

# Awareness towards Crowdfunding as an Alternative Financing Mechanism among Youth Entrepreneurs

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**Abstract**— Youth entrepreneurs have difficulties in accessing financing from the financial institutions due to lack of collateral, lack of credit history and high interest rate. Crowdfunding is one of the alternative financing that can be considered to increase the financing options available. In considering crowdfunding, it is important for youth entrepreneurs to have awareness and knowledge on the existence of this alternative financing. This study was conducted to examine the level of awareness, understanding and perceptions of youth entrepreneurs in *Institusi Pendidikan MARA (IPMA)* towards crowdfunding. In addition, the study also aims to investigate relevant models that youth entrepreneurs in IPMA could potentially engage. Data is analysed using descriptive statistical techniques. The results indicate that most respondents show low level of awareness and understanding on crowdfunding as an alternative financing mechanism. However, based on the perception results, most respondents have positive perception to consider crowdfunding as an alternative way in securing funding for their businesses. The results of the study have important implications for policy makers especially in MARA Higher Education Division, college administrators and educators. Awareness and understanding on crowdfunding can be enhanced by introducing a subject on crowdfunding to entrepreneurship students as part of the curriculum in IPMA.

**Keywords:** Awareness; Understanding; perception; Youth entrepreneurs

## I. INTRODUCTION

Youth entrepreneurs can be defined as business creators below the age of 25 and spirited to pursue entrepreneurial activities as a career (Hulsink & Kock, 2014). Meanwhile, 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". In the context of this study, the term "youth entrepreneurs" is defined as any young person between the ages of 18-25 years old who have just started to run their own businesses in any sectors of the economy.

Youth entrepreneurs are facing several challenges that limit their opportunities to run and expand their businesses. Of these, the most important challenge is access to financing (Ramlee & Berma, 2013; Belleflamme, Lambert & Schwiendbacher, 2014; Chik et al., 2015; Khan, Noor, Anuar & Mansor, 2016; Mokhtarrudin, Masrurah & Muhamad, 2017; World Economic Forum, 2017). According to Schwab (2017) in the World Economic Forum (2017/2018), 12.5% of the business executives in Malaysia select access to financing as the most problematic factor for doing business in Malaysia. A study by Chik et al. (2015) has also confirmed that the key challenge facing the youth entrepreneurs is accessibility to financing, especially bank financing. Among the reasons that cause these difficulties are that youth entrepreneurs are lacked of track record, lack of collateral, inability to provide financial statements and other strict terms and conditions that banks or financial institutions consider essential for evaluating creditworthiness. The findings of other studies are also supporting this view. The study by Khan et al. (2015) highlighted that access to financing is still a major concern among youth entrepreneurs in Malaysia. Keat and Ahmad (2012) in their study on obstacles to become entrepreneurs among university students revealed that financial problem as one of them. An analytical study by Omar and Azmi (2015) also mentioned financial problem faced by SMEs will worsen their image as well as their business operation. The issues with access to financing also occur in other countries all over the world. For example, in Poland, youth entrepreneurs had identified lack of access to financing as one of the important barriers that hinders them from becoming entrepreneurs (Jakubczak, 2015). A study by Uddin, Chowdury and Ullah (2015) on barriers facing youth entrepreneurs in Bangladesh concluded that access to finance is the biggest fear among youth entrepreneurs that suppress them from involving in entrepreneurial activities. Similarly, a study in Kenya by Sharu and Guyo (2014) stated that access to finance as the major obstacle for youth entrepreneurs, thus financial institutions should consider reducing the lending requirement in order to make access to financing easy. Lee, Sameen and Cowling (2015) in their study on 10,000 UK SMEs stated that access to finance is difficult for innovative SMEs as compared to other firms. A study by Centre for Enterprise on Economic Development and Research of Middlesex University reported that the main problem faced by youth entrepreneurs in European Union countries is access to finance. Challenges in accessing financing may limit the potential of youth entrepreneurs to transform their innovative ideas and skills into a viable business venture.

A new alternative financing mechanism known as crowdfunding has emerged and has the potential to facilitate youth entrepreneur's accessibility towards financing. Crowdfunding is a financing model that use the power of the internet to raise funds in small amounts from a crowd of people interested to finance a project or businesses (Adhikary & Kutsuna, 2015). Beaulieu, Sarker and Sarker (2015) declared that crowdfunding typically involves three actors, namely (i) entrepreneurs as the person who seeks for financing, (ii) investors as the person who contributes money that may range from general public to professional investor, and (iii) crowdfunding platform which is the intermediary that plays an important role to connect the entrepreneurs with the investors. There are two categories of crowdfunding models, either non-financial crowdfunding (in the form of donation or reward-based) or financial crowdfunding (in the form of debt-based and equity). Cichy and Gradon (2016) highlighted that reward-based crowdfunding model as the popular solution among entrepreneurs especially start-ups. In the same view, a study by Mokhtaruddin et al. (2017) in their study on crowdfunding among youth start-ups in Malaysia found majority youth start-ups select reward and donation based crowdfunding model as they believe these type of models suit their needs due to their inability to provide sufficient funding and bank financing is rarely available for a start-up.

