

ASEAN Towards Digital Economy: The Development of Equity Crowdfunding in Malaysia, Singapore, Thailand and the Philippines

*Anneraine Colobong

Thammasat University, Bangkok Thailand.

1

Abstract. The purpose of this study is to assess the maturity status of Equity Crowdfunding (ECF) development of the four-member countries in ASEAN such as, Malaysia, Singapore, Thailand and the Philippines. Hence, this study will look into four ECF platform based on the respective countries. And, in order to assess each current maturity status, the study adopted various Capability Maturity Model in related to equity crowdfunding which was also used in the previous studies. As a result, this study proposed Equity Crowdfunding Platform Maturity Model incorporating critical success factors in equity crowdfunding that has been listed in previous studies namely the volume of funding raised, the total number of successful SMEs funded through the platform, partnership, risk management and the government involvement in the platform especially in terms of policy and regulation. The study also collected and analyzes data from both primary and secondary. And based on the findings of the study, Malaysia achieved a sustainable alternative finance industry by being proactive in stepping out to support equity crowdfunding so that it can provide more opportunities to SMEs. With these government efforts, Malaysian plays a role model for its best practices to the rest of the ASEAN members as they delve into the digital economy by 2025.

Keywords: ASEAN, Equity Crowdfunding, Small and Medium Enterprises, Platforms

INTRODUCTION

Micro, Small and Medium Enterprises' (MSMEs) are tagged as the building block of ASEAN Member States' economy. They play a vital role in the pursuit of ASEAN's economic growth (ASEAN, 2015). For SMEs generate employment that leads to a more equitable income distribution (UN, 2015). These significant impact of MSMEs to economy is also undeniably seen in ASEAN. However, access to finance is commonly faced by SMEs, it is considered as the prime hurdle of this industry. Which is most likely happened in semi-peripheral and peripheral countries as they are more restricted financially due to weak and unregulated market (IFC, 2013). Especially, during and after the series of financial crisis happened in 1997 and 2008. Both crisis prevented SMEs to gain funds due to restraining bank's requirements (OECD, 2009; Vermoesen et. al., 2013). Nevertheless, Pasadilla (2010) argued that banks in both normal and crisis period, SMEs are usually less important compared to large firms for SMEs have less credit worthiness. Therefore, overcoming these problems of SME's became on the priority list of each states in order to stimulate economic revolution. And in the case of ASEAN, ASEAN member states are exerting efforts in integrating Financial Technology (Fintech) specifically facilitating Equity Crowdfunding (ECF) in order to achieve the fully digital driven economy by 2025 as well as to provide funding opportunities to SMEs.

Equity Crowdfunding helps an entrepreneur to acquire funds to its project or enterprise from the so-called crowd through a certain online platform and equity shares are given as a reward to the crowd (ASEAN, 2017). However, facilitating ECF is quite complicated unlike the other types crowdfunding, this kind of model has the attributes of higher risks. This only proves the urge to be governed and regulated by the government in order to know who will be accounted and how they will take responsibilities towards these risks.

Therefore, through the proposed ECF platform maturity model, this study will serve as a track to ECF development for this study will help to identify the strengths and weaknesses of the countries in terms of catalyzing equity crowdfunding and thus, providing solutions or strategies towards sustainable progression. The study will also serve as a basis in adopting best practices in formulating ECF framework as ASEAN take initiative to promote Equity Crowdfunding to its member states which are less cognizant. In addition, this study will contribute to fill the information gap regarding the crowdfunding industry. And correspondingly, the result of this study will support future researchers, policy-makers, shareholders and the public to monitor and assess the equity crowdfunding activity in ASEAN.

REVIEW OF RELATED LITERATURE

Critical Success Factors (CSFs) in Equity Crowdfunding

Critical success factors (CSFs) (or referred by others as Key result areas) KRAs (and Key success factors) KSFs (have been widely used by various studies) (Kuan, Y., 2005; Babatunde, S., Perera, S., & Zhou, L., 2016; Kumar, U.T & Shrivastava, R.L., 2017). These studies also review that CSFs are the variables or characteristics which are vital in attaining project or organization's success. Thus, these factors should exist and maintained in order to enhance the effectiveness of a project or an organization in the attainment of its goals.

