

THE ROLE OF PERCEIVED BENEFITS IN FORMATION OF INTENTION TO USE ISLAMIC CROWDFUNDING PLATFORM AMONG SMALL AND MEDIUM ENTERPRISES IN MALAYSIA

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Abstract: Crowdfunding has become global phenomenon due to its possible role in providing equity funding to small and medium enterprises. Numerous benefits of crowdfunding have been identified. This paper investigated whether three factors - economic benefit, convenience and transaction process are important in influencing the perceived benefits of Islamic crowdfunding platforms, and whether perceived benefits affect small and medium enterprises' (SMEs) intention to use the platform. Self-administered questionnaires and structured online surveys were distributed to SMEs in Selangor, Malaysia using the purposive sampling technique. SmartPLS was used to analyse the data. This paper found that economic benefit has a positive and significant relationship with perceived benefits, and transaction process has a negative and significant relationship with perceived benefits, while convenience was found to have an insignificant relationship with perceived benefits. This paper also found that perceived benefits was found to have a significant relationship with intention. The significance and contribution of this paper were also discussed.

Keywords: Islamic Crowdfunding, SMEs, Fintech, Perceived Benefits, Intention

Introduction

Small and Medium-Sized Enterprises (SMEs) play a significant role in enhancing the economic growth of a country. Their role in boosting the production of goods and services, reducing unemployment, contributing to import and exports activities, facilitating equitable distribution of income, and supporting social cohesion is very critical. In Malaysia, the government is very supportive of supporting SME businesses. SMEs are supported with comprehensive policy development, sustainable environment, and effective monitoring to ensure their businesses' sustainability. However, despite the favourable environment and encouragement from the government, SMEs around the globe including those in Malaysia face difficulties in securing financing, especially bank loan financing. According to The Organisation for Economic Co-operation and Development (OECD) (2018), access to finance is one of the main factors that hinder the SMEs' development around the globe, especially young firms and start-ups, micro-enterprises, and innovative ventures.

As financing is one of the important elements for SME sustainability, access to financing is thus being re-shaped with focus shifting to the development of more non-traditional financing avenues and financial technology (Fintech) platforms such as crowdfunding, peer-to-peer financing, venture capital and angel investors (SME, 2016). According to Dominika and Michał (2018), the emergence of Fintech and crowdfunding is important for start-ups and SMEs as their access to traditional forms of financing such as bank lending, business angels and venture capital investments are limited. However, according to Zahid (2018), almost 60% of SMEs still use conventional financing rather than crowdfunding to raise funding. This leads to the question on whether potential users, in this case SMEs are aware of the benefits of using this platform. As understanding the factors that influence the perceived benefits of potential users is important in determining their intention to use such platform, this study identifies the relevant drivers that may influence the SMEs' perceived benefits of using crowdfunding platforms.

Literature Review

Financial Technology and Islamic Crowdfunding Platforms

Financial technology (Fintech) has emerged to become a popular term that describes novel technologies that are useful to improve and automate the process of delivering and transferring money. Over the past few years, Fintech activities have reached a remarkable volume. As of March 2018, global investment in Fintech companies has hit US\$57.9 billion where the United States contributes US\$14.2billion and Europe contributes \$26billion to the total investment volume (KPMG, 2018). Crowdfunding, one of the elements in Fintech, has also evolved into a leading trend as a platform for start-ups and SMEs to acquire funding (Gałkiewicz and Gałkiewicz, 2018; Dietrich and Amrein, 2017). Crowdfunding is a platform whereby "the crowd" contributes small amounts of money, typically via the internet and social networks to fund a project. In Malaysia, the Investment Account Platform (IAP) is a crowdfunding platform launched in February 2016 by six local Islamic banks upon approval from the Securities Commission of Malaysia. It is the first Islamic bank-intermediated, internet-based Islamic crowdfunding platform that combines the expertise of Islamic banks with the efficiency of technology to channel funds from investors to viable economic ventures (Lian, 2016; Alaa and Abbas, 2017). The IAP promotes risk-sharing financial transactions using the principle of Musharaka and Mudharaba and provides SMEs with a new source of enhanced access to funding for their business activities (Lian, 2016).