Crowdfunding has now becoming increasingly popular, as the number of crowdfunding platforms worldwide has increased dramatically. In terms of value, total global crowdfunding fund-raising had reached \$34 billion in 2015 (Massolution, 2015) and it is expected to reach \$96 billion by 2025 (World Bank, 2013). Due to its popularity and fast expanding market, youth entrepreneurs should take this opportunity to connect with multiple investors in getting financing. However, entrepreneurs are normally lack of financial knowledge or awareness on the financing options in converting their business idea into reality (Ghazali & Yasuoka, 2018). Several awareness studies on crowdfunding have been carried-out in countries such as the Philippines, the United Kingdom (UK), Palestine, Nigeria and Malaysia. A study by Vergara (2015) revealed that the awareness level in Philippines was quite low as 27% of the respondents were unaware of crowdfunding and 31% of the respondents knew the crowdfunding term but did not understand the meaning. El Talla, Shobaki, Naser and Amuna (2017) reported that crowdfunding in Palestine needed more attention from the government in order to increase the awareness level among the entrepreneurs. In Nigeria, a study by Soreh (2017) pointed out that 22.5% of the respondents knew nothing about crowdfunding. Baeck, Collins and Zhang (2014) conducted a study on SMEs awareness towards alternative financing in the UK and found out 42% of the SMEs are not aware of any type of alternative financing. In Malaysia, Ghazali and Yasuoka (2018) reported that the level of awareness is still insufficient among SMEs to recognize and effectively used alternative financing such as crowdfunding as financing options.

It is important for entrepreneurs to have adequate information and understanding about crowdfunding concept and its process as well as its potential outcomes (Berndt and Mbassana, 2017). This would enable them to take advantage of the opportunity in helping them to recognize and effectively use crowdfunding as financing mechanism to improve their financial condition. A research report by Asian Institute of Finance (2017) indicated that understanding on crowdfunding concepts and its models is very poor among business owners in 2015 where 78% indicated no knowledge of how it was operated. The study by Berndt and Mbassana (2017) reveals a limited knowledge of crowdfunding on how it operates among Rwandan entrepreneurs. However, a study by Betz and Maidonis (2016) revealed that even though the respondents did not have experience in using crowdfunding, they had a positive desire regarding the possibility of using crowdfunding in the future. In a same note, a survey by Asian Institute of Finance (2017) found out 69% of business owners in Malaysia have faith in crowdfunding as a viable tools for them to grow their business. A study by Ingram and Teigland (2013) reveals different findings as they stated that entrepreneurs in Sweden do not fully embrace crowdfunding as a funding solution because the entrepreneurs believe there is not enough money to be raised on a Swedish platform.

As there are limited empirical studies focusing on awareness, understanding and perception of youth entrepreneurs towards crowdfunding, this study aims to examine how consciously youth entrepreneurs recognize, understand and whether they will consider crowdfunding as an alternative financing mechanism in Malaysia. The study will also investigate the appropriate forms of crowdfunding that youth entrepreneurs in Malaysia could potentially engage in.

## II. METHOD

### A. *Sample*

The sample for this research involved students from *IPMA* in Melaka, who have just started a micro enterprise or those who plan to start new ventures. The study undertakes the quantitative method with a total of 100 questionnaires were sent out, with 97 youth entrepreneurs in *IPMA* responded to the survey.

### B. *Measurement*

A questionnaires that has five sections was used in this study. For demographic questions in Section 1, the respondents were asked to give their personal background such as their gender, age, educational qualification and parental income background.

In Section 2, the level of awareness among respondents was measured by their awareness on the existence of crowdfunding in Malaysia and the questions requiring a “Yes” or “No” response. The items were developed from past studies on awareness adapted from Twintangibles (2013) and CRUCIAL (2016). Section 3 seeking information on the level of respondents understanding on crowdfunding basic concepts. The items in this section were adapted from the study conducted by CRUCIAL 2016. Section 4 consists of four items accessing on respondents preferences on type of crowdfunding models and the items were adapted from previous study conducted by Mokhtarrudin et al. (2017). Lastly, Section 5 is to identify the respondent’s perception towards crowdfunding as an alternative financing mechanism. The items were adapted from the studies conducted by Bergman et al. (2016) and Bone and Baeck (2016).

### C. Analysis

This study aims to answer the following research questions:

RQ1: To what extent is the level of awareness and understanding of youth entrepreneurs in IPMA about crowdfunding as an alternative to financing mechanism?

