



## Equity Crowdfunding as a Performance Improvement Strategy for Micro, Small and Medium Enterprises (MSMEs)

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**Abstract:** The growth of MSMEs is the result of the community's independent efforts and has a role to reduce poverty in the form of creating jobs for the community. The development of digital technology is currently growing rapidly, opening up opportunities for Micro, Small and Medium Enterprises (MSMEs) to be able to improve their business performance, including in overcoming capital problems. The application of the use of equity crowdfunding is influenced by internal factors of an organization, namely the financial resources of the organization. The objectives of this study are (1) to examine the influence of financial resources on the performance of MSMEs; (2) Assessing the effect of financial resources on equity crowdfunding; (3) To examine the effect of equity crowdfunding on the performance of MSMEs; (4) To examine the role of equity crowdfunding which is able to mediate the influence of financial resources on the performance of MSMEs. The data analysis method used is Structural Equation Modeling (SEM) measurements using SmartPLS software. The results of the study show that (1) equity crowdfunding shows a significant positive effect on MSME business performance, it is proven that the higher the equity crowdfunding from business actors, the MSME business performance will increase; (2) Financial resources show a significant positive effect on MSME business performance, it is proven that the better the financial resources owned by business actors, the MSME business performance will increase; (3) financial resources show a significant positive effect on equity crowdfunding, the better the financial resources owned by business actors, the better equity crowdfunding; (4) equity crowdfunding as a mediation of the influence of financial resources shows a significant positive effect on MSME business performance, where equity crowdfunding is considered a variable that strengthens financial resources in improving MSME business performance.

**Keywords:** Financial Resources, Equity Crowdfunding

### INTRODUCTION

The growth of MSMEs is the result of the community's independent efforts and has a role to reduce poverty in the form of creating jobs for the community. The growth of MSMEs should be the center of attention from various parties, especially the government. MSMEs have an important role in economic growth in Indonesia, especially in the region, namely

Jambi Province. Based on data from the Central Statistics Agency (BPS) of Jambi Province in 2020, in 2019 there were 28,159 SMEs in Jambi Province. The distribution of MSME business operation areas in Jambi Province is the largest in the 3 largest regions, namely Jambi City as much as 4.9 thousand (17.6%), East Tanjung Jabung Regency as much as 3.7 thousand (13.1 %), Muaro Jambi Regency as many as 2.2 thousand (9.6%) and the rest are scattered in cities and regencies in Jambi Province. MSMEs in running a business in Jambi Province who have difficulty in developing their business as many as 86.2% of the total MSMEs in Jambi Province and of the number of MSMEs that experience difficulties as many as 27.1% MSMEs experience difficulties in capital. The source of MSME capital which so far has come from its own capital, can be seen in the following table

**Table 1. Number of Micro, Small and Medium Enterprises (MSMEs) based on Jambi Province Capital Sources in 2019**

Kabupaten/Kota	Sumber Modal			Jumlah
	Sepenuhnya Milik Sendiri	Sebagian dari Pihak Lain	Sepenuhnya dari Pihak Lain	
(1)	(2)	(3)	(4)	(5)
01 Kerinci	2 204	49	69	2 322
02 Merangin	1 659	75	9	1 743
03 Sarolangun	1 346	467		1 813
04 Batang Hari	1 913	212	9	2 134
05 Muaro Jambi	2 527	153	8	2 688
06 Tanjung Jabung Timur	3 643	40		3 683
07 Tanjung Jabung Barat	2 374	10		2 384
08 Tebo	2 327	83	17	2 427
09 Bungo	1 622	28	88	1 738
71 Jambi	4 627	245	88	4 960
72 Sungai Penuh	2 073	170	24	2 267
<b>Jambi</b>	<b>26 315</b>	<b>1 532</b>	<b>312</b>	<b>28 159</b>

Source: Jambi Province Central Statistics Agency, 2020

Based on the table above, it can be seen that, as many as 26,315 MSMEs or 93.45% MSMEs from the number of MSMEs in Jambi Province who run their business from their own capital. Various kinds of obstacles experienced by MSMEs in applying for capital from borrowers or financing parties, such as no collateral, not understanding procedures and so on.

