

CHAPTER 1

INTRODUCTION

This study examines the effect of financial management practices on the financial performance of equity-based crowdfunding (ECF) recipient firms in Malaysia. This study also investigates the social networks and the ECF platforms' provider affiliations to grasp the crowdfunding concept. As the entrepreneurial landscape becomes more dynamic, the entrepreneurs face more significant challenges. Additionally, this study investigates the adoption of business intelligence (BI) as a mediator between financial management practices, financial analysis and financial planning towards the firm performance. Thus, Chapter 1 starts by explaining the research background, issues and problem statement, and the study's rationale. This chapter provides the study's purpose, the study's objectives, research questions, limitations, and the significance of the study in experimental research. It concludes with the operational definition of key terms guiding the study.

1.1 RESEARCH BACKGROUND

The new Malaysian Government has re-established the Ministry of Entrepreneur Development to achieve its mission to accelerate the sustainability and equity of small and medium enterprises (SMEs). SMEs are known as economic catalysts, contributing 38.9% to Malaysia's gross domestic product (GDP) in 2019 (DOSM, 2020). To put Malaysia on par with economic leaders such as Japan, Korea,

and Taiwan, SMEs must be the country's top plan in the future. SMEs in these countries are the most significant contributors to the economy compared to the existing large companies. Half of the income of these countries come from SMEs.

Therefore, Malaysia is taking various initiatives, including developing entrepreneurship programs to help the well-being of SMEs in all sectors. In 2017 alone, Malaysia has organized a total of 168 SME development programs. These programs have successfully assisted nearly 600,000 SMEs from various sectors. With continued government support, this will help place SMEs in the global value chain, especially in the era of digitalization and the Industrial Revolution 4.0 (Jayakrishnan *et al.*, 2018; Butticiè & Vismara, 2021). According to Megginson (2004), the development of global technologies, industries, and markets inspires SMEs to be more innovative. As a result, they create more opportunities that can create jobs and indirectly eradicate poverty.

The Government and its agencies have and will have to ensure that SMEs in Malaysia continue to grow and develop in line with the current situation. The assistance provided includes financial, creating various incubator programs as well as young entrepreneur schemes. However, such efforts need to be carefully examined and observed to achieve the goal of developing SMEs (Abraham & Schumaker, 2017).

Recently, the Government has introduced equity-based crowdfunding (ECF) to help address the financial problems faced by SMEs (Securities Commission Malaysia, 2016). ECF was first introduced in 2015 by the Government through its agency, the Securities Commission Malaysia, and it is growing (Kourabas & Ramsay, 2018). ECF is a method of raising capital from online platforms as the manifestation of the financial technology (fintech) innovation (Coakley & Lazos, 2021). The ECF platform acts as intermediary connecting companies (issuers) and investors.

In 2017, the Securities Commission Malaysia reported that the ECF was able to help SMEs raise finance for their operations. The report has stated that the ECF platform has managed to raise MYR32.74 million in investments from 37 campaigns. The investment involved more than 800 investors.

The following year, the Securities Commission Malaysia report showed that the number of successful campaigns declined compared to the previous year to 23 campaigns. However, the total investment increased by MYR15 million (Fong, 2019). In 2019, the Securities Commission Malaysia statistics showed that a total of 77 issuers had successfully benefited from the ECF. A total of 80 campaigns successfully raised investment funds worth MYR 73.74 million (Securities Commission Malaysia, 2019). This indirectly gives the view that ECF has the potential as a new alternative to finance SMEs in Malaysia.

However, in Malaysia, the involvement of SMEs to obtain ECF is still low. Therefore, this study investigates the performance of ECF-funded firms that have successfully received ECF from 2016 to 2019. The success of SMEs to obtain ECF depends on the investors who participate in the campaigns on the platform. However, several factors influence investors to invest in a firm. Among those factors are available financial information (Chen *et al.*, 2016; Di Pietro *et al.*, 2020; Shahzad *et al.*, 2019), patents (Hsu & Ziedonis, 2013), governance (Sanders & Boivie, 2004), product certification (Ahlers *et al.*, 2015; Bapna *et al.*, 2017), business models (Ahlers *et al.*, 2015; Lukkarinen *et al.*, 2016), marketing strengths (Bae *et al.*, 2017), words used in campaigns (Mollick, 2014), press releases (Steigenberger & Wilhelm, 2018), third-party affiliations (Plummer *et al.*, 2016), founder networks (Liao *et al.*, 2015), issuer-platform networks (Helmer, 2014), expert participation (Kim & Viswanathan, 2018),

social media (Dessalles, 2014), and the background of the founding team (Ahlers *et al.*, 2015; Bernstein *et al.*, 2017; Lim & Busenitz, 2020).

1.2 PROBLEM STATEMENT

SMEs is a significant contributor to gross domestic product (GDP) in most countries, including Malaysia. These SMEs can increase the country's economic growth by creating new jobs, increasing decent community income and wealth, and improving social networks (Ahmad & Xavier, 2012; Henderson, 2002). Although these enterprises have great potential to generate high profits, at the same time, they reveal a relatively low survival rate. Thus, it is difficult for them to surpass the existing traditional market and the global market. This explains the reason why most of them face many problems and fail (Dhawan, 2001).