While with regard to equity crowdfunding, studies figured that the core characteristic of an equity crowdfunding platform must have, is a good reputation in order to establish a strong credibility with the entrepreneurs who aspire to get capital for their SMEs and investors who will be the source of these capital or the backer of these SMEs. Which is essential in any project or organization to survive and to prosper in the long run. Thus, having a good platform reputation will attract more entrepreneurs and potential investors to participate in crowdfunding activity. And anchored to this core characteristic, are several factors found on the platforms which have been recorded as the proven factors that contribute on the crowdfunding success, which is also linked to funding success. Namely, investors or backers, network/partnerships, policy and regulation, successful SMEs, and volume of funding raised.

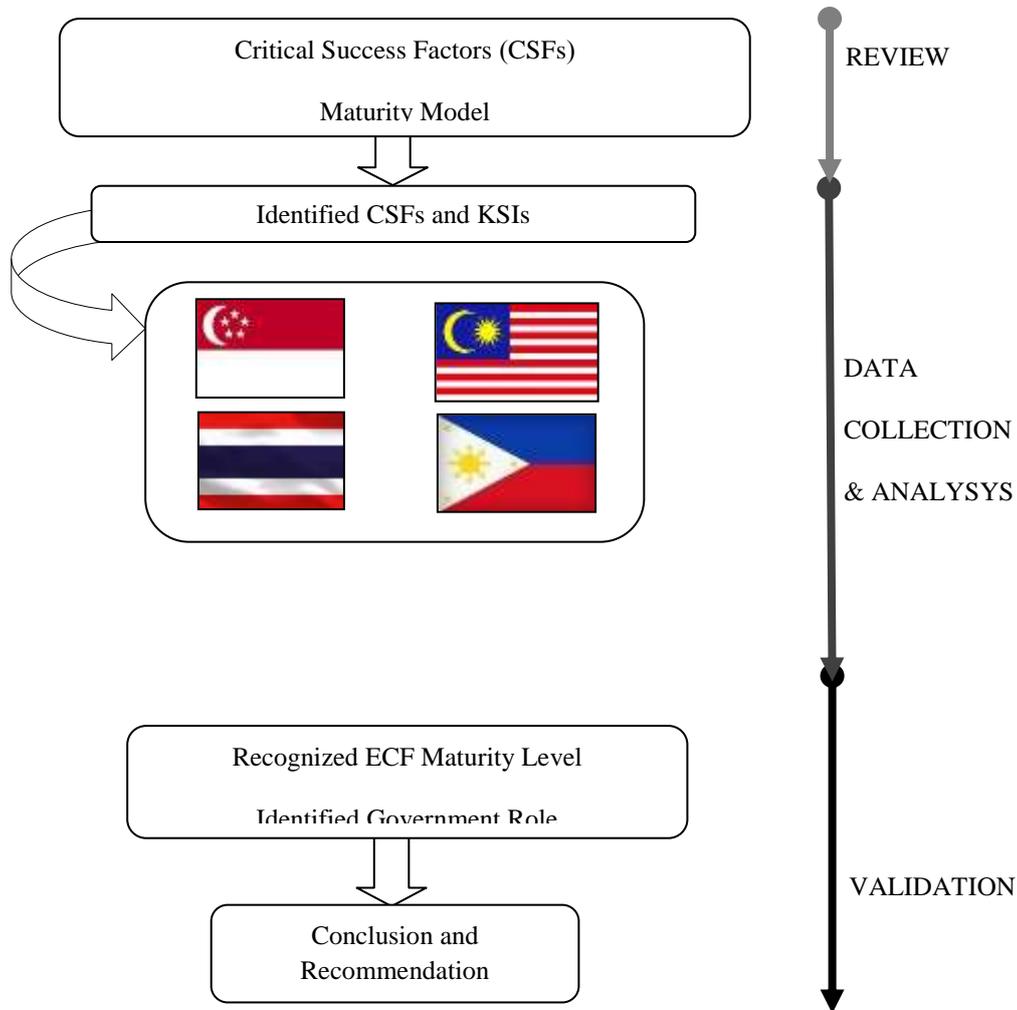
Maturity Model

A maturity model is an instrument considered to measure the efficacy of one or more discipline. As well as, to track and identify the areas for improvement which is essential in attaining the goal of an organization, a project or a person. This technique has been widely used in different fields like in the fields of business, information technology, engineering and even, in natural science. And, the best-known model adopted in diverse areas is the Capability Maturity Model (CMM) in which at first, intended for software engineering industry (Babatunde, S., Perera, S & Zhou, L., 2016). Which basically comprises of: i.) progression levels, these are stages of development ranging from ad hoc to mature disciplined and mature process ii.) Key Process Areas (KPAs), these are areas that need to be improved in order to lead towards progression. iii.) Key Criteria or Practices, refers to the main effective practices; iv.) the Goal, recapitulates the key practices, this sets as the scope and limitation of key process areas (Paulk et al., 1993). This maturity model's concepts were then recognized for its credibility in identifying current status of maturity as well as identifying the critical issues for improvement (Zhong, L. et. al., 2014). Hence, CMM concepts were incorporated into different maturity models, as well expanding to the usage of Critical Success Factors (CSFs) as a substitute for KPAs.

METHODOLOGY

The method adopted in this study are consist of primary and second-hand data analysis. Primary data analysis is the analysis of original data which primarily collected by the researcher to directly answer the research question (Jarim & Meina, 2017). Whilst, the secondary research as stated in the Salem Press Encyclopedia, gives new and profound meaning to the existing primary data when data are harmonized with other (Salem Press Encyclopedia, 2013). Thereby, this study reviewed and analyzed different sets of data collected from personal communication, research institution's reports like alternative finance industry reports, government memorandums, business monthly reports and newsletter, conferences, equity crowdfunding platforms, related websites and, social media.

