

Readiness of Crowdfunding to Finance Small and Medium-Sized Enterprises in ASEAN

¹Sentot Imam Wahjono, ²Anna Marina, ³P.M. Nur Rizki Oceano and ¹Fam Soo Fen

¹University Teknikal Malaysia Melaka, Jalan Hang Tuah, 75300 Melaka, Malaysia

²Universitas Muhammadiyah Surabaya, Jalan Sutorejo No. 59, 60113 Surabaya, Indonesia

³PT. Dutakom Wibawa Putra, Jalan Basuki Rahmat No. 106-128, 60271 Surabaya, Indonesia

Abstract: The purpose of this study is to discuss the readiness of crowdfunding to finance SME in ASEAN. Crowdfunding is a financing alternative for internet-based businesses. This study analyzes the current condition of the five ASEAN countries, namely Indonesia, Malaysia, Philippines, Thailand and Vietnam. The analysis was conducted in two aspects of readiness crowdfunding as SME financing in terms of entrepreneurial culture and networked readiness. Analysis of an entrepreneurial culture based on the global report issued by the Global Entrepreneurship Monitor 2016 when an analysis of networked readiness is based on The Global Information Technology Report 2015 issued by the World Economic Forum. The preliminary findings of this study indicate that crowdfunding can be implemented successfully nevertheless not ready to use crowdfunding as an alternative business financing, especially for SMEs.

Key words: Crowdfunding, alternative financing, ASEAN, entrepreneurial culture, SMEs, entrepreneurial, implemented

INTRODUCTION

ASEAN (Association of South East Asian Nations) is composed of 10 independent countries located in Southeast Asia consisting of: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. World Economic Outlook Database January, 2016 has released data on the world economy and population. Based on that data, ASEAN has a GDP (Gross Domestic Product) is USD 3.574 billion was 5th largest economy world. But in market position because it has the world's 3rd largest population of 668.56 million peoples. ASEAN is therefore important and attractive economic region.

Crowdfunding is a platform in which a person or group of people can get the funds to finance your business or project from the crowd (Wahjono *et al.*, 2015). In general crowdfunding funding is divided into three categories, namely: donation, loan and investment (Evers, 2012). In the category of donation, the owner of money does not demand the return of money and the benefit of any of the businesses or projects funded because since the beginning of the donors already know projeknya and does not expect change. In the category of loan, the owner of money hoping to benefit on the business operation or project that is funded and also hope the money can be returned at the end of the age of

the project. Being in the category of investment, the owner of money hoping the money is not lost but at the end of the project money can be converted into shares as proof of ownership in the project or funded business (Kim and Viswanathan, 2013).

Crowdfunding operates as a bank that is as intermediary that brings together persons or entities that have excess funds to persons or institutions that need funds (Barnett, 2013). The funding requirements are based on a particular project or business that has been described in detail and campaigned on a platform provided by a registered institution. The platform enables can be accessed by anyone including by donors or the parties who have surplus funds and when pleasing the donors could send funds to institutions registered crowdfunding organizers was to be distributed to persons or parties running a business or project. The platform must be based on the internet that can be accessed by anyone, anywhere and at any time as well (Kitchens and Torrence, 2012).

Crowdfunding organizers must be registered institutions that are subject to financial regulation in a country (Ley and Weaven, 2011). This is because the crowdfunding institutions collecting public funds and in the same period the state must protect the public funds that are in institutions crowdfunding reliable and operated properly follow the rules of financial security and financial

risks and investment. Some countries already have rules or laws that govern the operation of crowdfunding, some other countries have not (Ordanini *et al.*, 2010).

This study will analyze and discuss the readiness of ASEAN in using crowdfunding platform in financing activities or projects conducted by SMEs (Small and Medium-sized Enterprises). The analysis will be conducted on two variables describing the degree of readiness in running crowdfunding namely: an entrepreneurial culture (culture readiness) and networked readiness (technology readiness).