The main problems plaguing SMEs are lack of financial resources and financial management practices (Ebashi *et al.*, 1997). SMEs cannot be successful without sufficient funding and adequate management skills (Everett & Watson, 1998). Large companies also face a shortage of operating capital, but the effects are even worse when involving SMEs and new firms (Capocchi, 2019). The financial problems of start-ups are the worst because they do not have the financial history, business records and previous assets to serve as collateral to support bank loan applications (Burke & Hanley, 2006). Banks, as well as traditional financial institutions, are centered on maximizing profits. Therefore, small firms and start-ups are not their choices (Chapra, 2011). SMEs and start-ups comparable to already growing companies also have the same problem (Archibugi *et al.*, 2013; Storey & Greene, 2010).

Vaznyte and Andries (2019) argue that start-ups need substantial funding because of their nature being high-growth, innovative, and too risky. Nonetheless, a

large number of start-ups typically fund their operations from savings, credit cards (Aydın, 2016), family and friends (Conti *et al.*, 2010), bootstrapping (Ye, 2017) and grants (Srhoj & Walde, 2020; Wang *et al.*, 2017) which are inadequate. However, when these funds are depleted, the company will again face a financial crisis, affecting the company's survival and performance. The emergence of crowdfunding (CF) is seen as a savior for these SMEs and start-ups. CF also can grow (Lee *et al.*, 2015) and be a catalyst for economic growth and job creation (OECD, 2013). More than that, CF is one of the "fast -growing markets" that promotes shared value (Baumgardner *et al.*, 2017; Desa & Basu, 2013).

The advent of CF reduces the critical funding gap of small firms, especially start-ups (Lin, 2017; Wasiuzzaman & Nurdin, 2019). The CF mechanism allows for interaction between firms, platforms, and investors worldwide using social media applications such as Facebook, Instagram, WhatsApp, Twitter, and email (Paschen, 2017). Some interpret it as an innovation in running a business online (Robson *et al.*, 2016) and innovation in entrepreneurial financing (Bellavitis *et al.*, 2017).

As mentioned earlier, the ECF in Malaysia has been introduced since 2015. It aims to help SMEs overcome the financial problems they face. Judging from the statistics reported by the Securities Commission Malaysia, a total of MYR32.74 million (2017), MYR47.74 (2018) and MYR73.74 (2019) million have been successfully recorded. In addition, in the 2020 report, ECF investments above MYR199 million were recorded. A total of 150 issuers have published 159 campaigns (Securities Commission Malaysia, 2020). This indicates that ECF has the potential as a new alternative to finance SMEs in Malaysia.

Lack of funds is a significant problem for firms, especially SMEs, and financial management problems are also a major cause of business failure. Lack of knowledge

of financial management among founders is why they do not get involved in managing financial matters. However, it is worse if they choose to participate (Atik, 2010). In uncertain business conditions, inefficiency in financial management will only put the firm at risk (Lakew & Rao, 2013) and affect the firm's sustainability (Agyei-Mensah, 2010). Thus, incorrect financial decisions tend to affect the liquidity and profitability of a firm's overall performance. In most cases, this will then result in insolvency (Mackevičius & Sneidere, 2010).

To reduce risk and ensure that the company's financial position is well-monitored, the company needs to adopt effective and efficient financial management strategies. Recently, the Government of Malaysia has imposed strict conditions on loan applications and financing of micro, small, medium enterprises (MSMEs) by examining the company's financial reports. Often, these firms are associated with a lack of financial management practices. This indicates a high-risk investment in these types of businesses (Azman *et al.*, 2020).

Financial management practices are used to enable practical evaluation of company performance. Many studies have been conducted to examine the impact of financial management practices and SME performance. Financial management practices have been recognized in both developed countries such as the US, Sweden, and Australia (Baker *et al.*, 2011; Dahmen & Rodriguez, 2014; McMahon, 2001), and developing countries such as Vietnam, Nigeria, Turkey and Ethiopia (Abanis *et al.*, 2013; Kitonga, 2013; Karadag, 2015; Waweru & Ngugi, 2014).

Financial management is a crucial management tool, and understanding it is essential. It allows the finance manager to keep track of the company's current financial situation. It can also address a company's future financial requirements (World Bank, 2014; Musah *et al.*, 2018). As a result, competent financial management can help

businesses avoid failure and insolvency (Harash et al., 2014; Waweru & Ngugi, 2014; Kiiru et al., 2019).

SMEs in Malaysia do not practice proper financial management practices (Harif *et al.*, 2010). Often, the financial management practiced by Malaysian SMEs is limited to working capital, financial accounting, and financial planning and control. On the other hand, financial analysis and reporting, and management accounting are not emphasized. More than that, Di Pietro, Grilli and Masciarelli (2020) argue that under the ECF, firms that display financial statements and previous achievements can reduce ambiguity and asymmetric information among the public. Quality financial reporting tends to increase investor confidence and influence them in making investment decisions. Their results are significant because they will affect the campaign's outcome (Chen *et al.*, 2016; Shahzad *et al.*, 2019).

ECF ecosystems involve networks and platform that act as an intermediary that brings the issuers and funders. Research by Tamyez, Azizan, Ismail, and Ali (2018) argues that previous studies on SMEs in Malaysia have mainly studied entrepreneurship itself but less examination on the influence of efficiency and networking. Whereas, networking is one of the success factors of business growth (Anderson *et al.*, 2010; Jack *et al.*, 2010) because it has the privilege of accessing customers and external resources (Martinez & Aldrich, 2011).

