

National Entrepreneurship Policy for Malaysia: A Conceptual Perspective

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**National Entrepreneurship Policy for Malaysia: A Conceptual Perspective**

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**Introduction<sup>1</sup>**

Entrepreneurship policy is fast becoming an emerging area in economic policy development of many nations that are looking to boost entrepreneurial vitality in recognition of much evidence that a high level of entrepreneurial activity contributes to economic growth (GEM1999; GEM 2000; Birch 1999; Wennekers and Thurik 2001). An entrepreneurial policy in essence works with other sets of development policy to foster economic growth by establishing an entrepreneurial economy that is characterized by a knowledge driven, small-firm dominated and highly dynamic industrial scenario (Audretsch 1999; Gilbert 2004)). The focus of the entrepreneurship policy is to increase the supply of entrepreneurs, new businesses and new jobs in an environment that is both favorable to business AND entrepreneurially inclined. The key element in creating such an environment is the creation of an entrepreneurial society that then becomes the source of a viable and consistent supply of entrepreneurs of the future.

As such the entrepreneurial policy looks to mobilizing the economy's physical, social, human and knowledge capital to harness entrepreneurial capital to generate economic growth from the entrepreneurial economy. The differentiating factor that sets the entrepreneurial policy apart from other economic development policy is the fact that in focusing on creating an entrepreneurial society and supply of entrepreneurial talent (capital), the policy is individual focused and not entity (firm) focused and is best described as being founded on the notion that it is "not the firms but the individuals who do business" (Boter, Hjalmarsson, & Lundstrom, 1999).

This paper will attempt to present and discuss why an entrepreneurship policy is needed to work in tandem with other SME and industrial development policies to complete the movement into a truly entrepreneurial economy for sustainable economic growth. The lessons and models are from more developed nations striving towards the same direction but the context of this paper is inexplicably the Malaysian economy in its drive towards full development.

**The Entrepreneurship Policy Realization**

Since the early 1990's, many economies had began to recognize entrepreneurship as an emerging area of economic policy input based on an understanding that a high level of entrepreneurial activity is a contributing

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factor to economic growth and development (Birch, Haggerty, & Parsons, 1999; GEM, 1999; Wennekers & Thurik, 2001). A review of contemporary empirical studies on the relationship between entrepreneurship and economic performance bears testimony to this fact and forms the basis of entrepreneurship becoming an increasingly important area of policy development (Acs & Armington, 2002; Audretsch & Thurik, 1997; Curran, 1999; MIER, 2005).

Consequently, over the last decade many nations have began serious efforts to mobilize entrepreneurship in their economies. Major economic organizations like the OECD, the European Commission and APEC (Lundstrom & Stevenson, 2001) have contributed to this movement through reviews of economic approaches to developing entrepreneurship. The OECD *Thematic Overview of Entrepreneurship and Job Creation Policies* (1995) and the EU's *Fostering Entrepreneurship in Europe* (1998) are notable evidence of the serious effort going into realizing the entrepreneurial economy (Lundstrom & Stevenson, 2001). More recently and closer to home is the APEC *Strengthening An APEC Entrepreneurial Society* (2003) joint ministerial statement that indicate that governments in APEC are in full realization of the centrality of entrepreneurship to Asia-Pacific economic growth (US-State-Dept, 2003). In Malaysia, entrepreneurship made its presence felt at development policy level as early as 1991 when the national vision document, Vision 2020, came onto the scene to launch the nation's move into a 30 year plan to become a fully developed nation by the year 2020. While the Vision 2020 document per se is not regarded as a policy document, its strong reference to entrepreneurship as a social and economic driving force indicates progressive thinking in the nation's leadership and has impacted on key development policies including the OPP3 (2000-2010) that included some references to entrepreneurship as economic development objectives. In spite of this, a review of other economic development plans for Malaysia from the mid 1990's to the current policy documents have indicated an almost chilling absence of the word 'entrepreneur' or 'entrepreneurship'. The concept of entrepreneurship may be implied in some cases but more often than not the indication of anything close to entrepreneurship in the nation's economic development plan is focused on SME development with particular reference to the Bumiputra Commercial and Industrial Community (BCIC) and as a policy thrust to develop linkages within the manufacturing sector development.

It is almost criminal that Malaysia's economic development policy is consciously or unconsciously lacking this entrepreneurship-specific content but Malaysia is not alone in this malaise. In spite of the realization that entrepreneurship must be a factor in the economic development policies of the new age, globalize economy, many, if not all, the nations seeking to mobilize entrepreneurial vitality in their economies tend to lump SME-oriented policies together with specific entrepreneurship-oriented policies, strategies and measures. The two concepts of entrepreneurship and SME seem to be regarded and treated as one and the same resulting in a preponderance of SME-oriented policies presumably to tackle both SME and entrepreneurship development challenges (Gilbert, Audretsch, & McDougall, 2004; Holtz-Eaking, 2000; Lundstrom & Stevenson, 2001). But this scenario is changing evidenced by the growing literature on a shift to differentiate between

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entrepreneurship policies and SME policies and the need to assimilate entrepreneurialism into society at large with the push for an entrepreneurial culture that is able to generate the supply of entrepreneurs that is capable and motivated to realize the full potential of his venture (Audretsch & Keilbach, 2004b; Bodde & Green, 1999; Curran, 1999).

The next section will attempt to provide the basis of differentiating entrepreneurship and SMEs and hence the ensuing policies by first discussing briefly some of the key concepts that contribute to the entrepreneurship-SME dichotomy.