RQ2: What is the most appropriate crowdfunding models for youth entrepreneurs in IPMA?

RQ3: What is the perceptions of youth entrepreneurs in IPMA towards crowdfunding as an alternative financing mechanism?

In order to achieve all these objectives, the data from the questionnaires were analysed using descriptive analysis using the Statistical Package for Social Sciences (SPSS) software and the internal consistencies of scale were assessed through computing Cronbach’s Alpha. All variables in the questionnaires show the reliability value ranging from 0.6 to 0.9. According to Lewis and Loewenthal (2015), the absolute value of 0.7 (or sometime 0.6) is normally taken as the criterion of acceptability. Therefore, this questionnaire is acceptable and can be used for the purpose of the current study. The number of items and corresponding Cronbach’s Alpha for the variables in the study are revealed in Table I.

TABLE I. RELIABILITY OF QUESTIONNAIRES

<i>Variables</i>	<i>Cronbach’s Alpha</i>	<i>Number of Items</i>
Crowdfunding As An Alternative Financing	.866	6
Youth Entrepreneurs Awareness Of Crowdfunding	.737	19
Understanding On Crowdfunding Concepts	.836	22
Understanding On Crowdfunding Models Perceptions Towards Crowdfunding	.636	8
All items	.885	19
	.918	74

## III. FINDING AND DISCUSSION

### A. Demographics

Table II shows the demographic features of the 97 youth entrepreneurs participated in the study. As suggested by Mokhtarrudin et al. (2017), gender plays a significant role to the variation of using crowdfunding as an alternative financing mechanism. In the study, majority of the respondents are female that is 61.9%, whereas male are only 38.1%. Most of the youth entrepreneurs are in the age group 20 to 25 years old that is 79.4%, while 20.6% are in the age group 20 years old and below. Those youth entrepreneurs with diploma qualification contribute 88.7%, while only 11.3 % are degree holders. The parental income background seem to matter greatly in the context of the interest of youth entrepreneurs in crowdfunding opportunities. Youth entrepreneurs is not like an ordinary entrepreneurs where mostly all of them are facing challenges in accessing financing from traditional financial institutions due to their financial credibility which does not meet the application requirement such as collateral. At this stage, normally financial support comes from their parents. It can be seen that the 53.6% which represent the largest group of youth entrepreneurs came from those whose income was below RM5,000. 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 youth entrepreneurs already started their business for almost 1 year. The youth entrepreneur’s current stage of business is an important driver in determining their decision regarding which form of crowdfunding model that suits to their needs.

**TABLE II. DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS**

	<i>Frequency</i>	<i>Percent (%)</i>
Gender		
Male	37	38.1
Female	60	61.9
Age		
Below 20 years old	20	20.6
20 to 25 years old	77	79.4
Educational Qualification		
Diploma	86	88.7
Degree	11	11.3
Parental Income Background		
Less than RM5,000	52	53.6
RM5,000 - RM10,000	37	38.1
RM10,000 - RM15,000	2	2.1
Above RM15,000	6	6.2
Status of the Business		
Plan to start a business	50	51.5
Less than 1 year	29	29.9
1-3 years	9	9.3
Above 3 years	9	9.3

### *B. Awareness and Understanding on Crowdfunding*

The respondents were asked about their awareness with crowdfunding in general and as shown in Table III below, 61.86% of the respondent show low level of awareness with this new area of alternative financing. This is significant high compared to a similar study in Philippines with 27%, 22.5% in Nigeria and 42% in the UK. However, when compared with research conducted by Asian Institute of Finance (2017) in Malaysia, the results are much less the same that is very few among business owners knew about crowdfunding.

**TABLE III. DISTRIBUTION OF YOUTH ENTREPRENEURS ACCORDING TO CROWDFUNDING AWARENESS LEVELS**

<i>Awareness Level</i>	<i>Score</i>	<i>Total Respondents (n)</i>	<i>Percentage of respondent (%)</i>
Low	0 to 6	60	61.86
Medium	7 to 13	35	36.08
High	14 to 19	2	2.06

In the third section of the questionnaires, the respondents were asked about their knowledge on specific crowdfunding terminology and the details of the terms and levels of reported knowledge is presented as per Table IV below.