The emergence of the ECF platform provides an excellent opportunity for start-up firms to continue to grow (Salomon, 2016). The ECF also symbolizes the decline of venture capitals (VCs) and private equities (PEs) to finance SMEs, especially start-up firms, due to their high risk. They only choose to invest in the existing growing firms which already have the product and are already stable. According to Haas, Blohm and Leimeister (2014), intermediary value propositions differ depending on the

crowdfunding model (i.e., hedonism as a reward, altruism as a contribution, and profit). Therefore, it is reasonable to investigate the potential of crowdfunding platforms as intermediaries due to research on crowdfunding platforms is still lacking.

Thus, this study intends to investigate if these factors have an impact on the ECF-funded firm in Malaysia, specifically, their impact on the future development of the firm. In addition, the problems of the ventures become more challenging due to the fast-changing in technology. This study therefore also investigates the interference of technology, namely, business intelligence in ECF firms. Further funding could be the catalyst of these firms' continuation (Strausz, 2017). Since funding retrieved from online platforms is merely a short-term strategy, the ventures need to seek for other funding sources for expansion purposes (Brown *et al.*, 2018).

Inability to keep up with the technological advancement and the costs of having technology in the ventures significantly affect the firm performance (Azudin & Mansor, 2018). The present study thus further aims to examine the influence of business intelligence in enhancing these firms' performance. Nowadays, technology plays an essential role in keeping the business on its right track (Stodder, 2013). Big data, artificial intelligence, fintech, bitcoins, and blockchain are those financial technologies that disrupt current businesses operation (Jiang *et al.*, 2011).

If more SMEs use ECF, the effectiveness of ECF can be determined. Based on this claim, this study takes the initiative to investigate the firm performance from the experiences of ECF-funded firms from 2016 to 2019. This study is critical because it provides knowledge on SMEs that adapt financial innovations compared to SMEs before the emergence of CFs, those that focus on traditional financial systems and prevalent financing as already described.

1.3 GAPS IN THE LITERATURE

Most previous studies examined successful crowdfunding campaigns (Signori & Vismara, 2016, 2018). However, a few studies examined the post-event of crowdfunding. A study by Valanciene and Jegeleviciute (2013) used SWOT analysis to evaluate the impact of crowdfunding. The analysis merely discloses the uniqueness and ambiguity of crowdfunding and public anxiety as its drawbacks. Further, the effect of the post-campaign towards the additional external funding has been investigated (Kuppuswamy & Roth, 2016). In some research, the finding shows that the amount raised during the crowdfunding campaign significantly influences the possibility of obtaining additional funding via external sources, such as business angel (BA) and venture capital (VC) (Fili, 2014).

The crowdfunding 'proof of concept' attracts potential investors to participate in the next campaign. The study also shows that after the campaign successfully raises \$75,000, the marginal effect of increasing additional funding decreases (Kuppuswamy & Roth, 2016). Meanwhile, Skirnevskiy, Bendig and Brettel (2017) emphasize enhancing the creator-platform internal network for future campaign success. Recent research on post crowdfunding event by Fan-Osuala, Zantedeschi and Jank (2018) examined the relationship between the creator and the investors. The outcome shows a positive relationship as the success of the previous campaign will help the creator's future movement. On the other hand, when the creator cannot deliver or completely abandon the promised project, the after-campaign interaction between the two actors will discontinue. These studies concentrate on reward-based crowdfunding (Kuppuswamy & Roth, 2016; Fan-Osuala *et al.*, 2018), and donation-based crowdfunding (Skirnevskiy *et al.*, 2017).

Empirical studies on the impact of post ECF crowdfunding campaigns towards the firm performance need more investigation. For instance, crowdfunding studies in Spain and did not specifically focus on ECF. The researchers used the grounded theory to approach the topic due to the lightness of the data. The study focused on examining the effect of crowdfunding on employment growth from the year 2012-2013. Despite the economic downturn in 2012, the results showed a significant increment of 3,000 in employments and raised more than five million euros from 2,825 campaigns. The researchers further suggested future research in the area to look at the crowdfunding-employment relationship in other countries for comparison purposes (Ramos & Gonzales, 2016).

Meanwhile, Signori and Vismara (2016) focused on the firms' survival or failure post-money obtainment. According to the study, 10% out of 212 firms that successfully raised money from equity crowdfunding failed. Meanwhile, 30% survived due to seasoned equity offerings, additional capital injection from angel investors, further offering from an existing platform, and initial public offering or IPO listings. Also, firms that professional investors initially backed up would remain in operation. However, investors were yet to gain any return on their investment even though they were making huge profits (Hornuf & Schmitt, 2016).