Intention to Use Islamic Crowdfunding Platforms

The construct “intention to use” has numerous been used to predict actual usage behaviour. According to Fishbein and Ajzen (1975), intention indicates the probability of a person behaving in a certain way. In a study using the technology context, Tanduklangi (2017) adapted the construct to measure user intention of using e-learning technology. Alaeddin and Altounjy (2018) also adapted the intention construct to measure user intention to use cryptocurrency. This paper proposes that perceived benefit has a positive and significant relationship with intention to use Islamic crowdfunding platforms. It is postulated that the better SMEs’ perceive the benefits of using Islamic crowdfunding platforms, the higher their intention to use the platform.

In addition, this paper investigates the positive and significant relationship among three identified factors; economic benefit, convenience and transaction process with the perceived benefits of using this type of platform.

Effects of Perceived Benefit on Intention to Use Islamic Crowdfunding Platforms

It has been argued that online users are likely to engage in behaviours upon which benefits exceed their costs (Oxera Economics Council, 2015). According to Ryu (2018a) who studied the benefit of Fintech adoption, perceived benefit is defined as users’ perception of the potential that Fintech usage will result in a positive outcome. Perceived benefits have been utilised as a direct determinant of intention in many studies (Ryu, 2018; Lee, 2009; Akroush et al., 2018). For example, Akroush et al. (2018) studied the factors affecting consumers’ purchasing intention towards energy- efficient products in Jordan. The study found that perceived benefits positively influence users’ intention. With regards to intention to use IAP, this paper suggests that perceived benefits of Islamic crowdfunding platforms positively impacts users’ intention to use the IAP, thus the first hypothesis is formed.

H1. Perceived benefit significantly influences intention to use investment account platform

Effects of Economic Benefit, Convenience and Transaction Process on Perceived Benefits

An economic benefit can be quantified in terms of the amount of money that a firm generates, including net income and revenue. From the perspective of crowdfunding, the usage of online platforms for crowdfunding lowers the transaction and capital costs for SMEs, thereby benefiting the SMEs economically (Mackenzie, 2015; Oxera Economics Council, 2015). In addition, the convenience of using online platforms has been one of the most important stimulus underlying customers’ preference to use the platform (Cho and Sagynov, 2015; Akturan and Tezcan, 2012; Oxera Economics Council, 2015). Smooth, prompt and efficient transaction processes are important in facilitating the crowdfunding online transaction process. According to (Ryu (2018a) and Abramova and Böhme (2016), the transaction process plays a key role in determining the perceived benefits of online platforms. With regards to the IAP, as SMEs promote their platforms easily via the website, it offers faster transaction than seeking financing from traditional financial institutions. Ryu (2018a) and Hsu and Bat-Erdene (2012) found a positive relationship between economic benefit, convenience and perceived benefits with perceived benefits. On the back of these evidences, this paper had formed the next three hypotheses; economic benefit, convenience and perceived benefits positively and significantly influence the perceived benefits of using Islamic crowdfunding platforms. To sum up, if SMEs perceive that using IAPs can offer them economic benefits, convenience to use and easy facilitation of the crowdfunding process, they

will perceive the benefits of using these platforms; this subsequently affects their intention to use the platform. Accordingly, this paper postulated the following hypotheses:

- H2. Economic benefit significantly influences perceived benefits
- H3. Convenience significantly influences perceived benefits
- H4. Transaction process significantly influences perceived benefits

Conceptual Framework

The conceptual framework is illustrated in Figure 1 below.