MATERIALS AND METHODS

The analysis is based on secondary data current to obtain a picture. Profile entrepreneurial culture we fetch data from GEM (Global Entrepreneurship Monitor) through its last report, namely 2015/16 Global Report by taking 12 indicator data in the form: entrepreneurial finance, government policies: support and relevance, government policy: taxes and bureaucracy, government entrepreneurship programs, entrepreneurship education at school stage, entrepreneurship education at post school stage, R&D transfer, commercial and legal infrastructure, internal market dynamics, internal market burdens of entry regulation, physical infrastructure and cultural and social norms.

While the technology readiness we fetch the data from the WEF (World Economic Forum) has released a new report entitled: The Global Information Technology Report 2015, ICTs for inclusive growth. Networked Readiness Index also known as technology readiness measures the ability of economies in leveraging the opportunities offered by ICT (Information and Communication Technology) for shared prosperity. This report published by the World Economic Forum with the title of The Global Information Technology Report 2015, ICTs for inclusive growth. The framework translates into the NRI, a composite indicator made up of the main four categories (subindexes), 10 subcategories (pillars) and 53 individual indicators distributed across the different pillars:

Environment sub-index:

- Political and regulatory environment (9 indicators)
- Business and innovation environment (9 indicators)

Readiness sub-index:

- Infrastructure (4 indicators)
- Affordability (3 indicators)
- Skills (4 indicators)

Usage sub-index:

- Individual usage (7 indicators)
- Business usage (6 indicators)
- Government usage (3 indicators)

Impact sub-index:

- Economic impacts (4 indicators)
- Social impacts (4 indicators)

The computation of the overall NRI score is based on successive aggregations of scores: individual indicators are aggregated to obtain pillar scores which are then combined to obtain subindex scores. Subindex scores are in turn combined to produce a country's overall NRI score (Shome and Suri, 2016).

ASEAN 5 countries analyzed are Indonesia, Malaysia, Philippines, Thailand and Vietnam. Singapore was not analyzed because there was no data in the report of GEM 2015 election of the five ASEAN countries in this paper because of the five countries that are prominent in the economy and business.

RESULTS AND DISCUSSION

Entrepreneurial culture: The entrepreneurial culture is part of the culture readiness, it measures the ability of a state in entrepreneurship culture to accept crowdfunding as an alternative financing for new businesses or SMEs. There is 12 indicator to measure the readiness of an entrepreneurial culture that all of the indicators taken from the data GEM, 2015.

Indonesia as the country with the largest population in ASEAN (251.5 million) with the largest GDP (USD 888.8 billion) has the cultural readiness higher than the average GEM. Only the physical infrastructure that is the average GEM. Indicator cultural and social norm Indonesia has a value of 5.79 (Fig. 1) and is ranked 7th out of 62 countries. Overall Indonesia was somewhat prepared culturally to implement crowdfunding.

Malaysia as a country with a population of at least five ASEAN countries studied (30.3 million) with a GDP of \$326.9 billion has cultural readiness higher than the GEM average in all indicators. Prominent cultural readiness is entrepreneurial finance to the value of 5.77 and is ranked into one of 62 countries (Fig. 2). Overall Malaysia culturally prepared to implement crowdfunding.

For the Philippines, despite its fact as a second largest country by population in Southeast Asia (99.4 million), Philippines has a relatively low GDP of 284.9 million USD compare to its counterpart. The surprising fact comes from an Entrepreneurship education at post school and school indicator that got ranked 1 and 2, respectively from 62 countries.