There are not many studies on SMEs or business ventures that are related to equity crowdfunding in Malaysia. This statement is also agreed by recent researchers that investigate the potential of Islamic-based crowdfunding for SME sustainability (Ab Rashid *et al.*, 2021). ECF is a new emerging funding tool and is unique because it can realize the gaps left by the financial institutions, stimulate innovation from the crowd, and mitigate economic insecurity (Baumgardner *et al.*, 2017). Previous studies on equity crowdfunding in Malaysia have focused on the opportunity of crowdfunding as

a financing tool for a young entrepreneur (Mokhtarrudin *et al.*, 2017), the regulatory framework of crowdfunding (Abdullah, 2016; Hassan & Zainuddin, 2013), the proposal of shariah equity crowdfunding model (Abdullah & Oseni, 2017; Wahjono *et al.*, 2015), SMEs and entrepreneurs' awareness and perception (Ghazali & Yasuoka, 2018), the factors influencing the success of crowdfunding (Rahman *et al.*, 2016), the effect of crowdfunding on entrepreneurs' self-belief (Awang *et al.*, 2017), and the behavioral intention to use crowdfunding as a *waqf* instrument (Thaker *et al.*, 2018). The latest study by Azman *et al.* (2020) empirically argues that online fundings such as mobile money (credit card), crowdfunding, and P2P lending significantly influence the micro-enterprises sustainable income. The study also determined that most micro-enterprises used mobile money to fund their firm operations because of the eligibility issue when approaching other financial institutions.

The Malaysian crowdfunding phenomena has revealed that crowdfunding-related studies focusing on investors are on the rise. To provide a better understanding for the entrepreneurs to use ECF, Jayaraman *et al.* (2018) examine the intrinsic and extrinsic motivation of the investors to invest in the ECF campaigns. The investor's risk appetite strongly influences the decision to invest and suggests that the entrepreneurs efficiently manage the ECF projects and their customers' satisfaction. In addition, Wasiuzzaman *et al.* (2019) determine that mostly male investors invest in ECF projects compared to females. Female investors are very careful in deciding to invest in ECF project with social impact. They propose that the entrepreneurs and the ECF platforms seriously launch innovative projects and adapt to market changes, producing a sound financial performance that can attract more investors to participate and take advantage of social networks. However, a study conducted by Wulandari, Saeedi and Meskaran (2020) argued that despite intrinsic and extrinsic motivational factors, to be more

specific, the investors invest in ECF project for better ROE. These past studies do not investigate the performance of the ECF recipients in Malaysia.

Studies from abroad examined the performance of the firms' post ECF events and investigated the performance from the perspective of shareholder structure such as direct or nominee shareholders (Walthoff-Borm *et al.*, 2018). Signori and Vismara (2016) relate the ECF campaigns with the performance of the firm. Décarre and Wetterhag (2014) examine the pre- and post-crowdfunding event related to equity offered, amount raised, number of investors, leverage, founder's investment, project campaign towards financial performance, sales growth, profit growth, asset growth, non-financial performance, and employment growth, and the importance of creating awareness and supporting entrepreneurial creativity of the educational institution (El Talla *et al.*, 2018). Recently, Nasafi, Pangemanan and Sfenrianto (2020), examined the intention of use ECF in Jakarta. Using a random sampling approach, the study finds that ECF platform success stories and the completion stage of the ECF projects significantly attract potential investors' willingness to participate in ECF investment. In Appendix E, earlier studies referenced in the gap of this study are detailed. Section A contains studies on Malaysian crowdfunding, whereas Section B contains studies on post-equity crowdfunding events outside of Malaysia.

The relationship between the ECF firms and the business intelligence in the Malaysian environment need to be investigated. Previously, a study by Ali, Miah and Khan (2017) suggests future research should examine the association between SMEs and business intelligence in a real entrepreneurial environment. Their systematic reviews analysis argues that founder and management teams need to upkeep with the technology. For instance, information management is vital in making a sound decision. Besides that, the technology interface also creates changes to the existing business

strategy, market strategy, customer preferences, supply chain, supply and demand of products and services. Unable to be in the mainstream will bring disaster to the organization.

1.4 PURPOSE OF THE STUDY

The ECF has become an alternative funding tool to the entrepreneurial landscape in Malaysia. The Securities Commission Malaysia introduced ECF in 2015. However, Securities Commission Malaysia's 2019 annual report disclosed that since ECF inception in 2015 until 2019, only 77 issuers have obtained ECF funding (Securities Commission Malaysia, 2019). In Malaysia, studies related to ECF are still in the emerging area. Thus, this study was conducted to investigate the post-performance of ECF-funded firms empirically. According to the resource-based view (RBV) theory, a company needs to be competitive. The firm's development, resilience, and survival require internal and external resources to create more opportunities. Whether corporate or SMEs, every business entity needs adequate funds to ensure that organizational goals are realized while meeting business obligations. This study looks at aspects of internal resources in terms of financial management. Often the failure of companies, especially SMEs, is associated with the inability to manage finances properly. Financial management is crucial because liquidity and profitability affect a company's short- and long-term performance. Efficient financial management informs about the health status of a business and can immediately rectify any problems that occur. When a company seeks external funding, the results of sound financial management practices reflect the seriousness of its human capital in leading the business. Consequently, it boosts investors' confidence and opens up to better opportunities such as funding or expertise. This study focuses on the financial

management practices of computerized accounting, financial analysis, financial planning, and working capital management. According to Wolmarans and Meintjes (2015), past studies related to financial management practices are not limited to similar practices.

Since this study is point-and-click from ECF alternative finance, it takes the initiative of looking at the matter from the point of view of social capital. Social capital in this study focuses on the influence of social networks on business performance. According to Kwon and Arenius (2010), social networks can realize resources and opportunities, in turn, increase the value of entrepreneurs and their businesses. Agrawal *et al.* (2015) and Kuppuswamy and Bayus (2018) posit that the success of obtaining ECF funds involves social networks such as family friends. This network also opens up more opportunities for doing business (Thrikawala, 2011). Given that the study of social networks on the performance of firms in Malaysia has not been fully explored, this latest study hence aims to investigate the extent to which social networks impact a firm's performance.