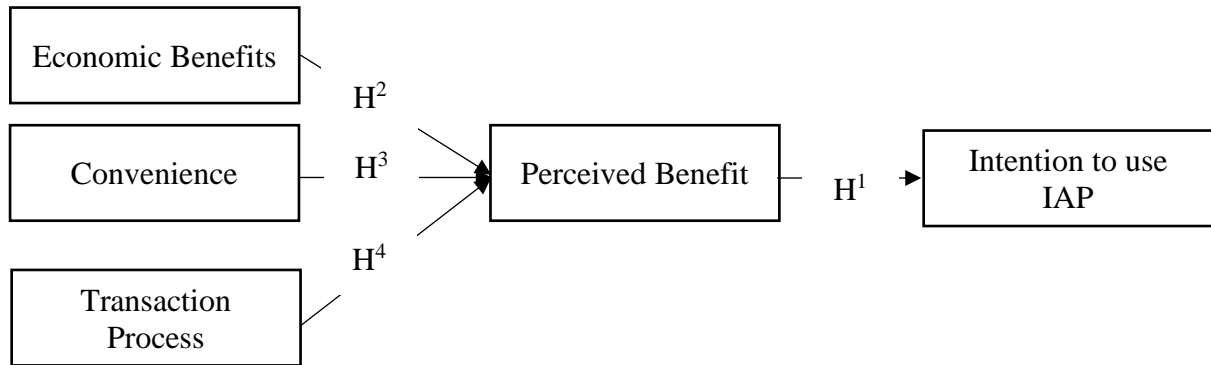


Figure 1. The Conceptual Framework

Methodology

To test the hypotheses, a questionnaire was developed and distributed to SMEs owners in Selangor, Malaysia using the purposive sampling technique. Selangor was chosen as it is Malaysia's richest (measured by GDP) and most populated state with the highest number of registered SMEs (OECD, 2018). 163 completed questionnaires were collected and analysed using Structural Equation Modelling via SmartPLS. The questionnaire was divided in two parts; Part A focusing on respondent's demographic information while part B consist of the five-point Likert scale questions measuring the variables used in this paper. All items intended to measure the constructs in this paper were adopted from the previously validated instruments and were modified to look at the fintech adoption intention.

36.2 per cent of the respondents came from small companies and 63.8 percent were from medium companies. In regards to funding sources, about 7.36 per cent of the companies obtained funding from individual investors and family offices, 12.88 per cent were funded by insurance companies, 15.95 per cent were funded by pension and provident funds, 15.34 per cent were funded by fund of funds and other asset managers, 24.54 per cent were funded by corporate investors, 12.88 per cent were funded by government agencies, 7.98 per cent were funded using sovereign wealth funds and government investment companies, and the remaining 3.07 per cent were obtained other sources of funds.

Results

Cronbach alphas were used to assess the reliability of items. The values of Cronbach alphas for all the items used exceeded the 0.7 threshold (Nunnally, 1987) thus displays how closely related the items are to its variable. In addition, this paper had also examined the average variance extracted. From the analysis, the average variance extracted was higher than 0.60,

thus meeting the requirement set by Fornell and Larcker (1981), except for transaction process. This indicates that the variance captured by each latent variable was significantly larger than the variance due to measurement error, thus demonstrating uni-dimensionality and a high convergent validity of the constructs (Table 1).

Table 1: Factor Loadings and Reliability

Constructs	Item	Loadings	Cronbach's Alpha	RHO	Composite Reliability	AVE
Convenience (C V)	CV1	0.717	0.836	0.862	0.885	0.608
	CV2	0.645				
	CV3	0.870				
	CV4	0.790				
	CV5	0.854				
Economic Benefit (EB)	EB1	0.710	0.838	0.851	0.884	0.605
	EB2	0.714				
	EB3	0.844				
	EB4	0.832				
	EB5	0.780				
Intention (INT)	INT1	0.842	0.806	0.866	0.869	0.626
	INT2	0.846				
	INT3	0.790				
	INT4	0.674				
Perceived Benefit (PB)	PB1	0.760	0.863	0.866	0.902	0.649
	PB2	0.860				
	PB3	0.835				
	PB4	0.841				
	PB5	0.723				
Transaction Process (TP)	TP1	0.706	0.817	0.857	0.871	0.578
	TP2	0.815				
	TP3	0.858				
	TP4	0.777				
	TP5	0.622				

Predictive power of the model is determined using the R-square value (R^2), while the strength of the hypothesized relationships is determined using the path coefficients. Structural model assessment is confirmed by the bootstrapping procedure. 37.5 per cent of the variation in perceived benefits can be explained by the three named variables, which are convenience, economic benefit and transaction process while 15.5 per cent of the variance from perceived benefits can be explained by intention. The result of the hypothesis testing is summarised in Table 3.

