

Viability of Crowd funding as an Alternative Funding Mechanism for Youth Entrepreneurs

Munirah Salim, Salina Kassim

IIUM Institute of Islamic Banking and Finance, International Islamic University, Kuala Lumpur, Malaysia

To Link this Article: <http://dx.doi.org/10.6007/IJARBS/v9-i12/6734> DOI:10.6007/IJARBS/v9-i12/6734

Published Date: 29 December 2019

Abstract

The youth entrepreneurs group is one of the groups who have difficulties in accessing funds and commonly being excluded from the mainstream finance. Youth entrepreneurs face difficulties in accessing financing due to lack of collateral, and lack of credit history, thus being categorised as highly risky borrowers. Due to the technological advancement, crowd funding has emerged as one of the financing alternatives for the youth entrepreneurs to consider. In assessing the viability of crowd funding as a funding alternative, this paper highlights the relationship between perception and types of crowd funding model among youth entrepreneurs in *Institusi Pendidikan MARA (IPMA)* in considering crowd funding as one of their funding solutions. It further explores what kind of reasons that would increase the interest of youth entrepreneurs in utilizing crowd funding as one of funding solutions. In addition, barriers that keeping youth entrepreneurs from using crowd funding will be identified. Data were collected via questionnaires from youth entrepreneurs at IPMA in Melaka. The results of the study have valuable implications for the relevant authorities particularly on providing a conducive environment to inculcate the entrepreneurial culture and support youth entrepreneurial growth that is in line with the Sustainable Development Goals.

Keywords: Perception, Type of Crowd funding Model, Crowd funding, Youth Entrepreneurs

Introduction

Youth entrepreneurship is one of the most important strategies that influences the economic development (Chik et al., 2015). In Malaysia, there is a remarkable effort by government towards youth entrepreneurs by supporting them with financial and technical support (Khan, Noor and Anuar, 2018). Despite this attention, youth entrepreneurs face difficulties in finding finances (Khan et al., 2018). There are few reasons that lead to the difficulties to get funding among the youth entrepreneurs as this group are normally excluded from the mainstream finance. Majority of youth entrepreneurs failed to secure financing from banks due to bank financing is mainly

determined by creditworthiness of the borrower such as shortage of collateral, lack of track record, high interest rate and long waiting periods (Chik et al., 2015). According to Ley and Weaven (2011), business angels and venture capitalists are very selective and favor later stage businesses with high growth market segment rather than early stage businesses. All these obstacles may limit the potential of youth entrepreneurs to transform their considerable ideas and skills into a viable business venture, expansion and the growth of the national economy as well (Adnan, Razikin and Ramli, 2017).

In the past years, due to the technological advancement, crowd funding has emerged as one of the financing alternatives for the youth entrepreneurs to consider and has the potential to facilitate youth entrepreneur's accessibility towards financing. Crowd funding is a financing model that uses the power of the internet to raise funds in small amounts from a large audience who are interested to finance a project or businesses (Adhikary and Kutsuna, 2016). It eliminate the needs of financial track record, collateral, guarantor or even face-to-face interaction (Agrawal, Catalini and Goldfarb, 2011; Belleflamme, Lambert and Schwienbacher, 2013; Mollick, 2014). Crowd funding is now developing with sustained growth as total global crowd funding fundraising had reached \$34 billion in 2015 (Massolution, 2015) and it is projected to reach \$96 billion by 2025 (World Bank, 2013).

Due to its popularity and fast expanding market, youth entrepreneurs should take this advantage to consider using crowd funding that would assess towards many benefits such as multiple investors, market demand, marketing tools and others. For this reason, the aim of this study is to determine the perception of youth entrepreneurs in IPMA towards crowd funding as an alternative financing mechanism. This study also will identify what factors that would encourage youth entrepreneurs in IPMA to use crowd funding as one of alternative financing mechanisms as well as the barriers that may hinder them from trying crowd funding as one of financing options. This study will examine the level of consideration among youth entrepreneurs in IPMA in taking up any of these crowd funding models that fit to their needs as highly risky borrowers.

