

THE CREATORS INTENTIONS INFLUENCE CROWDFUNDING  
PERFORMANCE AS AN ALTERNATIVE SOURCE OF BUSINESS FUNDING

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This report submitted in fulfillment of the requirement for the degree of Bachelor of  
Technopreneurship

Faculty of Technology Management and Technopreneurship  
Universiti Teknikal Malaysia Melaka

JUNE 2017

## DECLARATION

I declare that this project is the result of my own research except as cited in the references. The research project has not been for any degree and is not concurrently submitted in candidature of any other degree.

Signature : .....

Name : .....

Date : .....

## DEDICATION

This research paper is lovingly dedicated to my respective family who has been my constant sources of inspiration. They have given me the drive and discipline to tackle any task with more patients. Without their love and support, this project would not have been made possible.

## ACKNOWLEDGEMENT

I would like to voice my deepest gratitude to my supervisor, Dr Sentot Imam Wahjono for his support, advice, supervision and assist me throughout the completion of my final year project. A simple “thank you” is not enough for him to express my appreciation for his contribution to my project.

Besides, I would also like to express my thankful to all my lecturers and faculty staffs that had been assisting and teaching me in this four-year university life. Their supervision, comments and knowledge had significantly directly or indirectly contributed to my final year project.

Last but not least, I have to say thank you to my fellow course mate, which also play a supporting role in sharing knowledge to my project as well as their suggestion. Also, I would like to thank my family member as they always mentally support me all of the time until the end.

A lot of thanks would like to deliver to all of you throughout this journey of my life and because of the contribution and the guideline has made a success of my project.

Thank you very much.

## ABSTRACT

There is a growing interests and concern toward the emergence of new forms of funding method because of the difficult to get financial support via traditional financial method. Crowdfunding become an ideal platform that helps people to pledge money from the crowd and the process involved is via online. The study aims to determine the people's intention that can affect the performance of crowdfunding platform to become an alternative source of funding. Fundraising, product testing, establish relationship and expand awareness are the predictor variables involved in the study and the performance of crowdfunding to become an alternative source is criterion variable. This research distributes the questionnaire to the respondents who experience to create a project via crowdfunding before via social media. A total of 197 respondents have participated in this study. The data were analyzed using descriptive analysis, Pearson's correlation and multiple linear regression analysis. The result indicates that establish relationship has a most significant effect on the performance of crowdfunding to become an alternative source of funding. The study will be beneficial to entrepreneurs by offering valuable information regarding creators' intentions to use crowdfunding as an alternative source of business funding. This study will also help to better understanding the creators' intention towards embracing sustainable funding method and validating their awareness on importance of sustainable funding method. Besides, these findings will increase the job opportunity and hence enhance the economic scale of the country.

**Keywords:** Performance of crowdfunding, Alternative Source of Funding

## ABSTRAK

*Terdapat minat yang semakin meningkat dan kebimbangan terhadap kemunculan bentuk baru kaedah pembiayaan kerana sukar untuk mendapatkan bantuan kewangan melalui kaedah kewangan tradisional. Crowdfunding menjadi platform ideal yang membantu orang ramai untuk mengikrarkan wang dari orang ramai dan proses yang terlibat adalah secara online. Kajian ini bertujuan untuk menentukan rakyat penentu yang boleh menjejaskan prestasi platform crowdfunding untuk menjadi sumber pembiayaan alternatif. Fundraising, ujian produk, mewujudkan hubungan dan mengembangkan kesedaran adalah pemboleh ubah peramal yang terlibat dalam kajian dan prestasi crowdfunding untuk menjadi sumber alternatif adalah kriteria berubah-ubah. Kajian ini mengedarkan soal selidik kepada responden yang mengalami untuk membuat projek melalui crowdfunding sebelum melalui media sosial. Sejumlah 197 responden telah mengambil bahagian dalam kajian ini. Data dianalisis menggunakan analisis deskriptif, korelasi Pearson dan analisis regresi linear. Hasilnya menunjukkan bahawa mewujudkan hubungan mempunyai kesan paling ketara ke atas prestasi crowdfunding untuk menjadi sumber pembiayaan alternatif. Kajian ini akan memberi manfaat kepada usahawan dengan menawarkan maklumat yang berharga mengenai niat pencipta 'untuk menggunakan crowdfunding sebagai sumber pembiayaan alternatif perniagaan. Kajian ini juga akan membantu untuk lebih memahami niat pencipta terhadap memeluk kaedah pembiayaan mampan dan mengesahkan kesedaran mereka mengenai kepentingan kaedah pembiayaan mampan. Selain itu, penemuan ini akan meningkatkan peluang pekerjaan dan seterusnya meningkatkan skala ekonomi negara.*