### **The Entrepreneurship-SME Dichotomy**

One thing must be made clear up front- while entrepreneurship and SMEs are related they are not synonymous. To better understand the difference between the two, a brief discussion of entrepreneurship, SMEs and the emergence of the entrepreneurial economy is undertaken to provide a background against which one may better understand the resultant dichotomy.

### ***Understanding Entrepreneurship***

Entrepreneurship became a legitimate field of academic enquiry at the start of the 1980's and since then the body of empirical knowledge regarding this area has grown tremendously (Bygrave & Hofer, 1991). Key concepts emerging from the literature encompass the concept of the entrepreneur (individual, behavior and traits), the entrepreneurial process and more recently, entrepreneurial capital (Audretsch & Keilbach, 2004a, 2004b). While the body of knowledge has grown since Schumpeter's (1934) ground breaking seminal work on entrepreneurs was produced, there still remains a key area of enquiry within this field of study that defies consensus. The study of entrepreneurship till today still lacks a universally accepted scientific definition and is very much open to interpretation according to the focus of the study at hand (Bygrave, 1989; Sexton & Landstrom, 2000; Virtanen, 1997). In spite of this the literature does agree that there are key elements that are inexplicably associated with entrepreneurship. Sexton and Landstrom (2000) in their review of entrepreneurship points out that different definitions in this area of academic enquiry tends to revolve around the individual aspect, the innovative aspect, the commercial orientation aspect and business behavior. It is understood that while definitions of entrepreneurship will have two or more of the mentioned aspects as part of a working definition, all the definitions will have one aspect in common - *the individual*.

In conceptualizing entrepreneurship, the concept of entrepreneur (the individual actor in the market) is combined with the concept of being entrepreneurial (behavior in the market) to give rise to an entrepreneurial process (combines time dimension with behavior in the market) towards achieving an outcome (creation of value) (Virtanen, 1997). The basic premise of the entrepreneur has always been that

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the individual is self-employed and in different stages of starting, managing and growing their own business. Over time the concept of the entrepreneur has extended beyond the business entity criteria to cover individuals who are 'want-to-be' or nascent entrepreneurs (persons who are currently in the process of trying to start up a business but do not own a business entity as yet) (Audretsch & Keilbach, 2004a; GEM, 2000; Wennekers, Stel, Thurik, & Reynolds, 2005) and corporate entrepreneurs or intrapreneurs who exhibit entrepreneurial behavior within a corporate business environment (without the ownership factor) (Dollinger, 2003; Kuratko & Welsch, 2004). In between these extremes one can find the sector specific entrepreneur types (e.g. micro entrepreneurs, technology entrepreneurs, lifestyle entrepreneurs) and a whole host of other tags that denote specific typifications. In light of this expansion of the scope of entrepreneurship and types of entrepreneurs, Lundstrom and Stevenson (2001) suggests that rather than focus on attaching adjectives to the word entrepreneur to try to differentiate different types, the more important consideration would be to recognize the diversity of entrepreneurship, the dynamism of entrepreneurial process and that people 'become' entrepreneurs and develop over time.

Furthermore, a review by Stevenson (1989) of the literature on entrepreneurial process point to the compelling conclusion that the individual is more likely to become an entrepreneur if they are aware of the option and sees it as an option accepted or even desired by the society at large; if they feel that their attempt to pursue a business idea will gain support and if they are confident of their own capability to create and grow a business enterprise. Interestingly, this review formed part of the evidence for the Atlantic Canada government impetus into an entrepreneurship policy in 1990 (Lundstrom & Stevenson, 2001; Stevenson, 1989)

Audretsch & Keilbach (2004) added an important element to the entrepreneurship- based concepts when they introduced the concept of entrepreneurial capital. Entrepreneurial capital in the economic context is seen as another driver of economic growth in addition to the existing accepted drivers consisting of physical capital, human capital and knowledge capital. In this context, entrepreneurial capital of an economy is taken to mean "a milieu of agents" (Audretsch & Keilbach, 2004a) taking part in as well being conducive to the creation of new firms. The reference to 'agents' here is not limited to entrepreneurs who take the risk of creating a new venture but extends to individuals in broad support structure such as bankers and venture capitalist as well as the society at large that contributes to a social acceptance of entrepreneurial behavior.

### ***Understanding the Small & Medium Enterprise (SME)***

Small and medium enterprises gained momentum as an economic development force around the end of the last century when economies that were used to enjoying the prosperity of the post-war era came face-to-face with stagnating economic growth and a persistently high unemployment levels (Audretsch & Keilbach, 2004b; Lundstrom & Stevenson, 2001). At about this time, a US study by Birch (1979) marked a turning point for economies that had traditionally focused on large industry for its economic growth and job

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creation. In the study, Birch (1979) reported that US small firms were actually able to create more jobs than their larger counterparts. More studies supporting the small (and later medium) enterprise prowess in job creation inevitably lead to many nations producing a plethora of SME directed policies to encourage entrepreneurship and innovation that are seen as being central to the creative process in the economy particularly in terms of promoting growth, increasing productivity and creating jobs. This was to be the point where the concepts of entrepreneurship, own business ownership and the share of smallness in industries started to be linked to economic (Birch, 1979).

Unlike the concept of entrepreneurship, the SME is much easier to quantify and is often defined by very quantitative parameters such as employment size and sales turnover. The study by Lundstrom and Stevenson (2001) of 10 economies around the world show that almost all the nations use employment size to define SMEs. Malaysia's definition is detail to say the least with SMEs being identified by the number of full time employees or annual sales turnover. The definition identifies the SMEs by size (micro, small , medium) and have different thresholds for employment size and sales turnover for three key sectors- manufacturing (including agro-based and manufacturing related services), primary agriculture and services (including ICT) (Bank-Negara-Malaysia, 2004b). While the definitions are helpful to say what constitutes an SME in a particular economy, the usefulness of such definitions to policymakers in their efforts to develop, install and evaluate policies for SMEs is being questioned by studies that indicate that they are really too little research done in this aspect to support the use of such definitions to guide policy development (Aldrich & Fiol, 1994; Boter et al., 1999; Lundstrom & Stevenson, 2001).