Past studies have shown the importance of financial systems such as banks on the performance of firms include the relationship between banks and firms increases the ability to obtain loans (Agrawal & Elston, 2001), and business angels and their influence confirm performance (Andersson & Lodefalk, 2020; Politis, 2008). Wang (2013) also examined the effect of microfinance lending on the development of SMEs in China. The study revealed that firms that used microfinance loans had better performance in increasing their revenues and net profits. Meanwhile, this current study investigates the impact of the ECF platform on the performance of ECF-funded firms in Malaysia.

The entrepreneurial landscape worldwide, including Malaysia, is becoming more dynamic in line with the rapid development of technology. This technology also influences the way a business is run (Capocchi, 2019). The same goes for entrepreneurial financing until the creation of Fintech, which includes ECF (European Commission, 2020). Thus, the current study investigates how technology, namely business intelligence, influences the effectiveness of ECF-funded firms' financial analysis and planning on firm performance.

It is essential to differentiate between the success of obtaining ECF and the success of firms' short- and long-term performance. The former success is not absolute. In contrast, the latter is vital to ensure development and sustainability. Thus, firms' primary responsibility is ensuring that the success of firms meets the aspirations of their stakeholders. Therefore, a further objective of this study serves to provide a post-performance of the ECF research in Malaysia. Additionally, studies on ECF can increase our knowledge about the potential of online financing in Malaysia.

1.5 RESEARCH QUESTIONS

The research questions are designed to help achieve the main objectives and purposes of the research. This study aims to investigate the performance of ECF-funded firms with the influence of financial management practices, social networks, and ECF platform provider, on the performance of equity-based crowdfunding firms by solving the following questions:

1. What are the relationships between the below determinants and the performance of ECF-funded firms;
 - i. Financial management practices (accounting information system, financial analysis and reporting, financial planning and control, and

- working capital management) on the performance of ECF-funded firms?
- ii. Social networks on the performance of ECF-funded firms?
 - iii. Platform providers on the performance of ECF-funded firms?
2. How does business intelligence mediate the relationship between the components of financial analysis and reporting, and financial planning and control towards the performance of the ECF-funded firms?
 3. What does the predictive model in this research study explain?

1.6 RESEARCH OBJECTIVES

The main objectives of this study are:

1. To investigate the relationships between the below determinants on the performance of ECF-funded firms;
 - i. Financial management practices (accounting information system, financial analysis and reporting, financial planning and control, and working capital management) on the performance of ECF-funded firms.
 - ii. Social networks on the performance of ECF-funded firms.
 - iii. Platform providers on the performance of ECF-funded firms.
2. To investigate the mediating impact of business intelligence on the relationship between financial analysis and reporting, and financial planning and control towards the performance of the ECF-funded firms.
3. To develop a predictive model of all variables under studied.

1.7 SIGNIFICANCE OF THE STUDY

Due to the rapid development in technology, mainly digital technology, the approach to do business has changed. The market population for the firm has also changed (Capocchi, 2019). For example, social media's influence has had a considerable impact on entrepreneurial funding, such as the emergence of innovative financial actors (Bernardino *et al.*, 2020). As a result, there are more funding opportunities for entrepreneurs, such as crowdfunding (Block *et al.*, 2018) and ECF (Coakley & Lazos, 2021). Crowdfunding has a substantial international effect that can solve entrepreneurs' capital deficiencies (Galliers *et al.*, 2012). Thus, crowdfunding is concerned with the potential to materialize the opportunity and survival of start-ups that need a solid foundation.

With the vast opportunity to lay under the umbrella of crowdfunding, specifically equity crowdfunding, financial management is a core subject in the firm's managerial process. It ensures the business's financial health. Thus, this study is significant as it will provide empirical findings from an emerging economy. It is of further importance due to the lack of investigation on the impact of financial management practices and financial characteristics on firms' performance, which have successfully raised money through equity crowdfunding.

Even though financial management practices have been recognized in developed and developing countries, often SME financial management is underestimated in conventional financial management texts (McMahon *et al.*, 1993). In Malaysia, the adoption of financial management practices among Malaysian SMEs is still lackluster (Harif *et al.*, 2010). Most financial management studies concentrate on working capital management in corporate firms (Mohamad & Saad, 2010; Zariyawati *et al.*, 2010) and religious organizations (Adil *et al.*, 2013; Said *et al.*, 2013).

With the emergence of ECF as a financing alternative for start-ups and SMEs in Malaysia, it is necessary to investigate the financial management practices of the ECF-funded firms. Moreover, the concept of ECF resembles corporate finance (Coakley & Lazos, 2021).

The gap in the knowledge of financial management practices and financial characteristics of SMEs needs to be addressed. Therefore, based on previous studies and acknowledgement of this gap, a study on the impact of financial management practices and the performance of equity-based crowdfunding firms is justified. A model of the impact of financial management practices will be developed and tested. Thus, it will contribute to the additional knowledge about financial management practices from the Malaysian perspective. Furthermore, previous studies that focused on the emergence of ECF as a source of alternative finance are scarce. This study will investigate the performance of ECF-funded firms.