**Kata kunci:** *Prestasi crowdfunding, Alternatif Sumber Pembiayaan,*

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## CHAPTER 1

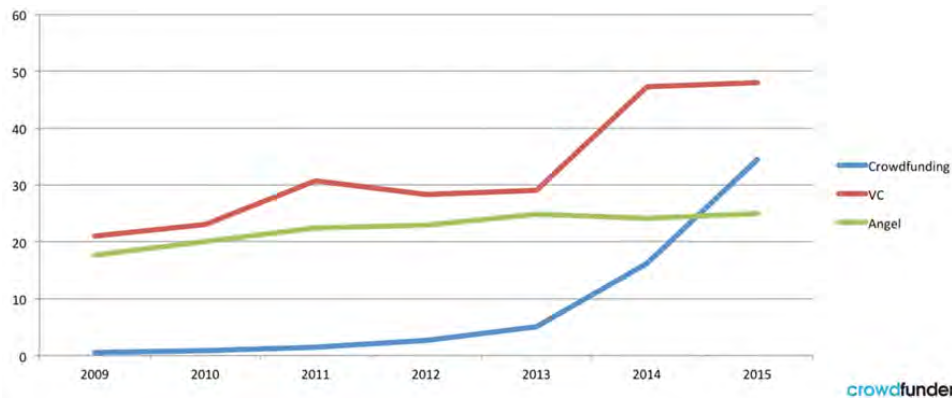
### INTRODUCTION

#### 1.1 Introduction

Crowdfunding involves the entrepreneurial individual and group effort from the aspect of cultural, social and profit to enable their venture can be operated successfully. This can be done by collecting the small contributions from a large number of audiences via the internet without involving any intermediaries of financing (Mollick and Kuppuswamy, 2014). Crowdfunding can be considered as an interesting alternative for methods of traditional financing as crowdfunding is not only allows the investors participate in extrinsic motivations but also the intrinsic motivations. The purpose of crowdfunding idea is to get funding from public, where each individual just contributes a small amount, instead of obtaining the venture capital from sophisticated investors.

Actually, raising fund is not only the aim of the entrepreneurs or enterprise, but they also utilized it for getting more information. Banks have developed an unwillingness to offer the funding to entrepreneurs or enterprises. The wearable technology projects are even more rejected due to the high risk of market and technology (Tanrisever and Wisman, 2016). As the result, the entrepreneurs in the small enterprise are looking for the necessarily funding during the early stage via a new source that is called crowdfunding. The financial is necessary crucial resource that can determine the successfulness of the entrepreneurs (Liu et al., 2015).

According to Chance Barnett (2015), Crowdfunding Industry Statistics shows that crowdfunding platform become a most popular tool that is utilized for fundraising if compare to angel investing in 2015 and it also to surpass venture capital on trend in 2016. Below is the graph that shows the trend of fundraising method in 2009 until 2015.



Source: Chance Barnett, CEO of Crowdfunder.com, in a piece on Forbes.com

**Figure 1.1: Annual Funding (Billions) : VC vs. Crowdfunding vs. Angel**

From the Figure 1.1, the population of the users in the crowdfunding platform is increasing directly. Thus, the research about understanding the competitive advantages of crowdfunding is priority in this technology era. It also is an interesting research to understand why entrepreneurs nowadays go through crowdfunding for fundraising rather than using the old fundraising methods such as bank loan or looking for angel investors.