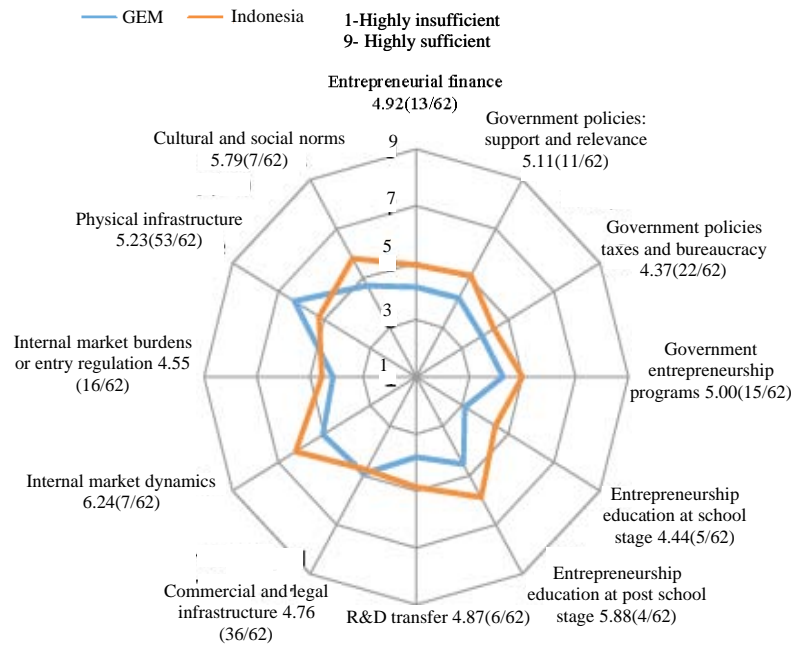


Fig. 1: Indonesia cultural readiness

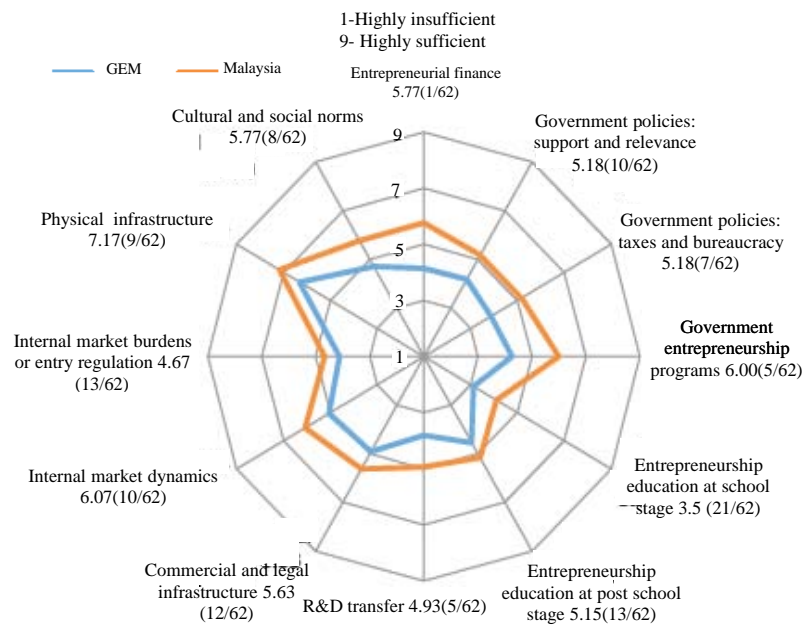


Fig. 2: Malaysia cultural readiness

However, the country still considered as low performing countries in a government policies: taxes and bureaucracy indicator with only 2.87 index score (Fig. 3). Compare to Indonesia and Malaysia, the Philippines still need some effort to be culturally ready in implementing crowdfunding. Thailand by GDP is ranked 2 in Southeast

Asia with 373.8 million USD, got a total population of 68.7 million. The country has a relatively equivalent score with GEM average but there are two indicators that significantly surpass the GEM. The Internal market dynamics is considered highly sufficient by 6.38/9.00. Further, the cultural and social norms ranked 12 from