### ***The Shift Into An Entrepreneurial Economy***

The managed economy that emerged as a post-war era answer to economic prosperity was characterized by stability, continuity and homogeneity that was reflected in public policies focused on government ownership of private enterprise, emphasis on regulation and antitrust instruments. While the particular emphasis or instrument used varied across economic regions or countries, they all had a common, almost singular concern – how can society reap the benefits of large corporations in an oligopolistic setting while still being able to restrict and restrain the cost imposed by the concentration of economic power (of the large corporations)? This singular policy approach of the managed economy or 'managed capitalism' thrived for a good part of the last century by focusing on relative certainties of economic outputs made up mainly of manufactured goods with inputs consisting mainly of land, labor and capital. The element of economic concentration (in large industries) and exploitation of scale economies were paramount in this managed economy era (Audretsch & Keilbach, 2004a)

Then around the late 1970's the economies the world over, particularly in Western Europe and the United Kingdom, began to feel the impact of growing economic stagnation and rising unemployment. Large firms were subjected to massive downsizing and restructuring and entrepreneurship has been rediscovered

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(Carree, Van Stel, Thurik, & Wennekers, 2001). The empirical evidence documenting the shift in economic activity indicated a moving away from large firms to small and often young enterprises (Acs, Carlsson, & Karlsson, 1999). The flexibility of the small firms were showing evidence to result in competitive advantage and this encouraged start-up rates of new firms in many economies. Consequently, the role of the entrepreneur became increasingly important and difficult to ignore. The age of the entrepreneurial economy had been established (Audrest & Keilbach, 2004a ).

Symptomatic of the shift into an entrepreneurial economy is reflected in, among others, the increased importance of knowledge, innovation and the increased role of new and small firms (Curran, 1999). The entrepreneurial economy proved the perfect spawning ground for flexible, more high-risk taking small firms that embraced the information and Internet revolution to make it their comparative advantage over large firms that were slower to pick up on the changes taking place. Even firm failure is viewed seen as an externality of learning and accompanies the process of search for new ideas that marks the basic premise of the entrepreneurial economy that thrives on flexibility, change and turbulence. Failure is not feared but rather it is embraced as a necessary component to knowledge building and economic comparative advantage (Audretsch & Thurik, 1997). The entrepreneurial economy is here to stay and the elements of the entrepreneur

(individual) and the small firm (entity) has become increasingly important to policy development so as to enable an economy to harness the best growth options from the new economy.

From the brief discussion above regarding the concepts of entrepreneurship, SMEs and the shift to entrepreneurial economy, the discussion next turns to the differences in entrepreneurship policies and SME policies and why an entrepreneurship policy is necessary for sustainable economic growth in an entrepreneurial economy.

### **The Need for an Entrepreneurship Policy**

Dennis De (2001) in contributing to the literature on entrepreneurship policy points out that due to the seemingly ambiguous nature of entrepreneurship as highlighted by an absence of a clear-cut concept of entrepreneurship, governments tend to revert to the more structure concept of SME to base their economic policies. Apart from the Atlantic region in Canada that adopted an entrepreneurship policy approach in 1990 (Lundstrom & Stevenson, 2001) most others rely on the SME structure instead. In doing so, this nations have chosen to focus on SME policies that have a general intend to strengthen the existing base of small enterprises by ensuring that they can compete in the marketplace and is not prejudiced due to their small size relative to large firms (Lundstrom & Stevenson, 2001). A review of the policy frameworks in the EU, OECD and APEC show that the common priority themes are to improve financing, information, market opportunities, skilled labor force, management development, encouraging R&D and technological development and reducing regulatory and legislative obstacles (Lundstrom & Stevenson, 2001). What all

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this constitutes are components of the demand side of economic development in an entrepreneurial economy (Wennekers & Thurik, 2001).

In ensuring a truly vibrant and sustainable entrepreneurial economy, the supply side is just as important. The supply side perspective focuses on the number of people who have the motivation, the financial capabilities and the skills to (successfully) launch a new business entity (Wennekers & Thurik, 2001). The components that are central to the supply perspective of economic development then shifts to the individual (as opposed to focus on the entity in the demand side SME policies) and how to the policies here can successfully propagate a supply of individuals that prefer business ownership over wage employment and a general propensity of the society to gravitate towards business ownership. The primary elements that determine if the supply side objective of contributing to entrepreneurship capital is achievable include the demographic composition of the population (such as age, ethnic composition, religion), the capabilities of individuals and their attitudes or preferences towards entrepreneurship. The supply side relies heavily on education to build entrepreneurial capabilities and inclinations; on cultural capital to create a societal desirability towards business ownership and risk taking (including availability of role models) and on institutional frameworks (including general institutions and specific policy measures) that aid the individual's (often implicit)

assessment of the financial and non-pecuniary rewards and risks of business ownership (over wage employment). Lunstrom and Stevenson (2001) summarize the supply side economy as needing policy initiatives that focus on the individual motivation, skills and opportunity structure. While the demand side economy is addressed by SME oriented policies, the supply side needs an entrepreneurship policy.