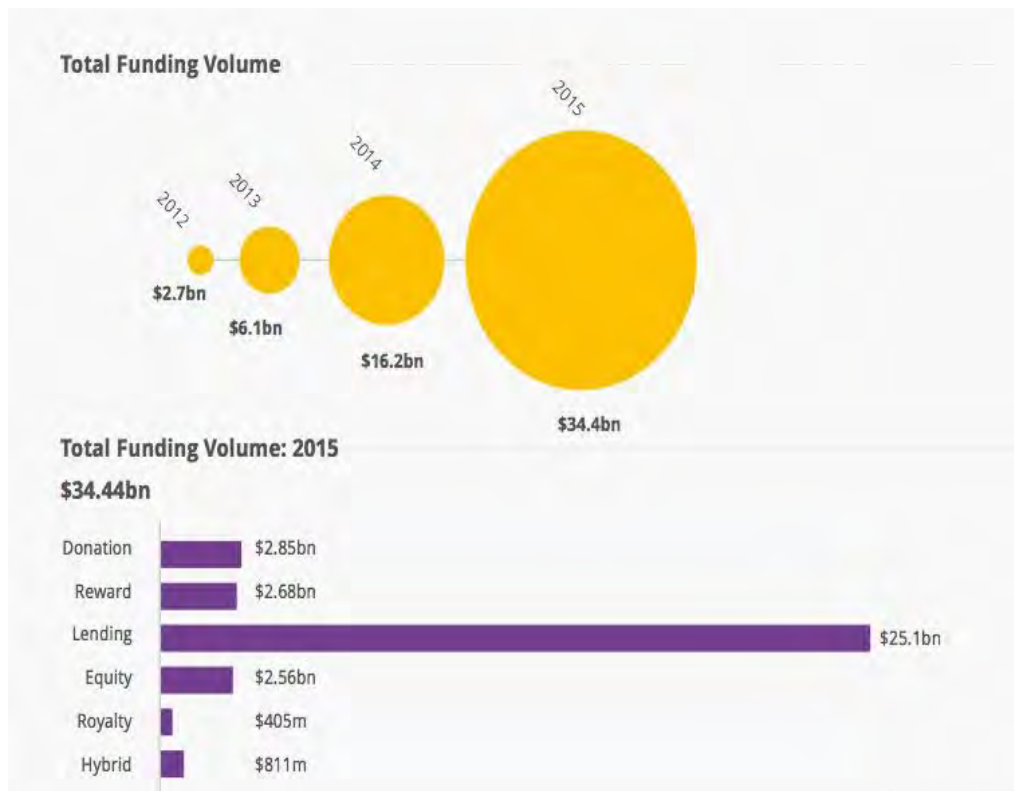
Based on the previous study of Guan (2016) and Bouncken et al. (2015) found that the crowdfunding can be divided into four models which consist of equity model, lending model, reward model and also donation model. First, the equity model refers to a model that gives project initiators an opportunity to get interest in form of company equity or share as a dividend return. However, the lending model is a model that enables the supporter or funder receives the interest as the investment return after a long period. For the reward model, it refers to the product return rather than share in their financial investment of their company. Last is the donation model which the funder will not expect any return after supporting certain project.



## 1.2 Background of Study

According to Bouncken et al. (2015), crowdfunding can be defined as an alternative way of funding instead of traditional financing. From the basic theory, it is an open call to anybody no matter is a private person or economic actors. The projects, products or ideas can be realized by the aid of a group of people, the crowd who support it financially by contributing a small amount of capital. However, these projects, products or ideas are still owned by the fundraisers who seeking money to realize their project. A more and more scientific attention is gained by crowdfunding which represents a recent web 2.0 based phenomenons.