This study also proposed an Equity Crowdfunding)ECF(platform maturity model and carefully looked into four ECF platforms based in four respective countries namely, Malaysia, Singapore, Thailand and the Philippines. Hence, the method of this research began with the selection of research paper, articles and other related documents to shed a light with the research problem. And after the selection of literatures related to equity crowdfunding's critical success factors, thorough analyzation was done to identify the CSFs and KSIs which served as the basis to assess the equity crowdfunding status. Therefore, providing recommendations in the facilitation of Equity Crowdfunding in ASEAN. The process of this research as well as the developed ECF platform maturity model is illustrated below



And, through inspired Capability Maturity Models as well as the identified Critical Success Factors (CSFs) in equity crowdfunding the ECF platform maturity model was developed into:

Table 1. ECF Platform Maturity Model developed by the Researcher

CSF	Level 1	Level 2	Level 3	Level 4
Volume of funding raised	0 to ≤\$678,355	>\$678,355 to ≤\$2,261,182	>\$2,261,182 to ≤\$3,844,009	>\$3,844,009
Successful SMES	0 to ≤ 3	>3 to ≤9	>9 to ≤14	>14
Partnerships	Working with personal networks, independent financial advisors (IFAs), business associations and other financial intermediaries	Forging with public and private partnerships (universities, local and regional authorities)	Indulging with innovative corporate partnerships	With government or banks referral scheme with possibility of expanding to any kind networks

Risk Management	The platform has poor cognitive function for risk	The platform is aware of the risk and have techniques and methods to educate but roughly used	The platform has high efficiency educating participants about the risk	Risk management is integral part of the platform
Government Policy/ Regulation	No or small initiative for dialogue with the platform	With developed regulations subject for public consultation	Developed investor protection and transparency to failures	Comprehensive and integrated financial regulations

And, in order to determine the maturity stage of each platform in respective countries, the average mean of all the factors' level should be calculated or with the mathematical formula of:

Maturity Stage=

$$\frac{CSF01\ level + CSF2\ level + CSF03\ level + CSF04\ level + CSF05\ level}{Number\ of\ CSFs\ (5)}$$

With the help of various capability maturity model the ECF Platform Maturity Stages were defined as:

Nascent Stage (M1)

The ECF platform is already an accepted as an operating platform (Cukier, D., Kon,F. & Krueger, N., 2015). However, it is still immature and chaotic (Mehmann, J., Frehe, V. & Teuteberg, F., 2014; Boughzala, I. et. al., 2014). And with possible government initiatives for development (Cukier, D., Kon,F. & Krueger, N., 2015).