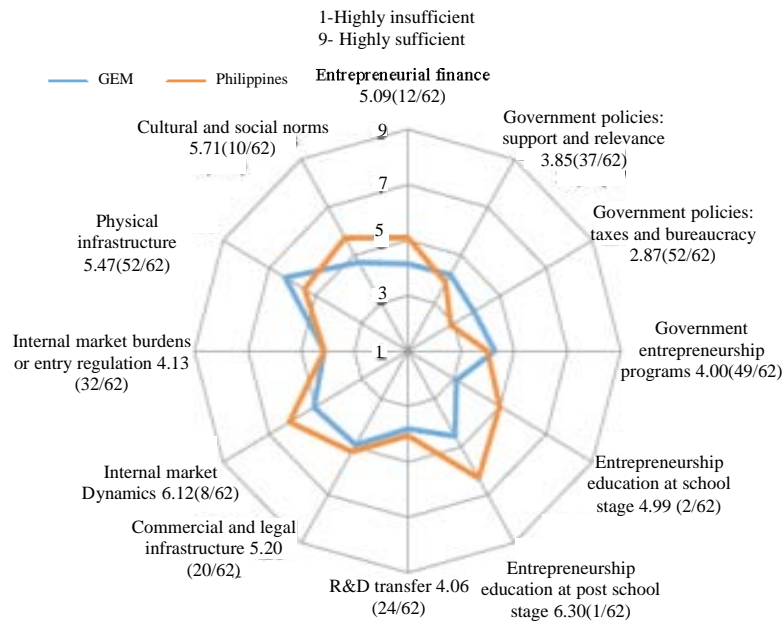


Fig. 3: Philippines cultural readiness

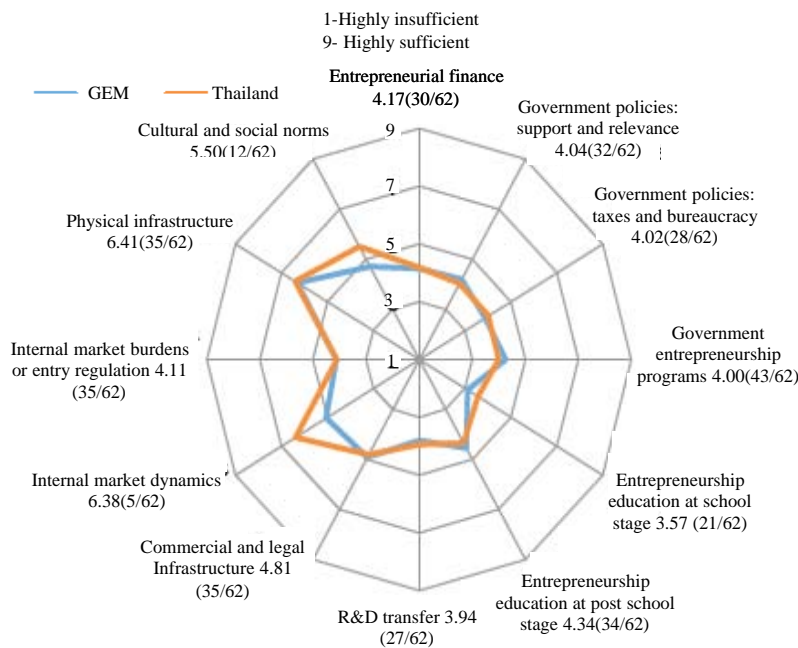


Fig. 4: Thailand cultural readiness

62 GEM countries (Fig. 4). As a relatively average GEM country, Thailand is culturally ready to taste the crowd funding model.

Vietnam currently has the lowest GDP among other ASEAN 5 only 186 million USD but the country reserve abundant human resource of 90.6 million to sustain their economics. The internal market dynamics is considered high by ranked on 11/62 (Fig. 5), However, the greatest

challenge of Vietnam is the entrepreneurial finance indicator that ranked 50 out of 62 GEM countries. Despite some of the hurdles, Vietnam shows a promising step to be culturally ready on crowdfunding.