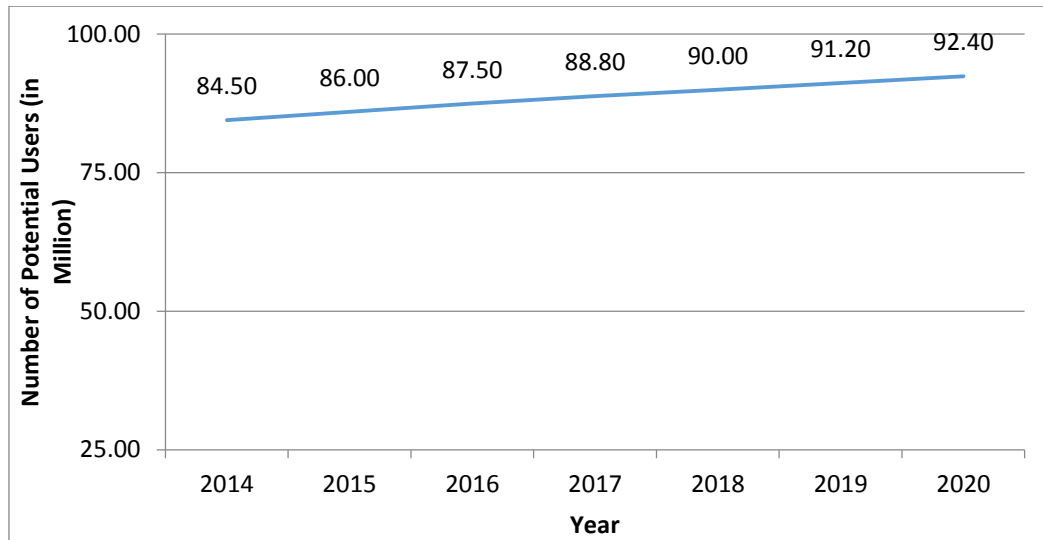
According to Tanrisever and Wismans (2016), after happening the financial crisis recently, banks are tend to unwillingness to provide funding to entrepreneurs. Due to high market and technology risk, the banks are even more unwillingness to finance wearable technology projects. In order to seeking another alternative way, crowdfunding become a faster-growing source to help entrepreneurs for fundraising. (Tanrisever and Wismans, 2016). As mentioned before, there are 4 types of crowdfunding that include equity, lending, reward and donation based of crowdfunding. However, according to the Figure 1.2, it reveals that the top popular platform that a lot of people used is lending-based crowdfunding platform.



Source: CrowdExpert 2015

**Figure 1.2: Total Funding Volume in the Year 2015**

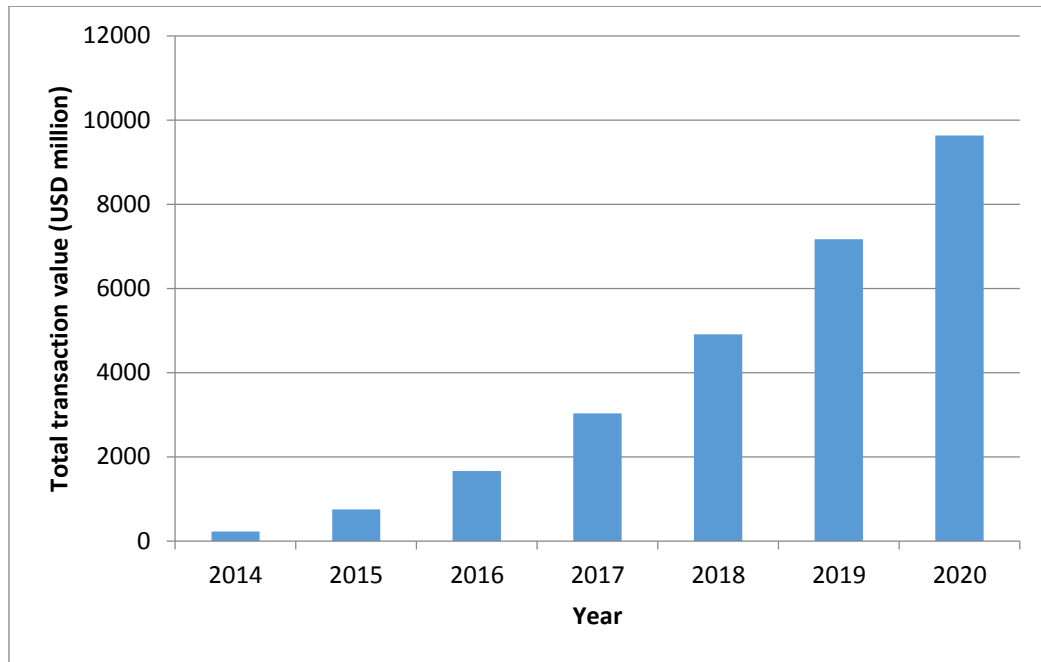
In addition, there are three statistics that shows the demand of crowdfunding platform is increase in Asia, which includes the graph of number of crowdfunding users, statistics on total transaction value of Asia crowdfunding platform, and also the statistics about the average transaction values per small and medium sized enterprise in Asia crowdfunding platform.