Literature Review

Youth Entrepreneurs

Youth entrepreneurs can be defined as business creators below the age of 25 and spirited to pursue entrepreneurial activities as a career (Hulsink and Koek, 2014). Chik et al., (2015) describe youth entrepreneurs as "...those between 18-40 years old and making full use of their own abilities without regard to the resources they currently control". According to Malaysian National Policy (MYP), youth refers to those between 15 to 30 years of age. It is suggested to focus on youth aged 18-25 years old for the purpose of development programs. In the context of this study, youth entrepreneurs is defined as any young person between the age of 18-25 years old who had established their own businesses or plan to start their business in any sectors of the economy.

Access to Financing

Access to finance is the driving force that supports businesses to operate properly. Previous empirical studies showed that youth entrepreneurs had cited access to financing as a major operating constraints (Chik et al., 2015; Khan et al., 2018; Belleflamme, 2013; Keat and Ahmad, 2012). World Economic Forum Survey in 2017/2018, disclosed access to financing ranked first among several other factors that hinder the development of entrepreneurs in doing business in Malaysia (Schwab, 2017). The report revealed 12.5% of the business executives in Malaysia choose access to financing as the most problematic factors for doing business in Malaysia. A study by Chik et al., (2015) on New Gen Entrepreneurship in Malaysia has also confirmed the difficulties faced by youth entrepreneurs in securing loan especially from bank financing. Youth entrepreneurs are lacked of track record, lack of collateral, in able to provide financial statements and other strict conditions that banks consider essential for evaluating creditworthiness. A financial problem faced by SMEs in Malaysia will worsen their image as well as their business operation (Omar and Azmi, 2015).

The issues with access to financing also occur in other countries all over the world. According to Jakubczak (2015), youth entrepreneurs in Poland had identified lack of access to financing as one of the important barriers that impede them from becoming entrepreneurs. Youth entrepreneurs in Bangladesh concluded that access to finance is the biggest fear that hinders them from involving in entrepreneurial activities (Uddin, Chowdhury and Ullah, 2015). Lee, Sameen and Cowling (2014) on their study towards 10,000 UK SMEs stated that access to finance is difficult for innovative SMEs as compared to larger firms with better business plans, more reliable financial information and larger assets. A study in Kenya by Sharu and Guyo (2015) suggested financial institutions should consider reducing the lending requirement in order to make access to financing easy.

Thus, improving access to financing for youth entrepreneurs is important and crowd funding has emerged as one of alternative methods of raising funds among entrepreneurs (Belleflamme, 2013; Mollick, 2014; Collins and Pierrakis, 2012).

Perception towards Crowd funding

Perception of crowd funding means how youth entrepreneurs view the use of crowd funding as an alternative financing mechanism. According to a survey by Asian Institute of Finance, (2017) , 69% of business owners in Malaysia have confidence in crowd funding as viable tools to make access to financing easy. In a study by Ghazali and Yasuoka (2018), who examined the perception of SMEs towards FinTech declared FinTech is the best option to getting financing. Betz and Maidonis, (2016) discovered respondents with no experience in using crowd funding still had a positive desire regarding the possibility of using crowd funding in the future. Meanwhile, a study by Ingram and Teigland (2013) show different findings as entrepreneurs in Sweden are not fully confident with crowd funding as they believe crowd funding does not provide access to the skills and resources that their new business needed. Hence, this study will examine the perception among youth entrepreneurs on their consideration to use crowd funding as an alternative financing.

Type of Crowd Funding Models

There are four types of crowd funding models either in the form of donation-based, reward-based, debt-based and equity-based. In particular, donation-based means funders support a project without any expectation of return, while rewards-based means funders provide funding in some return form of rewards such as pre-purchase of a product. Meanwhile, debt-based is when lenders receive interest and repayment of the initial capital, whereas the equity-based allows investors to provide funding in exchange of the shares of the business.

Youth expectation in choosing the appropriate model that match with their business needs is important as each of these models offers unique opportunities and also risk. A study by Mokhtarrudin, Masrurah and Muhamad (2017) revealed that donation-based crowd funding has strong relationship with youth start-up choice to consider crowd funding as alternative financing mechanism. This is because donation-based offers freedom and wider opportunities for them to pursue their business by way of no returns for any funds raised. The study also highlighted that reward-based crowd funding model as the popular solution among youth start-up. Meanwhile, equity-based and debt-based have lower consideration among youth start-up because the models are regarded as a risky form of financing.