**TABLE IV. UNDERSTANDING ON CROWDFUNDING TERMINOLOGY**

	<i>Yes (%)</i>
Angel Investor	22.9
Seed Capital	34.4
Venture Capital	53.1
Backer	26.0
Funder	90.4
Creator	72.9
Crowdfunding platform	53.7
Crowdfunding campaign	52.1
Pitch	28.1
Project	87.5
Pledge	43.2
Start-up business	94.8
Rewards	88.5
Peer to Peer business lending	44.8
Due diligence	31.3

The results show that knowledge on general terminology such as start-up business, funder and project is significantly higher than technical terms such as pitch, backer and due diligence. Next, they were further asked whether they recognized some of the crowdfunding platforms and the results revealed that Kickstarter is the most recognized crowdfunding platform (37.2%), followed by Mystertr Sdn. Bhd in the second place (29.8%) and Go Fund Me in the third place (27.7%). The findings is considered to be interesting when youth entrepreneurs mostly recognized the reward and donation crowdfunding platforms compared to other types of model. In terms of understanding on crowdfunding basic concepts, only 8.2% of the respondents

strongly agree that they understand what crowdfunding is all about. This is also similar with a research conducted by Asian Institute of Finance (2017) that is poor understanding on crowdfunding among business owners.

### C. Youth Preferences on Crowdfunding Models

With regard with the research question 2, i.e “what is the most appropriate crowdfunding models for youth entrepreneurs in IPMA”, 62.1% of the respondents said that donation-based crowdfunding model is the most suitable crowdfunding models for youth entrepreneurs, while reward-based crowdfunding model is in the second place with 61%. This study support the previous study done by Mokhtarrudin et al. (2017) where donation-based and reward-based crowdfunding model are the most appropriate crowdfunding model.

### D. Perception on Crowdfunding as an Alternative Financing Mechanism

The general perception of youth entrepreneurs concerning using crowdfunding as a mechanism of raising financing was ranked on a scale from 1, "Strongly Disagree" to 5, "Strongly Agree." As shown in Table V, a mean of 3.71 is obtained showing that most youth entrepreneurs agree to consider using crowdfunding as an alternative way to getting their business funded.

TABLE V. PERCEPTION ON USING CROWDFUNDING

	<i>N</i>	<i>Mean</i>	<i>Std. Deviation</i>
Would you consider using crowdfunding as a mechanism to raise financing for your business?	97	3.71	.721

Learn new fundraising skills and gain experience in other areas such as marketing, communication and others, crowdfunding makes fundraising process faster and simpler and to reach out a wider/ new type of audience are among the prime reasons that would encourage youth entrepreneurs to use crowdfunding. Apart from asking reason of using crowdfunding, youth entrepreneurs were also asked their perception on barriers that may hinder them from using crowdfunding as a financing option. The findings indicated that most of the respondent with mean 3.58 said “I don’t know how to use crowdfunding” is a main barrier.

As shown in Table VI, youth entrepreneurs were asked what kind of element that they would consider when choosing crowdfunding as an alternative financing. The result shows that element “If shariah-compliant crowdfunding is available” is the most considered element with a mean of 3.95, followed by “If I could receive training and have been educated on how to use crowdfunding” with a mean of 3.82

TABLE VI. ELEMENTS OF CONSIDERATION WHEN CHOOSING CROWDFUNDING

<i>Alternative Financing /Item</i>	<i>Mean</i>	<i>Std. Deviation</i>
If crowdfunding information and advisory hub is available.	3.81	.712
If I could receive training and have been educated on how to use crowdfunding.	3.82	.791
If I could combine financing from other investor with crowdfunding.	3.76	.778
If clear regulatory framework exist for crowdfunding industry.	3.76	.692
If IT skills for crowdfunding is being provided.	3.81	.741
If sharia-compliant crowdfunding is available.	3.95	.808

## IV. CONCLUSION

As there are many obstacles especially accessing to finance that may limit the potential of youth entrepreneurs in securing financing, crowdfunding appears to be a promising way in helping them to transform their considerable ideas and skills into a viable business. This current study focused on how consciously youth entrepreneurs recognizes and will consider crowdfunding as an alternative financing mechanism in Malaysia. It further investigate relevant models that meet the needs of youth entrepreneurs. In brief, the author discover that the level of awareness of most youth entrepreneurs in IPMA in Melaka is still very limited. It is proposed that a subject of crowdfunding should be introduced to entrepreneurship students as part of curriculum in IPMA. It will be helpful to create awareness among them and will benefited the youth entrepreneurs in IPMA to wider their way in accessing financing for their ventures. However, based on the perception results, a majority of the youth entrepreneurs has positive sentiments of using crowdfunding and this reflects a good sign on the acceptance of this crowdfunding as new financing options. Furthermore, the results also point out youth entrepreneurs selected donation and reward-based crowdfunding models as their prime option. This is because these types of model is less risky compared to other types of models. It is belief donation or reward-based crowdfunding models give better chances for youth entrepreneurs to more easily pursue their ventures (Mokhtaruddin et al., 2017).

Since the current study was only carried out on 97 youth entrepreneurs in IPMA in Melaka, the findings cannot be generalized to all youth entrepreneurs in Malaysia. It is suggested that a study should be conducted with a larger base and outside Melaka as well as not only focusing IPMA to get more consistent and accurate findings.

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