the Study**

The purpose of the study is twofold. First, this study will discuss about pre-requisites and characteristic of innovative firms. Second, this study highlights the degree of innovation within Malays SMEs and the action to be taken by the support providers and SMEs to nurture innovation culture.

## **3. Contribution**

The present study makes two important contributions. First, this paper provides insight into the current innovation level and culture in particular within Bumiputera SMEs. Second, the study sheds light on the requirement need to be fulfilled by the support providers and SMEs that may influence the propensity to involve in innovation activities. The Resource-based View (RBV) theory proposed that the innovation activities within firms were influenced not only by the resources availability but also firms' capabilities (Collis, 1994). Thereby, this studies advancing knowledge in the RBV theory on the pre-requisites for building innovative entrepreneur community.

## **4. Literature Review**

### **4.1 The Role of the Government**

The Government's involvement in promoting innovation activities among SMEs was translated through the establishment of the National Innovation Council (NIC). NIC was established under the Ministry of Science, Technology and Innovation (MOSTI) and headed by the Prime Minister. NIC has 21 members comprised of 5 cabinet ministers, central agency representatives, industry representatives and academicians. To further stimulate innovation activities the Government has also established the Innovation Agency of Malaysia (IAM) in 2010 under the IAM Act 2010. The establishment of the IAM intended to promote innovation activities and build innovation eco-system.

Among the support services for innovation activities provided by the Government are;

- i. Research and development grant
- ii. Tax Incentives
- iii. Fund for commercialization of research and development
- iv. Tax exemption on imported machinery and equipment
- v. Technical support services
- vi. Technical consultancy services

To have a clearer picture about the needs and challenges in promoting innovation activities the next section discussed the definition of innovation, the need to innovate and obstacles to innovate among SMEs.

#### **4.2 Innovation**

Innovation is widely accepted and recognized as a crucial element to build a competitive firm. Firms that did not take innovation as strategies running the business are at risk owing to high possibility of products and process used are obsolete. According to Madrid-Guijarro, Garcia, & Van Auken (2009) innovative firms is a prerequisite for nation to build up a dynamic and competitive economy among others. Garcia and Calantone (2002) argue that innovation in business environment refers to a concept of doing something new or different. This concept was influenced by the theory of 'creative destruction' introduced by Schumpeter (1942). Schumpeter posits that economic development must be driven by innovation through a dynamic process in which new technologies emerge to replace the old one. He further argued that innovation may occur in five major dimensions of innovation; (1) production of new products, (2) introduction of new production process, (3) opening new markets, (4) the development of new sources of supply for raw materials and other inputs and (5) the creation of a new market structure in the industry.

With reference to Oslo Manual, guidelines for collecting and interpreting innovation data issued by OECD divide innovation into four categories; (1) product innovation, (2) process innovation, (3) organizational innovation and (4) marketing innovation (OECD/Statistical Office of the European Communities, 2005). Similar definition and concept of innovation outlined by MOSTI which focusing on production of new products or improve products, processes, organization and marketing, organizations and foreign relations (Ministry of Science Technology and Innovation, 2011). Report of the National Survey of Innovation (2011), further explained innovation as product innovation, process, organization and marketing as follows;

A product innovation is the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses. This includes significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics. A process innovation is the implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software. A marketing innovation is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing. An organization innovation is the implementation of a new organizational method in the firm's business practice, workplace organization or external relations.

To conclude, an innovation doesn't refer only to the production of new products, but it is also associated with the introduction of the new process, marketing or management systems which is distinct from the existing ones.

#### **4.3 The Need for Innovation**

Considering a competitive business environment, innovation becomes a focal point for policy makers. Besides a wider market globalization policy also has opened up a great opportunity for

local players and outside country. As a result, local SMES face stiff competition from long existed players as well as new entrants. As earlier mentioned, innovation has been recognized by researchers and policymakers as a key component for the economy to the success. Therefore, innovation activities must take place in the economic activities, especially in the business activities. Much more to say innovation must become a culture in the organization. However, researchers argues that innovation does not take place by chance but, it is a result of systematic processes and high commitment of firm (Barringer, Jones, & Neubaum, 2005; Markides, 1986). Thus, the Government effort to provide a support to encourage innovation activity among SMES is a bold step and timely.

A considerable amount of literatures has been published in the importance of innovation for SMEs. There is a consensus among scholars that regardless the size; firms need to innovate to remain competitive in the industry. Innovative firms were found at better position to provide jobs more than firms who did not (Clarysse & Dierdonck, 1998). This view is supported by Michael and Pearce (2009) who writes that innovation not only creating jobs but, much more creating firm's wealth. This is because innovative firm are able to secure a more sustainable market thus, maintain firm performance (Carayannis & Gonzales, 2003).