Research Questions

As access to financing has been identified as the most important challenge in doing business in Malaysia, especially for youth entrepreneurs, a new class of financing modes known as crowd funding has risen as an alternative financing solution for youth entrepreneurs. Due to the tremendous growth of crowd funding phenomenon, this study aims to answer the following research questions:

RQ1: What is the perception of youth entrepreneurs in IPMA towards willingness to use crowd funding as one of an alternative financing mechanism?

RQ2: Which types of crowd funding models influence the willingness of youth entrepreneurs in IPMA to use crowd funding as one of an alternative financing mechanism?

Research Method

The main idea of this current study is to determine the perception of youth entrepreneurs in IPMA towards crowd funding as an alternative financing mechanism. This study also will identify what factors that would encourage youth entrepreneurs in IPMA to use crowd funding as one of alternative financing mechanisms as well as the barriers that may hinder them from trying crowd funding as one of financing options. In addition, this study will examine the level of consideration among youth entrepreneurs in IPMA in taking up any of these crowd funding models that fit to their needs as highly risky borrowers. Therefore, the research model of this study is presented in Figure 1 below.

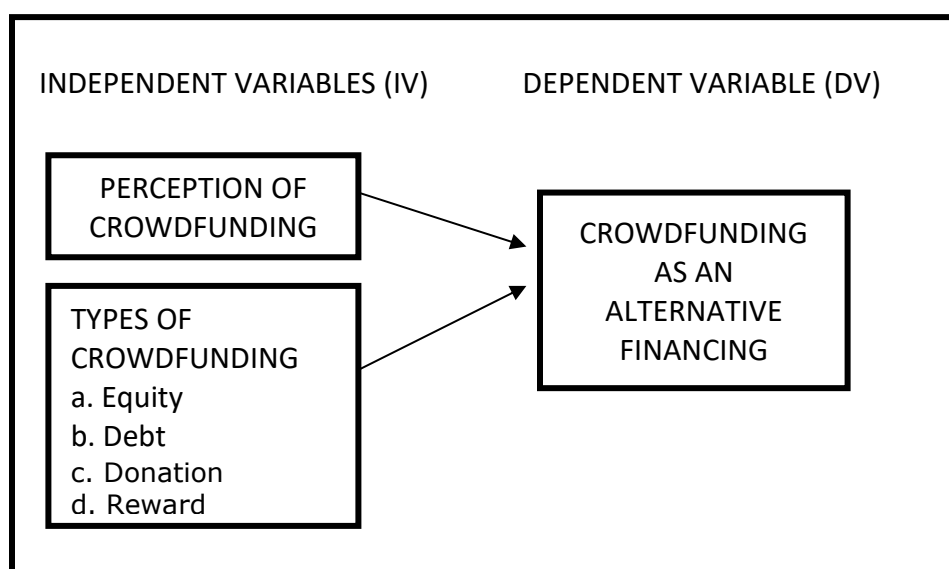


Figure 1. Research Model

The basis for this research model was adapted from previous study conducted by Mokhtarrudin et al., (2017) on crowd funding as a funding opportunity for youth start-ups in Malaysia. Five hypotheses were formulated to compare independent variables, which include perception of crowd funding and types of crowd funding while the dependent variable was crowd funding as an alternative financing.

H1 There is significant relationship between perceptions of youth entrepreneurs in IPMA towards consideration to use crowd funding as one of an alternative financing mechanism.

H2(a) There is significant relationship between equity -based crowd funding with the consideration of youth entrepreneurs in IPMA to use crowd funding as one of an alternative financing mechanism.

H2(b) There is significant relationship between debt- based crowd funding with the consideration of youth entrepreneurs in IPMA to use crowd funding as one of an alternative financing mechanism.

H2(c) There is significant relationship between reward- based crowd funding with the consideration of youth entrepreneurs in IPMA to use crowd funding as one of an alternative financing mechanism.

H2(d) There is significant relationship between donation- based with the consideration of youth entrepreneurs in IPMA to use crowd funding as one of an alternative financing mechanism.