Limited Stage (M2). The ECF Platform has some successful SME's funded (Cukier, D., Kon,F. & Krueger, N., 2015). There are also some initiatives to gain valuable results however, these initiatives are still insufficient to help (Boughzala, I. et. al., 2014). To reach this maturity, CSFs should be at least at Level 2 (Cukier, D., Kon,F. & Krueger, N., 2015).

Emerging Stage (M3)

The ECF platform is an efficient and secured platform and, have numerous SME's funded with substantial investments fund. To reach this maturity, CSFs should be at least classified into Level 3 (Cukier, D., Kon,F. & Krueger, N., 2015).

Mature Stage (M4). The ECF platform is mature enough to reach high quality results (Boughzala, I. et. al., 2014). In which, vast of SME's are funded with great financial deals. The ECF have also strong connections to attain successful funding (Cukier, D., Kon,F. & Krueger, N., 2015). To reach this level, CSFs should be in Level 4. (Cukier, D., Kon,F. & Krueger, N., 2015). Though this level is already mature, the study still welcomes the possibilities for further development (Mehmann, J., Frehe, V. & Teuteberg, F., 2014)

RESULTS AND DISCUSSION

The Malaysia's PitchIN platform of Malaysia has all critical success factors (CSFs) in level 4 and through the utilization of the formula for maturity stage indicated above PitchIN undoubtedly reached the maturity stage (M4). In which described as the platform is mature enough to reach high quality results. In which, vast of SME's are funded with great financial investments. The ECF platform have also strong connections to attain successful funding.

While Singapore's FundedHere, is also catching up with the platform maturity, as it tagged as an emerging platform for it reached the maturity stage 3 wherein critical success factors like volume of funding raised, number of SMEs, partnerships and, policy and regulation's level of achievement mainly contributed to the platform current status. But also, FundedHere also show few traces of scaling to maturity stage 4 for the risk management factor have already reach the highest level of progress. And for the, Thailand's Dreamaker equity there are considered to be on the limited stage, for most of its critical success factors that has been analyzed is on the second level. However, there's one distinguished factor that signals for scaling up which is the risk management factor that achieved the third level of progression and also, one factor is still on the premature level which is the policy and regulation. But, if the Dreamaker equity platform will be able to get the permission of Thailand Security Exchange Commission by the end of the year, Thailand's Dreamaker equity will escalate to level 3 in this factor.

And with the case of the Philippines' UPBuild, this platform in a nascent stage, for most its critical success factors are on the introduction phase like the amount of funding raised, partnership and, policy and regulation which links to the stage of building awareness to public. For example, the few amounts of funding raised and government efforts to regulate the platform are a gauge that the platform is not receiving attention yet from the potential investors and entrepreneurs. But for the two remaining factors like number of SMEs and risk management attained higher levels of progression. The number of SMEs is on the second level while risk management is on the third level. To be able to understand easily, the maturity status of each ECF platform in respective country is illustrated bellow.