Networked Readiness Index (NRI): Indonesia's NRI rank is actually declined from ranked 64 in 2014 to 79 in 2015 (Fig. 6). However, the overall performance from 10

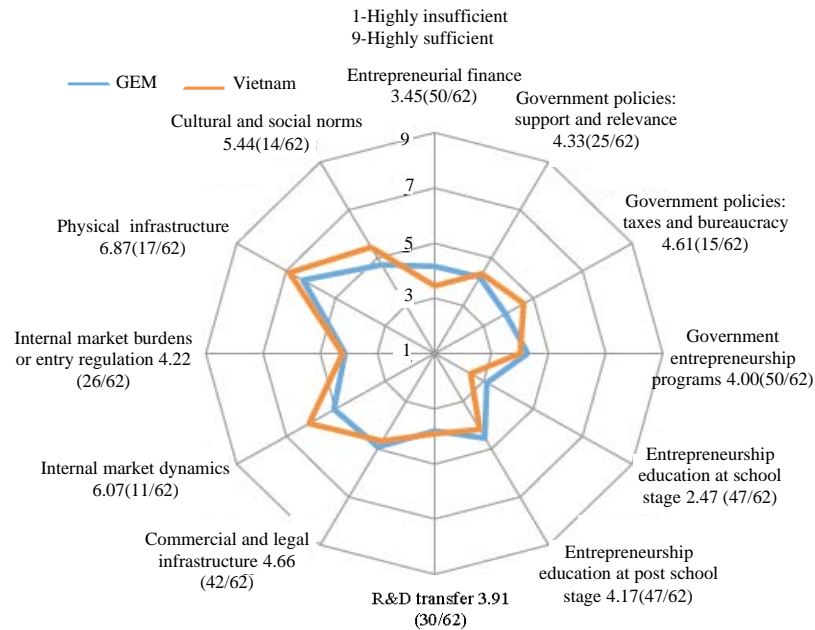


Fig. 5: Vietnam cultural readiness

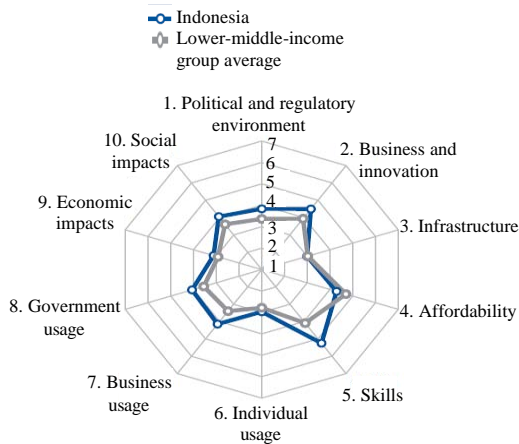


Fig. 6: Indonesia technology readiness

indicators could exceed the lower-middle-income group average, unless in one indicator of affordability (99/143). In other hand skills (5.2/7) outperform the rest of indicators.

Malaysia topped the list compare to their neighbors of ASEAN 5, they ranked 32 out of 143 countries in the world (Fig. 7). The most significant indicators are government usage ranked 9 from all participating countries. On the other hand, affordability indicator remains struggle on the point of 5.1/7.0.

The Philippines rank came short after Malaysia and Thailand (76 out of 143) it higher than Indonesia and Vietnam. Just like it's neighbor Indonesia, Philippines

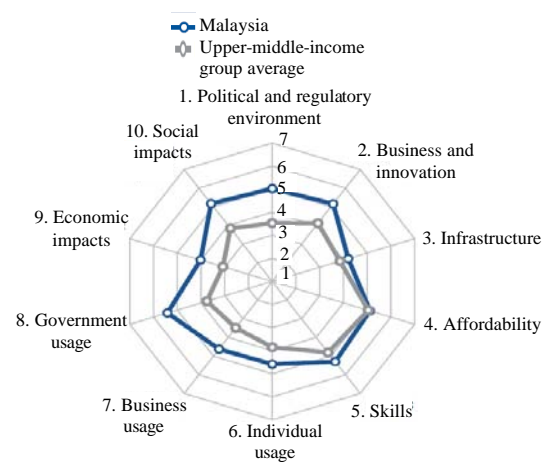


Fig. 7: Malaysia technology readiness

reach their highest point on skills category (5.3/7.0). Then on the affordability indicator they ranked 103 which mean the lowest compare to the ASEAN 5 (Fig. 8).