Many scholars have argued that pressure of competition forced firm to innovate (Barringer, et al., 2005; Bergemann, 2005; de Jong & Vermulen, 2006; Drucker, 2007; Frenkel, 2003; Gopalakrishnan & Damanpour, 1997). Numerous studies showed that customers are becoming complex in their needs and preferences which demand firms to stay alert, react accordingly and work for R&D. Fernald, George and Bradley (1999) claimed that employees must know how to improve quality of products to meet customers need. In other words, it's required a large amount of investment and at the same time firms need to generate profits. Conceptually, adding operational cost shall increase the product price. The higher the price may lower the product attractiveness.

Therefore, to address this issue, it is imperative for firms to innovate to increase productivity, which keep the price competitiveness and strengthened the product quality as well. De Jorg and Vermulen (2006) points out that innovative firms are more competitive in cost efficiency than uninovative firms. Innovative firms are also able to enhance customer's standard of livings consequently improve the quality of life (Gopalakrishnan & Damanpour, 1997). In the same vein, the EU Commission stressed on the need for constant innovation activity to face a dynamic and ever increasing competitive business environment.

Overall, these studies highlight the need for SMEs to innovate in their daily activities. The studies presented thus far provide evidence that a positive relationship between innovation and growth of the firm. So far, the government attempt to promote innovation among SMEs by way of providing support services is a courageous effort to improve SMEs competitiveness.

## **5. The Challenge**

There is a large volume of published studies describing the challenges and barriers to innovate. Detailed examination of the challenges by Baldwin & Lin (2002) and Mohen and Roller (2005) showed that cost, institutional constraints, human resources, organizational culture, and the

government policy were among the major obstacles for SMEs in practising innovation which discussed as follows:

### **5.1 Government Policy**

The government commitment in supporting SMEs to practice innovation is vital. Madrid-Guijarro, et al., (2009) identified the limitations of supports from the government was an obstacle to innovation, which was the third largest obstacles among European countries. SMEs unawareness about the importance of innovation due to failure of the government agencies to efficiently disseminate information with regard to technology changes and market opportunities (Frenkel, 2003). Therefore, to nurture innovation culture among SMES, the government must have a well planned intervention and coordination between agencies. A comprehensive intervention via policies and regulations should inclusive macro and micro policy. Besides that, the support agencies must move in line with the government aspirations and objectives to achieve economic growth without sideline social stability.

### **5.2 Costs**

Innovation is often associated with research and development activities (R&D). Most of product, process and marketing innovation derived from R&D activities. Firms who are actively involved in R&D are more likely to innovate. The study found that research and development activities has a significant relationship with innovation and positive impact on the performance of the firm (Madrid-Guijarro, et al., 2009). However, SMEs are recognized having limited capacity in terms of financial resources for R&D investment. Furthermore, for SMEs investing for R&D certainly has risks due to erratic results. Madrid-Guijarro, et al., (2009) argue that financial constraints and the perception on risk associated with innovation has reduce the level of innovation of firms. The findings are consistent with previous studies by Bergemann (2005) and Hausman (2005). Similarly, the National Survey of Innovation, 2005 (Ministry of Science, Technology and Innovation, 2011) found that innovation cost is a major impediment to the success of innovation. Finding of the survey showed that 41% of respondents were having difficulties with high innovation costs which slowed down firms' innovation activities.

The evidence presented in this section suggests that innovation starts with R&D activities which are costly. Innovative firms need to invest in R&D activities which require a lot of money. In view of all that has been mentioned so far, the cost for innovation is a major constraint for SMEs and barrier for the development of innovation culture among SMEs.

### **5.3 Human Resources**

Gray (2006) points out that innovation activities require support and commitment of all members of the firm. Arguably, it is difficult to promote innovation is when firms did not have a strong human resource management. This is because the innovation activity would interfere routine daily tasks schedule (Shanteau & Rohrbaugh, 2000). Review by Mc Adam and Corey (2004) found that weak management unable to support innovation in the firm. In addition, innovation activities also requires support from the knowledge workers who are looking forward to change for better (Baldwin & Lin, 2002).

Hausman (2005) in discussing the challenges of innovation among firms mentioned that SMEs manager at disadvantage in terms of education and training. Consequently, it impacted the success of innovation. Much more, most SMEs do not have a systematic human resource program, which to provide adequate supportive infrastructure. This problems further compounded SMEs' participation in training programmes were very low (Abbott, 2007). The failure to upgrade knowledge leave the low level of knowledge among SMEs (Gray, 2006).