The unit of analysis for this study are youth entrepreneurs from *Institusi Pendidikan MARA (IPMA)* who have just started a micro enterprise or those who plan to start new ventures. A set of 100 questionnaires were issued, with 97 youth entrepreneurs in *Institusi Pendidikan MARA (IPMA)* replied to the survey. Cronbach's alpha coefficient is used to assess the internal consistencies of scale. The absolute value of 0.7 (or sometime 0.6) is normally taken as the criterion of

acceptability (Lewis and Loewenthal, 2015). All variables in the questionnaires display the reliability value ranging from 0.6 to 0.8 indicating that the questionnaire is reliable and acceptable for the purpose of the current study. The number of items and corresponding Cronbach's Alpha for the variables in the study is shown in Table 1.

Table 1. Reliability of Questionnaires

Variables	Cronbach's Alpha	Number of Items
Crowd funding As An Alternative Financing	0.866	6
Types of Crowd funding Models	0.646	4
Perceptions Towards Crowd funding	0.800	4
All items	0.852	14

Results and Discussion

The Respondents' Profile

The descriptive analysis was conducted to get a general overview of the respondents as a whole. The survey involved 97 youth entrepreneurs: 61.9% female and 38.1% male, with 79.4% of respondents aged 20-25, out of which 86% are pursuing diploma studies. It can be seen that the 53.6% which represent the largest group of the youth entrepreneurs came from those whose income was below RM5,000. The second biggest group came from those parents earning between RM5,000 to RM10,000 (38.1%), followed by 2.1% earned between RM10,000 to RM15,000 and only 6.2% parents of the youth entrepreneurs earning more than RM15,000. Parental income is important as it can indicate the extent of funding assistance given to the youth entrepreneurs (Mokhtarrudin et al., 2017). From the result, it shows that majority of the youth entrepreneurs in *IPMA* belong to low-income family. The results from status of business show that the majority of the youth entrepreneurs claimed that they had plans to start a business (51.5%), whereas 29.9% of the youth entrepreneurs had already started their business for almost 1 year. The high percentage of youth entrepreneurs who want to start their own business is a promising result considering the surveyed respondents had been trained to be entrepreneurs.

Perception on Crowd funding as an Alternative Financing Mechanism

The result from correlation analysis shows there is a significant moderate linear correlation between perception and crowd funding as one of an alternative financing mechanism as indicated by $p < 0.01$ and $r = 0.654$. Therefore, the H1 was accepted. Respondents were asked what kind of reasons that would encourage them to use crowd funding as financing option. The result shows that 'learn new fundraising skills and gain experience in other areas such as marketing, communication and others' is the prime reason with a mean of 3.91, followed by 'crowd funding makes fundraising process faster and simpler' (a mean of 3.74) and 'to reach out a wider/ new type of audience' (a mean of 3.73). Apart from asking reason when choosing crowd funding, respondents were also asked regarding barriers that may hinder them from using crowd funding as financing option. Most of the respondents with a mean of 3.58 stated 'I do not know how to use crowd funding' as the main barrier.

Youth Preferences on Crowd funding Models

In the overall of crowd funding models, only donation-based and reward-based were significant. There is a significant positive linear correlation between crowd funding and donation based as $p\text{-value}=0.03 < 0.01$. There is a significant positive linear correlation between crowd funding and reward-based ($p\text{-value}=0.019 < 0.05$). Therefore H2(c) and H2(d) were accepted. These results declare that the types of crowd funding model positively affected the consideration of the respondents to use crowd funding as alternative financing mechanism. The results reveal donation-based and reward-based crowd funding models are the most preferred crowd funding model choose by the respondents.

Conclusions

Crowd funding appears to be a promising way in helping youth entrepreneurs to overcome their problems regarding accessing to financing. This current study focuses on perception of youth entrepreneurs in IPMA towards crowd funding as an alternative financing mechanism. This study also will identify what factors that would encourage youth entrepreneurs in IPMA to use crowd funding as one of an alternative financing mechanism as well as the barriers that may hinder them from trying crowd funding as one of financing options. In addition, this study will examine the level of consideration among youth entrepreneurs in IPMA in taking up any of these crowd funding models that fit to their needs as highly risky borrowers. In brief, the authors discover there is a significant relationship between perception of youth entrepreneurs in IPMA towards consideration to use crowd funding as one of an alternative financing mechanism and this reflects a good sign on the acceptance of this crowd funding as new financing options. Furthermore, the results also point out the important type of crowd funding model as this will help youth entrepreneurs with new strategy in support of their funding. Donation and reward-based crowd funding models appeared to be the most suitable models for the needs of youth entrepreneurs.