A study that investigates the impact of financial management practices on performance is evidence that policymakers have to look out for future policies of ECF as a viable, sustainable contending financing for MSMEs. To the practitioner, the findings will distribute knowledge on the model of financial management practices that is suitable for SMEs which intend to approach equity-based crowdfunding for the benefit of their business. To higher academic institutions, the findings will help in the enhancement of entrepreneurial courses and subjects. To the Government, the findings will demonstrate the uniqueness of crowdfunding which will motivate the provision of specific training to the existing entrepreneurship and incubator programs. These programs provide SMEs, especially start-ups, with up-to-date technology. The innovative technology assists SMEs to deal with the current entrepreneurial

environment that changes very fast. These incubator programs also support SMEs with financial assistance (Aldammagh *et al.*, 2020).

This study investigates social networking and ECF platforms as external resources. However, organizational strategy is one of the core components that promote the growth of any firm (Ismail & Mat Zin, 2009). Key factors that influence the firm's success and failure are divided into two; internal and external factors. The internal factors include, but not limited, to the labor force, managerial competencies, and the accounting systems employed. On the other hand, the external factors include the accessibility of reliable financing, government intervention and policies, rival competition, technology advancement, climate change, and economic conditions (Padachi, 2010).

From a social network perspective, Tamyez *et al.* (2018) argue that studies linking the network and performance of SMEs in Malaysia are still lacking. Several studies linked networks and SMEs in Malaysia, such as the research by Ahmad *et al.* (2018) which connects SMEs run by women entrepreneurs and firm performance. The results show that the network affects the performance of the firms significantly. Another study by Kamaruddin *et al.* (2018) found networking as the main factor motivating women entrepreneurs to attempt business. At the same time, Dodd and Keles (2014) also highlight that networking has been a critical focus in OECD meetings. The findings from the meeting reveal that network capability improves the performance of SMEs involving underprivileged entrepreneurs such as young people, the disabled, immigrants, the unemployed, ethnic minorities, age-related, and women.

There are also past studies that link the ECF and networks (Lukkarinen *et al.*, 2016; Nitani *et al.*, 2019; Vismara, 2016). Troise, Tani and Jones (2020) argue that research on social network concerning ECF need further exploration. Therefore, to

balance the potential of networks and the lack of previous studies in the literature, the current study deems it necessary to investigate the relationship of social networks under newly emergent ECF in Malaysia. The lack of research on networks and SMEs in Malaysia opens up many opportunities for researchers to study their impact on firm performance.

When the Covid-19 pandemic struck the world, most of the daily routines of the countries, individuals and organizations were disrupted (Goodell, 2020), and it has caused economic insecurity (Baker *et al.*, 2020). To reduce the impact of the pandemic, Malaysia imposed the movement control order (MCO) restriction starting from March 18th 2020. Due to this MCO, people started working from home. Almost all businesses and banking sectors, either public or private, were closed. This caused entrepreneurial ventures and firms unable to obtain funding assistance due to the hibernation of the ordinary channel (Didier *et al.*, 2020). Nevertheless, entrepreneurs and businesses could raise the funding needed via crowdfunding platforms (Moine & Papiasse, 2020). This signals the potential of ECF crowdfunding in Malaysia that needs to be studied. It further shows the significant as well as the motivation factors to undergo the research. Therefore, this study was duly initiated and investigated the impact of the ECF platform on SMEs' performance.

1.8 SCOPE AND LIMITATION OF THE STUDY

This research is against the background of the ECF phenomenon in Malaysia. This new mechanism of entrepreneurship financing is seen as potential for firms, especially SMEs, to meet financial needs, mobilize plans, exploit opportunities, and achieve entrepreneurial objectives. Respondents in this study are founders and managers who can make decisions in the company (Haleblian & Finkelstein, 1993;

Lekhanya, 2016). These companies must be registered with the Companies Commission of Malaysia (SSM) and have successfully raised money through equity-based crowdfunding from 2016-2019. This study measures the variables themselves in measuring the firm's performance, which means that the analysis is done at the medium level rather than the micro and macro levels of those variables. This study uses Resource-Based View (RBV) as the underpinning theory. In addition, this study also adopts the Signaling Theory, Financial Bricolage Theory, and Social Capital Theory to better explain financial management practices, the influence of social networks, the impact of ECF platforms, and the use of BI in dismantling the performance of ECF-funded firms in Malaysia. The stages of this study are depicted in Figure 1.1.