Table 2. Fornell-Larcker Criterion Results and Cross Loadings

Construct	CV	EB	INT	PB	TP
Fornell-larcker criterion					
CV	0.780**				
EB	0.698*	0.778**			
INT	0.718*	0.778*	0.791**		
PB	0.400*	0.592*	0.394*	0.805**	
TP	0.856*	0.846*	0.894*	0.435*	0.760**
Cross loadings					
CV1	0.717	0.597	0.688	0.294	0.773
CV2	0.645	0.448	0.586	0.234	0.622
CV3	0.870	0.598	0.569	0.384	0.693
CV4	0.790	0.476	0.438	0.268	0.571
CV5	0.854	0.586	0.544	0.350	0.689
EB1	0.414	0.710	0.361	0.583	0.443
EB2	0.575	0.714	0.573	0.311	0.627
EB3	0.555	0.844	0.636	0.455	0.666
EB4	0.541	0.832	0.791	0.456	0.798
EB5	0.686	0.780	0.730	0.405	0.817
INT1	0.510	0.745	0.842	0.424	0.765
INT2	0.624	0.689	0.846	0.293	0.774
INT3	0.639	0.531	0.790	0.240	0.708
INT4	0.564	0.401	0.674	0.221	0.556
PB1	0.366	0.456	0.305	0.760	0.367
PB2	0.350	0.484	0.347	0.860	0.359
PB3	0.306	0.470	0.302	0.835	0.326
PB4	0.380	0.498	0.364	0.841	0.400
PB5	0.200	0.475	0.262	0.723	0.293
TP1	0.765	0.542	0.491	0.280	0.706
TP2	0.538	0.804	0.808	0.448	0.815
TP3	0.698	0.737	0.763	0.352	0.858
TP4	0.713	0.577	0.691	0.271	0.777
TP5	0.645	0.448	0.586	0.234	0.622

Table 3: Results of Hypothesis Testing

Hypothesis	Relationship	Standard Beta (β)	Standard error	t-value	Results	f²
H1	PB → INT	0.394	0.068	5.810**	Significant	0.184
H2	EB → PB	0.806	0.112	7.208**	Significant	0.294
H3	CV → PB	0.183	0.134	1.369	Not significant	0.014
H4	TP → PB	-0.404	0.177	2.275***	Significant	0.038

* statistically significant as at $p < 0.05$ ($t > 1.96$)

** statistically significant as $p < 0.001$ ($t > 3.29$)

***statistically significant as $p < 0.01$ ($t > 2.576$)

Discussion and Conclusion

This paper examines whether perceived benefits affect SME's intention to use Islamic crowdfunding platform and whether three variables; economic benefit, convenience and transaction process significantly influence perceived benefits of the Islamic crowdfunding platform. Based on the result, perceived benefits were found to have a significant relationship with intention. This result implies that the more users perceived the benefits of using the IAP, the higher their intention to use the platform. Economic benefit was found to have a positive and significant relationship with perceived benefits. This result is consistent with another study by Ryu (2018a). As fintech suggests a lower transaction and capital costs compared with traditional financial service, which benefiting customers, this result is predictable. In summary, the more SMEs perceived that using the IAP will have economic benefits, the higher their perceived benefits on using the platform.

Convenience has been found to have an insignificant relationship with perceived benefits. This result, although contradicts with previous study by Ryu (2018a), may offer further avenue for research extension whereby convenience factors of the platform may strongly influence the formation of intention, attitude, perceived ease of use and perceived usefulness other than perceived benefits (Cho and Sagynov, 2015; Tanadi et al., 2015; Matthew et al., 2013). According to (Ryu (2018a) and Abramova and Böhme (2016), the transaction process plays a key role in determining perceived benefits of online platform. However, the result of this paper found the contrary. This surprising result implies that SMEs do not consider smooth, efficient, and faster transaction speeds as the benefits of using the IAP.

Fintech platform providers can enhance the usage of the IAP among SMEs by focusing their attention on the economic benefits of using the platform and offering more added values, so that SMEs will conclude that the platform has more advantages than other fund seeking channels, including traditional forms of financing. This result contributes to the intention-fintech research by highlighting the factors affecting perceived benefits and intention to the crowdfunding platform. The result may explain what affects SMEs' intention to use the platform. This study also provides interesting foundation for further research. For example, researchers might look into the perceived risk perspective as risk exposure with fintech platform has emerged as one of the challenges in the fintech adoption rate. Further research should also analyse the extent to which this paper results generalize to other fintech platforms and sample sizes.

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