### **Comparing Entrepreneurship Policy and SME Policy**

Lunstrom and Stevenson (2001) in their empirical work on entrepreneurship policy for the future have suggested that a comparison of entrepreneurship and SME policies point to three major areas of comparison. The areas cover the focus on individuals versus firms (entities); focus on pre-start-up (entrepreneurship development) versus post-start-up (business development) and finally, a broad versus a narrow definition of which institutional structures go into the support environment. Table 1 below is an adaptation of the Lundstrom & Stevenson (2001) comparison of differences between the two forms of policies using a selected feature comparison perspective.

Simply put, the comparison confirms that the "... entrepreneurship policy is oriented more towards the individuals and individual behavior and small business policy more towards SMEs as entities" (Lunstrom & Stevenson, 2001). If one were to accept the basic notion that it is "not the firms but the individuals who do business" (Boter et al., 1999) then an entrepreneurship policy is needed to supply that all important entrepreneurial capital and to act in complement with SME policies and industrial development policies.

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**Table 1: A Comparison of SME policy versus Entrepreneurship Policy Features**

<b>Feature</b>	<b>SME Policy</b>	<b>Entrepreneurship Policy</b>
<b>Objective</b>	Firm growth, productivity	Motivate more new entrepreneurs
<b>Target</b>	Existing firms, business entities	Nascent entrepreneurs/ new start-ups, individuals
<b>Targeting</b>	'pick winners' (i.e. growth sectors, firms)	General population, subsets (i.e. women, youth)
<b>Client Group</b>	'Existing' (easy to identify)	'Nascent' (difficult to identify)
<b>Levers</b>	Direct financial incentives (loans, guarantees)	Non-financial, business support (education, networks, counseling)
<b>Focus</b>	Favourable business environment (encourage business growth)	Entrepreneurial culture (encourage entrepreneurship)
<b>Delivery System</b>	Well-established	Many new players, need orientation
<b>Approach</b>	Generally passive	Pro-active outreach
<b>Results Orientation</b>	More immediate (less than 4 years)	More long term (can take longer)
<b>Consultation</b>	SME associations	Forums generally do not exist

*Source: Adapted from Lundstrom & Stevenson, 2001, Entrepreneurship Policy for the Future, Vol 1, Swedish Foundation for Small Business Research*

Dennis De (2001) in his work on fostering entrepreneurship points out that when policy makers talk of fostering entrepreneurship in view of economic competitiveness and growth they are not looking to a general entrepreneurship culture or climate building perspective. Rather the focus is strongly on innovation and hence entrepreneurship becomes a focus on innovative entrepreneurs and start-ups that is taken to be synonymous with high growth potential and growth. Since innovativeness can be difficult to pinpoint, policy direction have taken to focusing on specific new sectors such as ICT and biotechnology (De, 2001). This approach is similar to what Lundstrom and Stevenson (2001) refer to as 'picking winners', a propensity to pick individual growth firms or sectors. The danger with this approach, whether consciously or unconsciously, is to focus too



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specifically on start-ups in certain sectors rather than in general and therefore overlook innovative entrepreneurs elsewhere in the economic system. Unfortunately, the impact on the entrepreneurial economy supply side, particularly the nascent entrepreneurs and start-ups, will be a lack of support, opportunity or an even playing field while the demand side opportunities and support system will be focused on too narrow a base to sustain continuous economic growth.

Is the situation in Malaysia any better or any different than what has been discussed thus far? The next section looks at the Malaysian policy environment for clues to how the nation treats entrepreneurship development.

### **The Malaysian Policy Environment for Fostering Entrepreneurship**

As pointed out earlier in this paper, Malaysia can take pride in being one of the earliest developing economies to recognize the need for entrepreneurship as a driver of growth. The Vision 2020 visualizes a developed and industrialized Malaysia as, among other things "... an entrepreneurial economy that is self-reliant, outward looking and enterprising..." (Mahathir, 1991). The national vision statement makes further references to entrepreneurship in national economic development by stressing the necessity to hone the people of Malaysia's "...achievement motivation, (their) attitude towards excellence and the fostering of the entrepreneurial spirit". The vision statement was progressive enough to recognize the link between entrepreneurship development and education when it stated, "We cannot afford to neglect the importance of entrepreneurship and entrepreneurship development, which goes beyond training and education".

But as the document progresses, some confusion as to which comes first, SME's (or SMIs as they are referred to in the document) or entrepreneurship becomes evident. In one instance the SMEs are implicated as being the "... spawning ground for the birth of tomorrow's entrepreneurs " and yet in another instance the statement made is that "... the attempt to rapidly develop our small and medium must be driven by the enterprise of our entrepreneurs" thus implying that there is a need for a pool of entrepreneurs to drive the SME sector development. So it would seem that from the all-encompassing national vision statement one can detect the early signs of a nation preparing to go head long into the entrepreneurial (knowledge) economy with the indisputable baggage of the entrepreneurship-SME dichotomy issue.

Having said that, the Vision 2020 is still a remarkably far-sighted vision statement that had an outlook that were supposed to be translated into policies for national economic development. A review of the ensuing national development policies indicate that the entrepreneurial emphasis of the Vision 2020 is basically 'lost in translation' and instead emerges as a preponderance of SME-oriented policies. A basic content analysis for entrepreneurship focused objectives or strategies in various policy documents produced disconcerting findings. From 'first tier' policies, like the 10 year Outline Perspective Plans (OPP), to 'second tier' policies, namely the 5 year Malaysia Plans, to 'third tier' policies that target specific sectors or functions, like the National Education Policy, the National Agriculture Plan and the Financial Sector Master Plan, the indication

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is that the Malaysian development policies are on developing the SMEs and not entrepreneurship. Even the word 'entrepreneur' and 'entrepreneurship' is hard to come by in these policy documents. The most reference to these entrepreneurship related terms in any single policy document must be the OPP3 (2000-2010) document that targets national economic development along the lines of the knowledge based society and ultra competitive global economic sustainability.