The development of digital technology is currently growing rapidly, opening up opportunities for Micro, Small and Medium Enterprises (MSMEs) to be able to improve their business performance, including in overcoming capital problems. The government through the Financial Services Authorization Regulation (POJK) in 2018 issued regulation Number 37/POJK.04/2018 regarding Crowdfunding Services through Information Technology-Based Stock Offerings (Equity Crowdfunding). This crowdfunding service involves two parties, namely the issuer is MSME and the investor is the investor, crowdfunding with capital participation is only based on information technology provided by the organizer, with financial technology media. According to Vulkan (2016), equity crowdfunding is an online technology-based innovation by providing some benefits based on the composition of capital ownership (shares). Based on statistical data from the Financial Services Authorization in December 2020, the distribution of loans through financial technology lending can be seen in the following figure:



Source : Financial Services Authority, 2020

**Figure 1. Accumulated Financial Technology Lending Loans Per December 2020**

In the picture above, it can be seen that the accumulation of the spread of national loans in Jambi Province until December 2020 reached Rp. 727.56 billion or 75.78%. This proves that the interest in loans through financial technology lending is quite high. Different problems occur in MSMEs in Jambi Province, when viewed from the purpose of MSMEs using the internet in Jambi Province in the following table:

**Table 2. Number of Micro, Small and Medium Enterprises (MSMEs) Using Computers, the Internet and the Purpose of Using the Internet in Jambi Province in 2019**

Kabupaten/Kota	Banyaknya Usaha	Tidak Menggunakan Internet	Menggunakan Internet	Tujuan Menggunakan Internet				
				Pemasaran/Iklan/ Penjualan	Penjualan Produk	Pembelian Bahan Baku	Pinjaman Fintech	Informasi
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
01 Kerinci	2 322	2 230	92	11	23	34		24
02 Merangin	1 743	1 623	120	50	51	18	4	19
03 Sarolangun	1 813	1 679	134	26	68	19		40
04 Batang Hari	2 134	1 624	510	355	118	127	37	46
05 Muaro Jambi	2 688	2 566	122	62	28	36		46
06 Tanjung Jabung Timur	3 683	3 532	151	86	34	15	67	67
07 Tanjung Jabung Barat	2 384	2 275	109	99		72	24	10
08 Tebo	2 427	2 277	150	150		54		
09 Bungo	1 738	1 644	94	36	29	12		30
71 Jambi	4 960	4 481	479	170	130	29	20	160
72 Sungai Penuh	2 267	1 903	364	101	103	27	4	168
<b>Jambi</b>	<b>28 159</b>	<b>25 834</b>	<b>2 325</b>	<b>1 146</b>	<b>584</b>	<b>443</b>	<b>156</b>	<b>610</b>

Source: Jambi Province Central Statistics Agency, 2020

Based on the table above, it can be seen that the purpose of MSMEs using the internet for financial technology loans is 156 MSMEs or 0.55% of the number of MSMEs in Jambi Province. Capital is an important factor in running a business, especially for MSMEs. Equity crowdfunding through financial technology lending makes it easy for MSMEs to get capital in their business, this program only asks MSMEs to display business conditions and business feasibility on technology media for investors to consider in providing funds with recognition as shareholders and receiving dividends.

The application of the use of equity crowdfunding is influenced by internal factors of an organization, namely the financial resources of the organization. According to Hurst & Lusardi (2004), the resources owned in the organization in achieving success for achieving goals must have resources that support financially, including capital as the initial source of doing a business. Financial resources are very supportive in efforts to achieve good business performance.