(Source: World Bank Report in 2015)

**Figure 1.3: Number of potential users in Asia crowdfunding platform in million USD (2014-2020)**

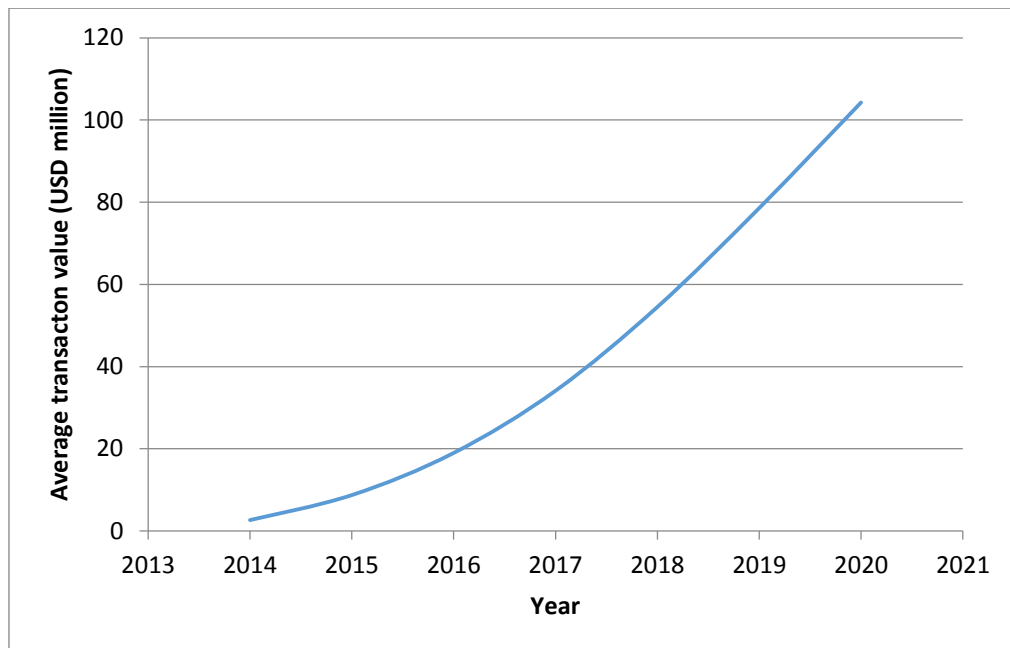
In Figure 1.3, the number of potential users (million) has consistently growth. From the year 2014 in which the total number of users is 84.5 million increasing to 87.5 million in the year 2016 and expected will increase continually until 92.4 million in the year 2020. This number has been increasing about 7.9 million solely within two years that is from the year 2014 until 2016 and this shows that the demand toward the crowdfunding for fundraising is keep going increasing.



(Source: World Bank Report in 2015)

**Figure 1.4: Total transaction value of Asia crowdfunding platform in million USD (2014-2020)**

In the Figure 1.4, it is clear that the total transaction value (million USD) in the Asia country has consistent growth from the year 2014 to the year 2016 and it expected that the total transaction will continually growth until the year 2020. In the year 2014, the total value transaction is only 226 million and it continually increasing until 2016 which achieve 1662 million and will finally achieve 9632 million in the year 2020. This total amount has been increasing about 1436 million USD solely within two years that is from the year 2014 until 2016 and this shows that the demand toward the crowdfunding in Asia is keep going increasing. As the number of the crowdfunding users is keep going increasing so it will cause the total transaction value increase. Other than that, there are few reasons that motivate the creators to participate in the crowdfunding which include raise fund, established relationship, received validation, replicate successful experience of others and expands awareness of work through social media (Gerber et al., 2013).



(Source: World Bank Report in 2015)

**Figure 1.5: Average transaction values per small and medium sized enterprise crowdfunding platform in million USD (2014-2020)**

In Figure 1.5, it shows the average transaction values (million USD) per small and medium sized enterprise across year 2014 to year 2015 and making forecasting until 2020. Undoubtedly, the average transaction value per small and medium sized enterprise is growth consistently. According to Asia-Pacific Economic Cooperation (APEC) forum, the small and medium enterprises (SMEs) are the main engines of growth and innovation in Asia. More than 97% of all businesses and also more than half the workforce of the region are accounted by SMEs (APEC). However, obtaining funding is the main issue and has proved difficult for them. SMEs have always struggle to get loan from the bank whether it is because of insufficient of credit history, onboarding costs is too high or other reasons (Asia-Pacific Economic Cooperation, 2016). Hence, crowdfunding which is the one of the fastest-growing sources can minimize the funding gap of the SMEs. Since most of the establishment of crowdfunding platform in Asia is started from the year 2013, so the average transaction growth well and is rising steadily across the year.