All this can be attributed to a simple semantic problem or even a conceptual glitz rather than a policy thrust shortfall. Could it be that Malaysia actually means to develop entrepreneurship but lumps it all under SME development instead? It would not be a unique occurrence as the Lundstrom and Stevenson (2001) research shows. The review of entrepreneurship policies in 10 nations show that there is a general confusion on how to differentiate SME policy from entrepreneurship policy that result in the two policies being part of the same 'soup' (Lundstrom & Stevenson, 2001). But the study also points out that there is a general trend now to shift towards clarifying the differences, actually develop and introduce an integrated entrepreneurship policy with some governments being further along the road as compared to others. Should we (Malaysia) not also go down that road of enhancing entrepreneurship by looking to clarifying and introducing an entrepreneurship policy?

Initially there have been indications of us doing just that. The evidence may well be the APEC SME Ministers meeting in 2003 where Malaysia participated and the Ministers issued a joint statement that stressed the need for a vibrant "entrepreneurial society" as being central to the growth of the APEC economies (US-State-Dept, 2003). More interestingly is that the ministers agreed that key factors for strengthening entrepreneurship include a favorable policy environment, education and training, and innovation with the aim of 'enabling individuals and would-be entrepreneurs to comprehend changes in their national and global economies and identify business opportunities' (US-State-Dept, 2003). Further the ministers emphasized that " culture is an important determinant of entrepreneurial spirit" and that policy makers are in part responsible for fostering an environment conducive to the growth of that entrepreneurial spirit. Such clarity is very encouraging indeed for APEC in general and Malaysia specifically. Unfortunately, it has been 3 years since and the enthusiasm and clarity displayed at that meet is beginning to look like more rhetoric than a real intent to promote entrepreneurship.

Granted that we are one of the few nations in the world to have a full government ministry that is suppose to handle entrepreneur development and another government agency looking to small and medium industries development and now we have a national level council looking to SME development. We are even looking to inculcating entrepreneurship into the education system and in 2006 we will see a national blueprint to develop SMEs as well as a national budget with provision to further strengthen SME growth but what wither all these efforts if that one crucial and separate entrepreneurship policy that must guide, oriented and coordinate the national efforts to foster entrepreneurship culture and capital with that all important focus on the individual is

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still missing. Malaysia can do this albeit a little guidance from what is being used as the underpinnings of similar entrepreneurship policy efforts from other nations.

The next section looks to introducing a model of entrepreneurship policy, the parameters and how the entrepreneurship policy works together with SME and industrial structure policies to drive a fully entrepreneurial economy.

### **Structuring An Entrepreneurship Policy**

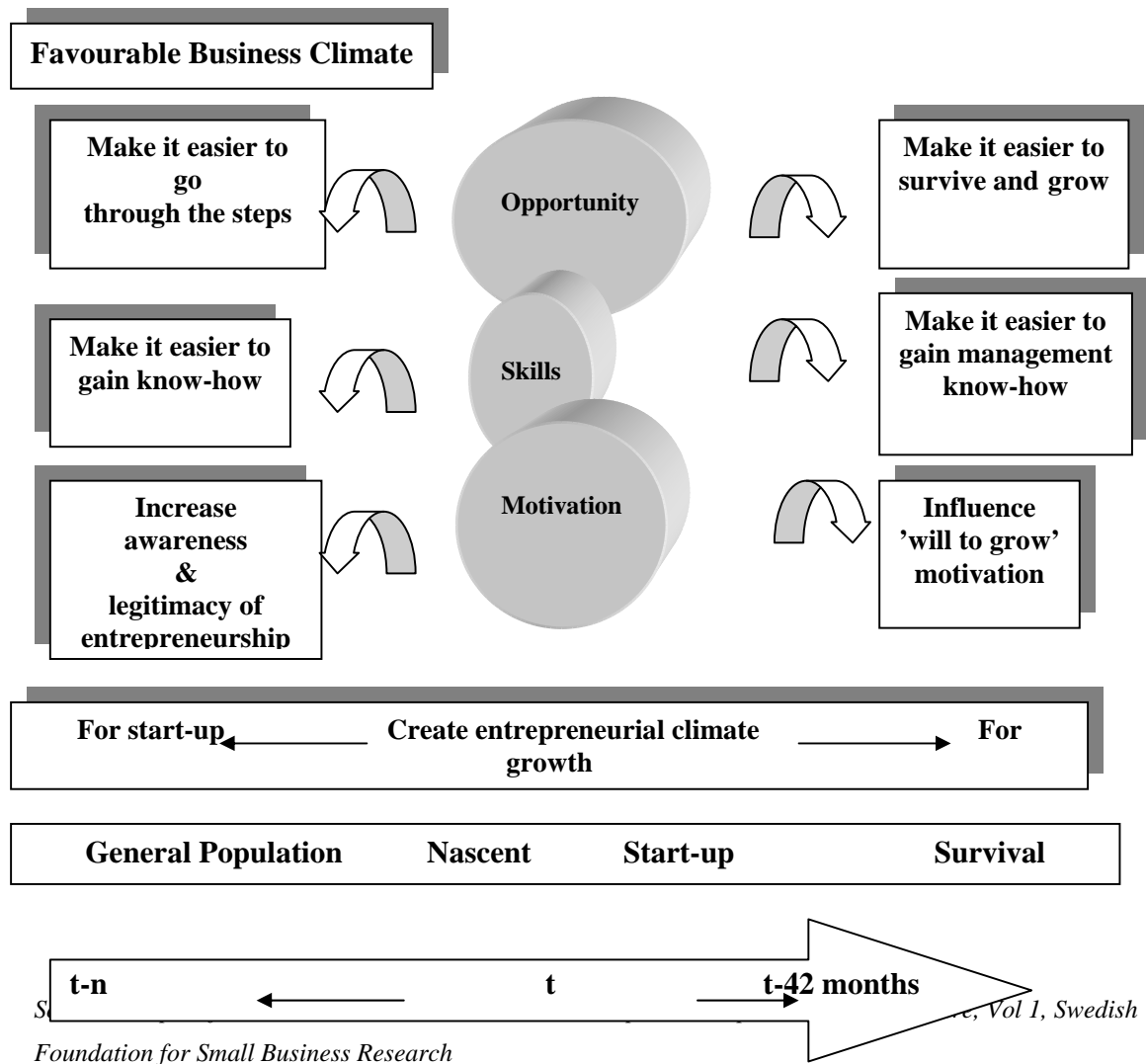
The entrepreneurship model and structure presented in this paper relies heavily on the empirical works of Lundstrom and Stevenson (2001) as it is presently regarded as one of the most thoroughly research works on entrepreneurship policies. The policy structure suggested by Lundstrom and Stevenson (2001) is based on their empirical findings and as such offers a well grounded model that is applicable in many economies with specific adjustments according to suit particular nation emphasis. This paper contends that an understanding of this model will provide Malaysia with an important lead into how an entrepreneurship policy can be clarified, structured and integrated into the existing national development context. Following the Lundstrom and Stevenson (2001) model, structuring of an entrepreneurship policy needs to take into account the basic foundations of the policy, the definition and parameters of the policy and the policy measures.