Acknowledgement

I would like to express my sincere appreciation to all who provided expertise that greatly assisted me to complete this research. A special gratitude to my supervisor (Associate Professor Dr Salina Binti Kassim), whose contribution in stimulating suggestions and encouragement, helped me to coordinate my research, especially in writing this article.

Corresponding Author

Munirah Binti Salim, Phd Candidate, IIUM Institute of Islamic Banking and Finance, International Islamic University Malaysia, 53100 Kuala Lumpur, Malaysia
Email: munirahsalim@yahoo.com

References

- Adhikary, B., & Kutsuna, K. (2016). Small Business Finance in Bangladesh: Can 'Crowd funding' Be an Alternative? *Review of Integrative Business & Economics Research*, 4(4), 1–21.
- Adnan, N., Razikin, S.R., & Ramli, R. (2017). Determinants of credit financing failure by small medium enterprise in Melaka Tengah district. *National Innovation and Invention Competition through Exhibition (iCompEx'17)*

- Agrawal, A. K., Catalini, C., & Goldfarb, A. (2011). *The geography of crowd funding* (No.w16820). National bureau of economic research
- Asian Institute of Finance. (2017). Crowd funding Malaysia's Sharing Economy: Alternative Financing for Micro, Small, and Medium Enterprises.
- Belleflamme, P., Lambert, T., & Schwienbacher, A. (2013). Individual crowd funding practices. *Venture Capital*, 15(4), 313–333.
- Betz, S., and Maidonis, T. (2016). Renewable Energy Project Developer's Perception of Crowd funding as a means of Project Financing. CrowdFundRES.
- Chik, R., Ab. Wahab, I., Salleh, Z., Abdul Kadir, M.A.B., Ngah, R., Syed Marzuku, S.Z., Buyong, S.Z., Rosly, H.E., Junid, J., (2015). New Gen Entrepreneurship in Malaysia: A Vibrant Economic Force. Centre for Entrepreneur Development and Research (CEDAR) Sdn. Bhd.
- Collins, L., & Pierrakis, Y. (2012). *The venture crowd: Crowd funding equity investment into business*. Nesta.
- Ghazali, N. H., & Yasuoka, T. (2018). Awareness and Perception Analysis of Small Medium Enterprise and Start-up Towards FinTech Instruments : Crowd funding and Peer-to-Peer Lending in Malaysia. *International Journal Of Finance and Banking Research*, 4(1), 13–24.
- Hulsink, W., & Koek, D. (2014). The young, the fast and the furious: a study about the triggers and impediments of youth entrepreneurship. *International Journal of Entrepreneurship and Innovation Management*, 18(2/3), 182.
- Ingram, C. and Teigland, R. 2013. Crowd funding among IT entrepreneurs in Sweden: A Qualitative Study of the Funding Ecosystem and IT Entrepreneurs' Adoption of Crowd funding.
- Jakubczak, J. (2015). Youth entrepreneurship barriers and role of education in their overcoming. *Management, Knowledge and Learning Technology, Innovation and Industrial Management*, 1775–1782
- Keat, Y., & Ahmad, S. (2012). A study among university students in business start-ups in Malaysia: Motivations and obstacles to become entrepreneurs. *International Journal of Business and Social Science*, 3(19).
- Salim, M., & Kassim, S. (2019). Viability of Crowd funding as an Alternative Funding Mechanism for Youth Entrepreneurs. *International Journal Academic Research in Business and Social Sciences*, 9(12), 315–324.
- Ley, A., & Weaven, S. (2011). Exploring agency dynamics of crowd funding in start-up capital financing. *Academy of Entrepreneurship Journal*, 17(1)
- Massolution (2015). The Crowd funding Industry Report.
- Salim, M., & Kassim, S. (2019). Viability of Crowd funding as an Alternative Funding Mechanism for Youth Entrepreneurs. *International Journal Academic Research in Business and Social Sciences*, 9(12), 315–324.