#### **5.4 Innovation Culture**

According to National Survey of Innovation, (Ministry of Science, Technology and Innovation, 2011) reported that the level of innovation among firms in Malaysia is much lower compared to their counterpart in developed countries. The survey, which was conducted by MOSTI, showed that only 51.49% of SMEs were classified as innovative firms and 48.51% of firms did not innovate. This was referring to both manufacturing and services sectors.

The survey also highlighted the relationship between the propensity to innovate and firm's size. The survey result indicates that the bigger of the firm's size, the higher innovation activity. The study found that only 35% of the small-sized firms innovate. On the other hand, the same study indicated that 49% and 79% of medium-sized and large firms involved in innovation respectively. These statistics clearly indicate that firm's size, which is referring to the amount of revenues and number of employees is a significant factor in determining the degree of innovation. Firm with high turnover has better financial position and capable to carry out innovation activities which usually involve high costs. Conversely, smaller firm gains lower turnover and employed fewer knowledge employees. As a result, smaller firm less capable to invest in innovation activity.

Together, this survey provides important insights into the level of innovation among local SMEs. Statistically, the innovation practice was low where statistics showed only 32% of the SMEs innovate. The absence of innovation activity was recorded at 68% of SMEs is considerably high and need urgent attention from the government. In this case, it is believed that financial constraint was the main obstacle for SMEs. Besides that, scholars identified other significant factors that may influence the innovation activity within firms, the factors are as follows;

- i. SMES did not capable to effectively use technology and exploiting transfer of technology (Gray, 2006)
- ii. Low participation among SMEs' in training and development programmes. The issue of lack of qualified and knowledgeable employees is not effectively addressed.

Skilled workforce, competent management and marketing skills were prerequisites for firms to venture into innovative activities among others. These internal resources become a catalyst to boost firm's capacity in terms of new knowledge acquisition and implementation, disseminate new information and exploit other new resources at the optimal level.

In short, SMEs greatly need knowledge workers to be an innovative. According to Gray (2006), the management capability eventually led to tendency to innovate. In this case, management capability is referring to manager/owner's level of education. Gary further argued that

owner/manager who possess technical and vocational educational background is more likely to innovate than who are not.

Almost every paper that has been written on innovation clearly shows that there is a positive relationship between innovation and growth of firms, particularly its financial performance. However, innovative activities actively performed among large firms. Although innovation exists among small firms, but it is of low value. This phenomenon contributed by the limitations as presented in the earlier section of the study.

SMEs comprise of micro, small and medium-sized enterprises have been recognized possess a lot of weaknesses, in particular financial resources and skilled manpower. Studies showed that only 20% of SMEs in Malaysia using support services for innovation provided by the Government. The study also suggested that most of the services were enjoyed by the large firms (Ministry of Science, Technology and Innovation, 2011). The study also reported that some of the SMEs claimed the services did not give much benefit to their firms.

Overall, there seems to be some evidence to indicate that there is a relationship between the size of the firms and the level of innovation. Apparently, the innovation activities are more intense among large firms compared to smaller firms. One good reason is larger firms have the advantage over the resources. This allows larger firms to innovate by exploiting new technologies to gain competitive advantages (Heimonen, 2012). In contrast to Heimonen, Kohn and Scott argue that with a simple organizational structure smaller firms are more flexibility compared to large firms which enable them to assign resources for innovation. Similarly, Thornhill (2006) posit that smaller firms were capable to innovate but comparatively the innovation value is lower than bigger firms.

## **6. Conclusion**

The firm's size has significant influence on the propensity to innovate. Studies showed that large firms are more likely to innovate compared to small firms. Under BESA, dedicated agencies to support innovative and creative Bumiputera entrepreneurs received an enormous amount of fund. However, according to the previous studies indicated that innovation activities were very low among small firms. Therefore, hypothetically, the level of innovation among micro firm is low. Then, if the hypothesis is supported, the government's commitment by increasing loan allocation aimed to promote innovation activities among micro firms hardly to succeed. This is because one of the prerequisite for innovation firms is knowledge workers. Certainly, micro firms cannot afford to employ due to financial incapability. Thus, promoting innovation is wise action, but the government should also look at the capacity building among micro and small-sized firms. The market expansion programs and product quality enhancement program should not be sidelined as these are among other factors that may increase firm's performance that lead to financial stability and firm growth. With higher turnover and stronger financial position, the tendency to innovate is higher.

Innovation is vital for SMEs to remain competitive in the dynamic economic environment. The role of the government support for SMEs is remaining relevant to overcome constraints and further promote innovation as a culture in the daily business activities. The government support



services should act as a catalyst to achieve the objective and turn the country into a high-income nation by the year 2020.

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