### ***The Entrepreneurship Policy Foundation***

Earlier in the paper it was pointed out that an entrepreneurship policy is basically individual centered. That point of the policy is to provide the most compelling environment for that individual to become an entrepreneur hence contributing to the supply of entrepreneurial capital. The literature reviewed earlier indicated that for an individual to most likely become an entrepreneur, he must 1) be aware of the option and sees it as an option accepted or even desired by the society at large; 2) feel that their attempt to pursue a business idea will gain support and 3) are confident of their own capability to create and grow a business enterprise. Lundstrom and Stevenson (2001) encapsulate these factors into three key foundations for an entrepreneurship policy capable of creating the necessary environment: Motivation, Opportunity and Skills. Table 2 below offers a simplified version of the three factors in a context of integrated entrepreneurship policy approach

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Table 2: The Parameters of Entrepreneurship Policy



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*Motivation* refers to efforts made that can impact on individuals in such a manner as to motivate them to start and grow their own businesses. Such efforts encompass efforts to develop favorable attitudes towards entrepreneurship as a career option and fostering a society tuned into and positively inclined to entrepreneurship. *Skills* as well as knowledge in general, are geared to ensuring that the individual can be an effective entrepreneur. Efforts here go back into the availability of entrepreneurship education in schools, training and counseling for nascent entrepreneur and start-ups and initiation into networking possibilities. The *Opportunity* factor refers to creating a national, regional and local support environment that has allocations for access to resources that an individual intent towards entrepreneurship needs to get started. Some of the supportive and opportunistic environment efforts include access to financing, advice and reduced barriers to entry. The efforts mentioned after each factor form the main forms of policy measures under each factor towards achieving the entrepreneurship policy objectives outline under the next section.

Persons currently involved in the prevailing SME focused policy environment will recognize the above foundations as being in place in the current policy structure but is more than not ascribed to or referred to as SME policy. The key to seeing the subtle difference is that in the context of an entrepreneurship policy, these factors are more broadly defined and encompass certain long-term actions such as cultural change towards entrepreneurship through, among others, education and exposure of primary school pupils to entrepreneurship concepts and behavior. The prevailing situation that tends to emphasize the economic opportunity factors (such as financing and government aids) is balanced by the social opportunity factors that is often the missing factor. Cultural support for entrepreneurs and opportunities to learn skills and gain knowledge can have the impact of pushing entrepreneurship up the social desirability ladder. As such, in an entrepreneurial economy the education system, the media and the general community must be included into the network of business support institutions in addition to the existing government agencies and finance bodies.

All three factors of Motivation, Skills and Opportunity will necessarily overlap into one another that will give rise to an inter-related and integrated entrepreneurship foundation and policy as depicted in Table 2.

### ***The Entrepreneurship Policy Definition and Objectives***

Based on the integrated framework approach explained above, Lundstrom and Stevenson (2001) suggest that an entrepreneurship policy can be defined as:

- Policy measures taken to stimulate entrepreneurship
  - aimed at pre-start (nascent), start-up and post start-up phases of the entrepreneurial process
  - is designed and delivered to address the areas of Motivation, Skills and Opportunity

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- with primary objective to encourage more people in the population to consider entrepreneurship as an option to move into the nascent stage of taking steps to get started and to proceed into infancy and early stages of a business

Based on this definition, the basic objectives of an entrepreneurship policy would be

- To develop an entrepreneurial climate
- To encourage entrepreneurship
- To foster favorable attitudes to entrepreneurship
- To increase business start-up rate/ creation of new businesses/ number of new firms

### ***The Parameters of Entrepreneurship Policy***

The parametric depiction of the entrepreneurship policy as suggested by Lundstrom and Stevenson (2001) intends to depict the entrepreneurship policy based on the definition above and the foundation factors of Motivation, Skills and Opportunity in a context that shows the issues surrounding the adoption of this integrated entrepreneurship policy approach as well as across the entrepreneurship process continuum based on stages that the individual will go through that should come under the purview of the entrepreneurship policy.