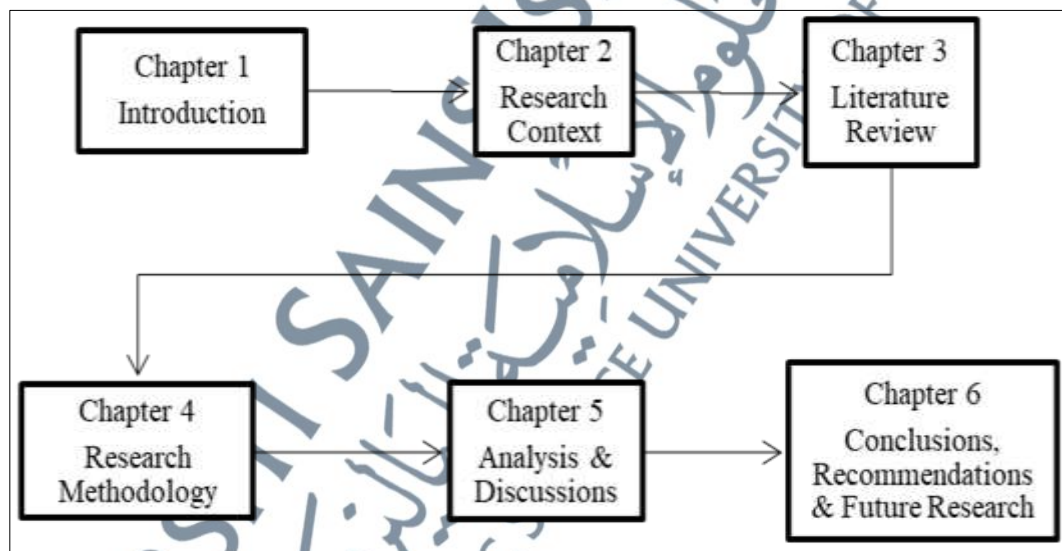


Figure 1.1: Structure of the Thesis

1.9 CONCEPTUAL AND OPERATIONAL DEFINITIONS

The conceptual and operational definitions are provided to enhance the clarity of the terms used in this study. The terms are as follow.

1.9.1 ECF-funded firms

The operational definition depicts the ECF funded firms is the successful issuers of ECF in this study are referred to the ECF-funded firms.

1.9.2 Firm Performance

Conceptually, firm performance is defined as their capability to lead to the creation of employment and wealth and ability to survive and sustain (Sandberg *et al.*, 2002) that refers to the process of determining to which extent the firm activity accomplishes its goals (Larsson & Kinnunen, 2007), such as monthly generated revenues of the firm (Lucas, 2017). It has also been described as the process of measuring the effectiveness and efficiency of firm activities (Naude, 2007).

Operationally, this study identifies a firm's performance as the ability of the firm to survive, grow, continue operation, or sustain. The performance includes both financial and non-financial perspectives.

1.9.3 Financial Performance

Conceptually, financial management performance is described based on three aspects; assets management, debt management, and the main one which is profitability. Profitability is determined by the return on equity (ROE) (Bharadwaj, 2000; Dedrick *et al.*, 2003; Sam & Hoshino, 2013), return on assets (ROA) (Alfredo *et al.*, 2013; Minichilli *et al.*, 2010; Sam & Hoshino, 2013), and return on investments (ROI). Debt management is calculated by total debt to equity or TD/TE, and long-term debt to equity or LTD/TE. On the other hand, asset management is determined by receivable turnover or TR/S (Li, Moshirian, Nguyen & Wee., 2007; Sam & Hoshino, 2013), total assets

turnover or TA/S, and inventory turnover or TI/S (Asheghian, 2012). Meanwhile, Décarre and Wetterhag (2014) measure financial performance based on sales growth, profit growth, and assets growth. In addition, as the performance indicator, the balance of liquidity and profitability is essential (Ehiedu, 2014).

Operationally, this study measures financial performance based on profitability that include ROA, ROE and sales growth.

1.9.4 Non-Financial Performance

Conceptually, Perera, Harrison and Poole (1997) argue that firms must be able to foresee and accommodate performance measures that reflect their business strategy. The non-financial performance includes employment growth (Banerjee & Jesenko, 2016; Décarre & Wetterhag, 2014; Keith et al., 2016), customer satisfaction (Gupta & Zeithaml, 2006; Ittner & Larcker, 1998; Li & Wang, 2010), survival (Sandberg et al., 2002), ability to pay back the loan (Wahab, 2004), and also the firm size and success or failure of the firm (Anyadike-Danes & Hart, 2018).

Operationally, this study investigates the non-financial performance that later will contribute to the firm performance. Thus, this study uses customer performance measures as the variables of non-financial performance.

1.9.4.1 Customer performance

Conceptually, customer performance measures include customer satisfaction that refers to the extent in which a customer realizes that the service or product provider has fulfilled the customer's basic needs (Reed & Hall, 1997). The provider who meets the customer's satisfaction and in return, receive the customer's loyalty which is then reflected in its profit. In most customer satisfaction studies, the standard principle

displayed is used as a performance indicator. Measuring customer satisfaction must be done continuously and not a one-time process (Cengiz, 2010). Additionally, customer experience can be identified using four dimensions; location, staff attribute, aesthetic perception and tangible and sensorial experience, and the positive influence of customer satisfaction (Ren et al., 2016). Meanwhile, Kasim and Minai (2009) refer customer performance to the growth of existing customer, repeat customers, customer lifetime value, new customer and customer survey rating and customer profitability.

Operationally, this study, defined customer performance as the firm activities that connect with increasing new customers, managing customer satisfaction, loyalty, and new referral.

1.9.5 Firms (Small and Medium Enterprises)

Conceptually, SMEs in Malaysia as defined by Small and Medium Corporation Malaysia is based on the annual turnover or the number of permanent employees. SMEs are defined as firms with sales turnover for the manufacturing sector not exceeding RM50 million or a number of full-time employees not exceeding 200. SMEs are defined as firms with sales turnover for the services and other sectors not exceeding RM20 million or the number of full-time employees not exceeding 75 (SMEinfo, 2018).

Operationally, firms in this study are refer to the equity crowdfunding funded firms that are subject to the types of firms, and the number of full-time employees as defined by Small and Medium Corporation Malaysia.