Thailand is able to defend it's position on number 67 in 2 years in a row and considered as upper-middle-income group countries. The best part of Thailand index in NRI 2015 is the indicator of business and innovation environment (48/143). But Thailand is politically un-conducive to produce a supportive regulation (3.5/7.0) (Fig. 9).

Vietnam is relatively the weakest among ASEAN 5, ranked 85 among 143 countries and considered as a

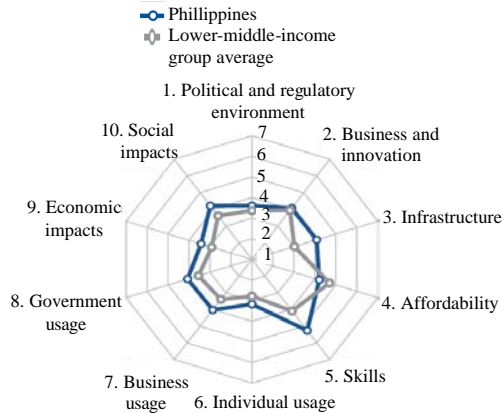


Fig. 8: Philippines technology readiness

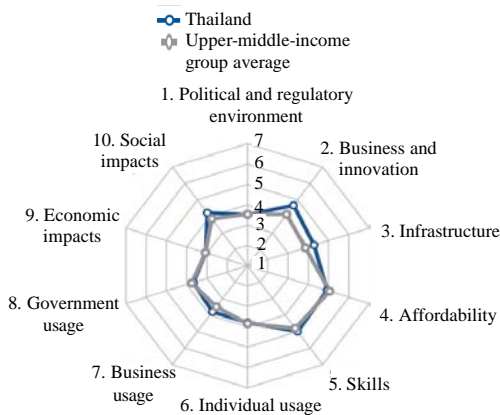


Fig. 9: Thailand technology readiness

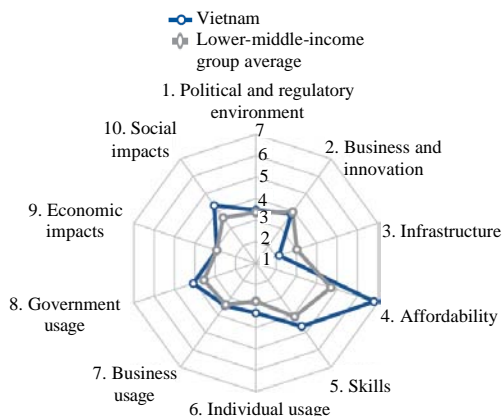


Fig. 10: Vietnam technology readiness

lower-middle-income group. The affordability significantly outshines the rest of indicators with ranked 2 out of 143. However, the primary challenges for Vietnam are the infrastructure who got only 2.1/7.0 (Fig. 10).

CONCLUSION

The findings show that ASEAN 5 indicates that crowdfunding can be implemented successfully nevertheless not ready to use crowdfunding as an alternative business financing, especially for SMEs. Indications that crowdfunding can be implemented for almost all states have an entrepreneurial finance constraints except Malaysia. This is an opportunity for crowdfunding as an alternative financing SMEs due to the large gap financing by banks.

Indications that crowdfunding is implemented in ASEAN bias is also evident from the high number of the cultural and social norm, on average above 5, it indicates that social norms and cultural ASEAN community is ready to accept a new form of financing or funding other than banks such as crowdfunding.

Nonetheless, crowdfunding could not be used as an alternative financing for SMEs because of weak indicators in the form of electricity production infrastructure, mobile network coverage, international internet bandwidth and secure internet server. Only Malaysia has adequate infrastructure.

The un-readiness of ASEAN in implementing the crowdfunding can also be seen from the low individual usage of the mobile phone in the form of a subscription, the individual using the internet with personal computer household, a household with internet access, fixed broadband subs internet, mobile broadband subs and use of virtual social networks. The average value of individual ASEAN usage was 3.5 out of 7.

Unpreparedness is the next in terms of government regulations. Until now the only Malaysian who already have laws that regulate crowdfunding so biased protect the parties to a transaction funding and financing through crowdfunding.

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