The parametric model starts with the assumption that the Motivation, Skills and Opportunity framework is the central concept that spans and is relevant to 3 key stages of entrepreneurship namely the pre-start, the start-up and the post-start-up stages.

An important question here is why the continuum spreads over these three stages and where does the entrepreneurship policy hand over the baton of further development to the more SME oriented policy. To address this question Lundstrom and Stevenson (2001) mark the mid-point of their entrepreneurship process continuum as the business start-up point, denote by the letter 't' in the table above. From this point the continuum spreads out to either side indicating on one end (denoted by 't-n') that entrepreneurship development starts with addressing the needs of people who do not necessarily realize that they will become the entrepreneurs of tomorrow hence encompassing working the general population and nascent 'entrepreneurs-to-be' stages. To locate an appropriate upper limit to the process continuum, Lundstrom and Stevenson (2001) adopted the cut-off point for defining a new firm as used by Reynolds et al (2000) in their continuous global research effort that is published as the Global Entrepreneurship Monitor (GEM) (Reynolds, Hay, & Camp, 2000). The upper limit was set at 42 months after start up indicating that the entrepreneurship policy measures should continue to apply up to that point (denoted by t-42 months).

Lundstrom and Stevenson (2001) quotes other research findings that support the process continuum namely the findings that indicate that the new entrepreneurs are most vulnerable within the first three years of start-

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up with survival rates improving considerably after the three year mark. The other research finding is that firms that grow tend to start their growth trajectory early in their existence and usually before the five-year mark. It is thought that with better preparation and exposure to the entrepreneurial process before starting their entrepreneurial process as well as a tailored or individualized support during the vulnerable years would equip the new entrepreneur with knowledge and confidence that will help realized the full potential of their enterprise. To that extend, the Lundstrom and Stevenson model of entrepreneurship policy parameter based on the Motivation, Skills and Opportunity framework stretched across pre-start to post start-up highlights several key points:

- The entrepreneurship policy at the t-n (i.e. before and at start-up) stretch need to focus on promoting entrepreneurship, entrepreneurship education and skills and giving support to people exploring entrepreneurship and starting a business;
- The entrepreneurship policy t-42 months stretch (i.e. start-up to up to 42 months) needs focus on promoting growth possibilities, developing business management and growth skills and measures to level the playing field.
- The focus throughout is to create both an entrepreneurial climate AND a favorable business climate. Having one or the other would not work.
- Focus is on the capacity of the individual to start and grow a business, not on the business per se.
- Requires a broader view of 'entrepreneurship' development rather than 'entity (SME)' development
- Encompass a more diverse group of actors involved in fostering a more entrepreneurial economy

Lundstrom and Stevenson advocate that the policy thinking process should start with objectives and measures in the entrepreneurship policy area and only then progress to deciding how to continue into the later stages with SME development measures. This, the researchers' content, will help achieve the 'entrepreneurial economy' and reduce fragmentation of efforts that persist today in many economies.

### **Interconnectedness between Entrepreneurship, SME and Industrial Policies**

An entrepreneurship policy in any well-structured knowledge based economy works in tandem with other policies towards sustainable growth. As we have discussed thus far, the entrepreneurship policy basically centers on the supply side of the entrepreneurial economic perspective. The key purpose of the entrepreneurship policy focuses on increasing the supply of entrepreneurs, new businesses and new jobs

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(Lundstrom & Stevenson, 2001). The discussion before this has also pointed out the basic thrust of the entrepreneurship policy as being promotion of entrepreneurship to the general population, entrepreneurship education, reducing barriers to entry and start-up financing and business support that are tailored for target groups (such as women, youth, unemployed, technologist, scientist). Like any good policy, the entrepreneurship policy has a timeline to denote the need for other policy frameworks to carry on the development of the entrepreneurial talent created into the next block of development. As such, the entrepreneurship policy works synergistically with other development policy blocks namely the SME policies and industrial policies.