### 1.3 Problem Statement

Since all the business start-up require a huge number of capital, hence normally they will face the problem in getting the capital especially for the new entrepreneurs. In addition, banks develop a rejection especially to the new entrepreneur due to crisis economic. The entrepreneurs also face difficulties as bank and angel investors need to evaluate their financial statements before giving a loan for them. Hence, crowdfunding become a popular tool to raise fund for ensuring the project planned can be run smoothly. With each passing year, crowdfunding plays a significant role in the establishment of new business and this can be proved when the number of new platforms and new users are constantly increase. If they have a good planning without enough capital, crowdfunding may be one of their options to raise money. As a result, crowdfunding platform become an alternative way to obtain funding.

The study of crowdfunding is a famous study in the recent year although that is not a new thing in oversea. According to Tanrisever and Wismans 2016, crowdfunding has been the backbone of the American political system for a long time. With each passing year, crowdfunding play a crucial role so that an opportunity is distributed to the entrepreneurs who intend to run their project but without sufficient capital. Crowdfunding is an electronic platform which determines funding costs for the entrepreneur and investors' return will received per period (Tanrisever and Wismans, 2016). It is implemented by many countries such as China, United State, United Kingdom.

In addition, crowdfunding which allow project initiators spread or promote their project or idea through the internet is a new funding way for people to raise money in order to start their business or solve their financial problem. As we know internet is widely used by people nowadays and it allows people to spread the news over all the country. As a result, crowdfunding becomes an efficient and wisely option for people to raise money. It can be a competitive advantage compare to the traditional loan method as it is not only enable the project initiators gain sufficient capital but they also make people aware about the products or services that they are going to be provided. A directly increase of utilizing of crowdfunding platform

shows the popularity of the platform increasing directly, which the entrepreneurs are allowed to raise fund easily for starting their business or solve their personal debt that they wish to do.

The important of different of crowdfunding model as a financing tool has been proved via the obviously growth in the past few years. Finally most of the research which focuses on the motivation of funders in crowdfunding has been reveals. However, the lacking of research on motivation of the project initiators exhibited. The lack of research on the motivation of project initiators will block the understanding of crowdfunding, the feature of crowdfunding, the growth and the advantage to project initiators compared to other source of financing. So, the crucial point of this study is to make people aware about the crowdfunding, understanding the advantage of crowdfunding so that they can utilize the crowdfunding to achieve success in the market. In addition, there is essential to know the dominants determinants that will affect the decision of people to choose crowdfunding rather than other source of financing.

#### **1.4 Research Questions**

From the problem statement that is mentioned above, the researcher come out with two research questions as below:

- i. What influences that can affect the crowdfunding performance as an alternative source of business funding?
- ii. What is the most important of influence/s that affects the crowdfunding performance to become an alternative source of business funding?

### **1.5 Research Objectives**

There are necessary for researcher to explore more and find out the answer regarding the research questions. Thus, there have two objectives that are needed to be achieved through this study which include:

- i. To explore the influences affect the crowdfunding performance to become an alternative source of business funding.
- ii. To determine what is the most important influence/s that affects the crowdfunding performance to become an alternative source of business funding.

### **1.6 Scope**

The scope of this research is to identify the relationship between the creators' intention that are able to influence the crowdfunding performance as an alternative source of funding. Asian people will be focused on this study since small and enterprise (SMEs) are the main engines of growth and innovation in Asia and it can be shown when more than 97% of all businesses and also more than half the workforce of the region are accounted by SMEs. However, obtaining the funding is the main issue has proved difficult for them. Hence in this study, project initiators who will answer the questionnaire are targeted as the research respondents. Researcher will investigate the reason that drive people to use crowdfunding instead of using traditional financing such as bank and angel capitalists to raise money. Asian people will be focused in this research.