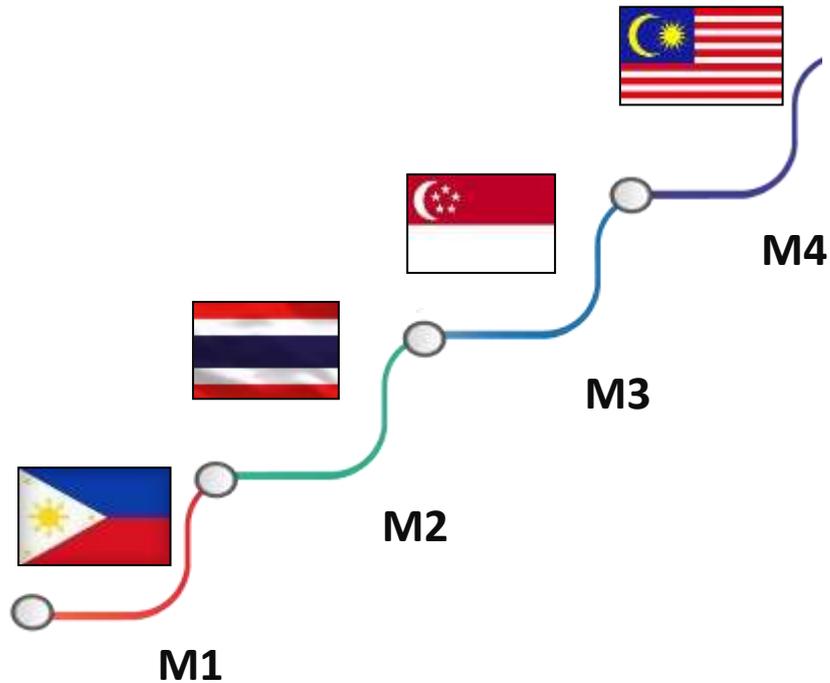


Figure 2. Current Maturity Status of Each Platform in Respective Country

CONCLUSION

The initiative for equity crowdfunding (ECF) activities in the region strongly proves that ASEAN organization is indeed taking its efforts to leapfrog on the vanguard of digital economy by 2025. And, to make its vision into reality which is to develop an effective equity crowdfunding framework, taking gauge to ECF platforms' strengths and weakness are crucial in order to know what things are should be done and to focus on. With this regard, the findings of the maturity level of the seen key actors of equity crowdfunding in the region complements the initiatives for ASEAN ECF Framework. The findings of the study justify that Malaysia's ECF platform is the most full-grown among the four platforms wherein all factors that attributes maturity such as volume of funds raised, number of SMEs, partnerships, risk management and, policy and regulations was reached to the highest level. Hence, Malaysia's PitchIN can serve as the benchmark for successful platform in the region which will serve as the model to the rest of ASEAN member states. It is also noteworthy to the ASEAN organization to learn from the crucial role of the Malaysian government involvement to the platform especially in the recognition and accreditation of the platform's credibility as an alternative source of capital, as well as conducting roadshows to provide assistance with the investor's decision to invest as well as promoting and recommending the PitchIN platform.

REFERENCES

- ASEAN. (2015). *ASEAN Strategic Action Plan for SME Development 2016-2025*. Jakarta, Indonesia: ASEAN Secretariat.
- ASEAN. (2017). *Facilitating Equity Crowdfunding in the ASEAN Region*. Available at: <https://goo.gl/5Z2vYJ>
- Ahlers, G. et. al., (2012). *Signaling in Equity Crowdfunding* Available at SSRN: <https://goo.gl/5XyaRO>
- Babatunde, S. O., Perera, S., & Zhou, L. (2016). Methodology for developing capability maturity levels for PPP stakeholder organisations using critical success factors. *Construction Innovation*, 16(1), 81-110.
- Boughzala, I., De Vreede, T., Nguyen, C., & De Vreede, G. J. (2014, January). Towards a maturity model for the assessment of ideation in crowdsourcing projects. In *System Sciences (HICSS), 2014 47th Hawaii International Conference on* (pp. 483-490). IEEE.
- Cukier, D., Kon, F., & Krueger, N. (2015, December). Designing a maturity model for software startup ecosystems. In *International Conference on Product-Focused Software Process Improvement* (pp. 600-606). Springer, Cham.
- Dreamaker Equity.(2018). Website: <http://www.dreamakerequity.com/>
- FundedHere.(2018). Website: <https://www.fundedhere.com/>
- IFC.(2013). *Microfinance and The Global Financial Crisis a Call for Basel*. Available at: <https://goo.gl/HcQwUx>
- Mehmann, J., Frehe, V., & Teuteberg, F. (2015). Crowd logistics– a literature review and maturity model. *Innovations and Strategies for Logistics and Supply Chains*, 117-145.
- OECD. (2009). *The Impact of the Global Crisis on SME and Entrepreneurship Financing and Policy Responses*. Available at: <https://goo.gl/ZWPVb8>
- Pasadilla, G.O. (2010). *Financial Crisis, Trade Finance, and SMEs: Case of Central Asia*. ADBI Working Paper 187. Tokyo: Asian Development Bank Institute. Available at: <https://goo.gl/nMkBw6>
- PitchIN.(2018) Website: <https://www.equity.pitchin.my/>