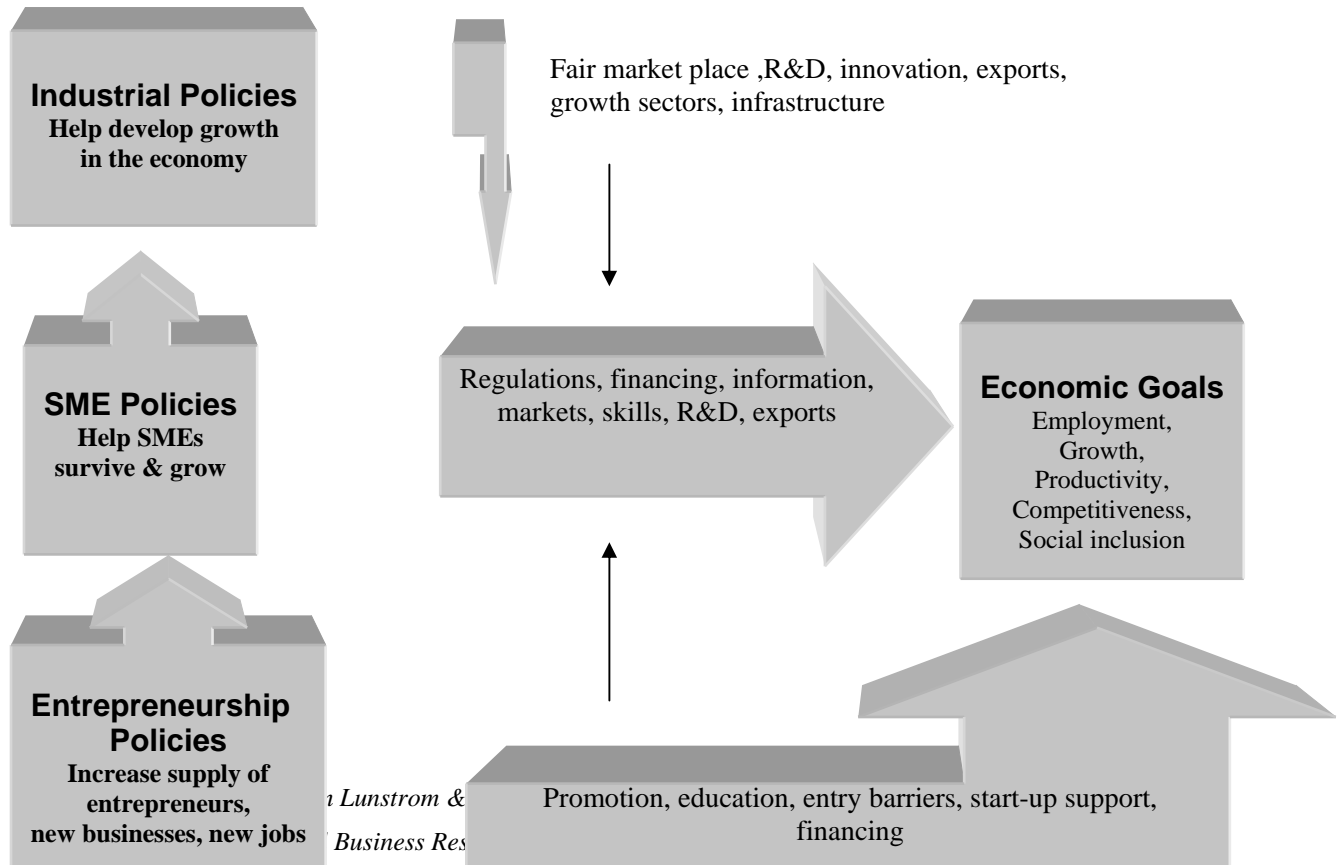
Where the entrepreneurship policy creates the supply of entrepreneurial talent, the SME policy takes the small and medium business entity that has survived the vulnerable years and is now in growth mode into a more mature stage where different challenges to survival and growth awaits. The purpose of the SME policy would be to ensure the businesses survive and grow further hence enhancing their sustained contribution to economic growth. The policy thrust here includes regulations that aid growth, growth support mechanisms encompassing financing, information, market access (including export markets) and skills in R&D and management.

The industrial policy is centered on developing growth for the economy. When SMEs contribute to economic growth they often do in the form of industrial clusters or linkages with larger firms. Some SME themselves become large and the industrial basically does not discriminate between big or small firms here. The purpose of the industrial policy is to mobilize all sizes of enterprise that are participating in the total industrial sector towards economic growth for the nation. Getting here is tough enough. Once here, the participating firms should be able to expect the industrial policy to have policy thrusts that ensure a fair market place to compete in, advanced level support mechanisms that target innovation, advance R&D, extensive export structures and equitable infrastructure facilities. Table 3 below shows the inter-relatedness of the policy sets.

**Table 3: The Interconnectedness Between Entrepreneurship, SME and**



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**Industrial Policies**

All three sets of policies, entrepreneurship policy, SME policy and industrial policy, are therefore inter-related and as mentioned earlier, synergistic (they 'mobilized' each other forward). The point to stress here is that the set must be complete for total economic growth towards full and sustainable development. Having one without the other would be to create an imbalance that will surely impact on the long-run economic development.

At the same time, one must not ignore the fact that each policy set is distinctive in that they focus on specific context of development. As such, the SME policy should not be burden with the task of creating the entrepreneurial society or pool of future entrepreneurs. Conversely, the entrepreneurship policy should not be expected to be effective if it has to support the firm into later stages of growth development that require a different set of policy thrust and outlook. Often the confusion over the inter-relatedness but distinct nature of the sets of policies discussed here lead to over-lapping areas of policy coverage and fragmentation of policy efforts. The glaringly obvious missing link to the total relationship of policy sets in most economies is the non-occurrence of an entrepreneurship policy. To quote Lundstrom and Stevenson

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(2001), "Understanding more clearly where entrepreneurship policies are situated in the relationship to more established policy areas will be helpful to governments who want to move to a more integrated economic development approach".

### Conclusion

Entrepreneurship policy is often associated with a fresh focus mainly on increasing the business start-up rate in a nation and the creation of an entrepreneurial society. Entrepreneurship policy is far more about systematic thinking and a change of policy mix rather than about adding programs or projects. Currently, many governments, including Malaysia, have a policy mix that centers on the SME sector that consist of measures that ensure an efficient functioning of markets and institutions through adjustment of legislation and regulations, provision of debt and equity financing as well as information and advise. The focus is invariably the firm or the business entity.

As government moves towards entrepreneurship policy, the policy mix broadens to encompass entrepreneurship promotion and education and new institutions to cater to needs of under-presented groups. The focus hence shifts to the individual and becomes more responsive to the needs of emerging or nascent entrepreneurs. It requires basically a tweaking of existing policies and support institutions, programs and measures to better enable the nation to achieve economic growth through the entrepreneurial economy structure. Malaysia is primed to make the change and policymakers should examine how resources are currently allocated to measures and efforts that are focused in the SME policy area and how reallocating to an entrepreneurship policy will enhance our economic achievements in the future. The question that remains is if we have the will to do so and how soon.

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