1.9.6 Financial Management

Conceptually, financial management is concerned with coordinating the firm's financial resources. The coordination involves planning, directing, and controlling

mechanisms (Gitman, 2007; Weston & Brigham, 1996). It deals with financial decision and investment decision (Gitman, 2000).

Operationally, this study, refers the financial management as planning, directing, controlling, monitoring, and organizing the firm's financial resources for better decision making to produce reliable financial information.

1.9.7 Financial Management Practices

Conceptually, financial management practices refer to the systems used to manage the firm's resources efficiently and effectively to achieve the firm's goals (Chung & Chuang, 2009, 2016). Financial management practices include working capital management, financial reporting and analysis, accounting information, investment appraisal, capital structure management, financial management expertise, and financial advice (Hailu & Venkateswarlu, 2016).

Operationally, in this study, financial management practices refer to the procedures or approach exercised by the firm which include working capital management, financial reporting and analyzing, financial planning and control, and accounting information system. The purpose is to ensure that the firm's resources are managed competently, and the firm's objectives are met.

1.9.7.1 Accounting information system

Conceptually, accounting information system as explained by Munteanu, Zuca and Tinta (2011, p.63), “The accounting information system is the set of assumption postulates, principles, norms and evaluation rules of an organization by means of which the economic-financial operations are processed through accounting technical instrumentations. The accounting information system identifies correlates, calculates,

analyzes, registers, and provides all information regarding transactions or events that took place in a management center, given a certain time period. This system allows identifying, analyzing, calculating, classifying, registering, and running back over events and transactions. The accounting information system is influenced by the nature of the activity and its operations, by its size, by the volume of processed data, and the management and external users' information necessities”.

Operationally, this study defines an accounting information system as a computerized system used to facilitate collecting, recording, and analyzing the firm's financial data.

1.9.7.2 Financial analysis and reporting

Conceptually, financial reporting and analysis refer to recording, analyzing, auditing, and reporting the firm's financial data (Deresa, 2016).

Operationally, in this study, financial reporting and analysis refer to an act of collecting, recording, analyzing, auditing and reporting of the firm's financial matter.

1.9.7.3 Financial planning and control

Conceptually, financial planning and control purpose is to assist the management in identifying costs-benefit activities that give an advantage to the firm, especially at the beginning stage of action undertaken. These include budgetary control and the ability to forecast for the next three to five years (Churchill & Coster, 2001), decide between two or more alternative options, project the action plan for contingent events, monitor the actions taken via performance measurement (Greenwood, 2002).

Operationally, in this study, financial planning and control refer to management action and the ability to strategically choose between alternatives, prepare budgetary

control, forecast for the future and implement accordingly, check the performance and take remedial measures for variance.

1.9.7.4 Working capital management

Conceptually, working capital is defined as the cash available to meet the firm's daily operations. It also refers to the difference between current assets and current liabilities (Eljelly, 2004). Working capital management (WCM) refers to managing the firm's overall activities that are related to cash receipt and disbursement (Lieberman & Wagstaff, 2009), which significantly creates value for the firm's shareholders (Shin & Soenen, 1998; Stretcher et al., 2013). The components of WCM include but are not limited to inventories, cash and bank balances, receivables accounts, and payables accounts (Ullah et al., 2018).

Operationally, in this study, working capital management refers to managing the firm's current assets and current liabilities that can be determined from the balance sheet.

1.9.8 Social Networks

Conceptually, social capital refers to the founder/managers' third-party social network contacts (Giudici et al., 2013; Mollick, 2014; Zheng et al., 2014), including family friends (Kuppuswamy & Bayus, 2018; Ordanini et al., 2011) that affect funding outcomes and as the relationship that exists in the crowdfunding ecosystem between the founder and the platform provider (Liao et al., 2015) which is capable of generating opportunities among them (Huber, 2009).

Operationally, the social networks in this study refer to networks that emerge from the founder, top management and network that emerges after the founder-platform

relationship is created. These include family, friends, business allies, social media fans and followers, platform's networks, such as existing investors registered with the ECF platforms and the platforms' business allies.

1.9.9 Equity Crowdfunding Platform

Conceptually, licensed equity platforms registered under Securities Commission Malaysia (Securities Commission Malaysia, 2015).

Operationally, the equity crowdfunding platform is referred to the licensed equity platforms registered under Securities Commission Malaysia that act as the intermediary between the issuer (fund raiser) and the funder.

1.9.10 Business Intelligence

Conceptually, business intelligence is defined as a process that combines culture, technologies and policies, storing, analyzing and manipulating the collected data (Foley & Guillemette, 2010). Kohtamaki and Farmer (2017) refer to it as the group of experts and mechanisms used to transform raw data into meaningful information, whereas Miah (2018) labels it as an information system. All these definitions lead to the primary purpose that is to get valuable information that can be communicated, create knowledge, and help to encounter an emerging issue (Ajah & Nweke, 2019).

Operationally, this study defines business intelligence as the information technology system that is used to transform, process, integrate, store, analyze and maneuver the raw data into useful information that can be used in making sound decision at any circumstance.

1.10 CHAPTER SUMMARY

The study's topic has been outlined in this chapter. Starting with the study's background, the problem description, study gaps, research questions and objectives, the study's importance, the study scope, and limitations. The operational definitions for the inspected variables were created in this study.