The purposes of this paper are (1) to examine the influence of financial resources on the performance of MSMEs; (2) Assessing the effect of financial resources on equity crowdfunding; (3) To examine the effect of equity crowdfunding on the performance of MSMEs; (4) Assessing the role of equity crowdfunding that is able to mediate the influence of financial resources on the performance of MSMEs

## **LITERATURE REVIEW**

### ***Equity Crowdfunding***

According to Vulkan (2016), equity crowdfunding is an online technology-based innovation by providing some benefits based on the composition of capital ownership (shares). Equity crowdfunding originated from the Jumpstart Our Business Startup (JOBS) Act in America which was then facilitated by the government in Indonesia through the Financial Services Authority Regulation (POJK) Number: Number 37/POJK.04/2018 regarding Crowdfunding Services through Information Technology Based Stock Offering (Equity Crowdfunding). The birth of equity crowdfunding can provide opportunities for MSMEs to get investors, because in using equity crowdfunding you don't have to have a legal entity, individuals can participate in the use and get capital from equity crowdfunding.

Equity crowdfunding is an opportunity for MSMEs to introduce their business to investors, so that information disclosure can foster interest for investors to invest, by treating them with profit sharing or dividends from the composition of their share ownership (Estrin, 2018). According to (HT, 2018), the weakness of equity crowdfunding is also in its implementation, it is possible that business ideas presented by MSMEs will be plagiarized.

The implementation of equity crowdfunding should require a prior understanding of the use of new technologies. The theory that explains the application of new technology, especially financial products with an understanding approach, is the theory of The Unified Theory of Acceptance and Use of Technology (UTAUT) (Venkatesh et al, 2003). The variables applied in the UTAUT model are 7 (seven) variables, namely performance expectancy, anxiety effort, social influence, attitude toward using technology, computer self-efficacy, expectancy, and facilitating conditions. These factors were later redeveloped by Widnyana and Yadnyana (2015), into 4 (four) variables (1) facilitating condition, which is a measure of readiness in terms of technical or infrastructure in using new technology to support performance in a business; (2) performance expectancy, namely the expectation that a product will provide positive benefits in using it, such as suppression of costs, finality of late installments and so on; (3) social influence, namely the influence of the surrounding environment in the application of new products, where the influence of social views can undermine confidence in the use of products that affect business performance and (4) effort expectancy, expectations of the ease of applying new products, efficiency and effectiveness can support smooth business, including easy funding in businesses that support business operations.

### **Financial Resources**

Every effort, both large companies and SMEs in measuring performance, first pays attention to the capacity of the existing resources in the organization. According to Hurst & Lusardi (2004), the resources owned in the organization in achieving success for achieving goals must have resources that support financially, including capital as the initial source of doing a business. The readiness of resources in a business to support business operations in achieving a goal (Fisher & Massey, 2000). MSMEs should be able to open wide networks and prepare internally to support business operations, especially by following technological developments that are rapidly changing. According to Camison and Lopez (2010), financial resources in a business are influenced by 2 factors, namely (1) increasing capital, a business is measured on the capacity and ability to increase the capital of a business; (2) low cost financing, a business in borrowing capital is charged with high costs so that it can reduce the

profits of a business, the ability to obtain financing sources at low costs is a factor in the performance of a business. Berge, Bjorvatn and Tungodden (2011) develop research on financial resources with 2 dimensions, namely (1) financial market information, with technological developments, a business can be more active in seeking information about financial markets as a source of venture capital; (2) dimensions of access to financing; a business can choose access to financing from several alternative sources of financing.

## **Performance**

The ability of a business to achieve its goals in the form of quality and quantity outcomes is the performance of the business. Performance is very important to be measured in a business as an evaluation process in achieving business goals. According to Robertson et al. (2002), maximum performance is from organizational culture which is influenced by commitment and involvement factors, response to problems and a good supervisory system. Performance measurement can be seen from the increase in profit, market growth, customer growth and ROI (Bakar, Sulaiman and Osman, 2014) while according to Tajeddini, Trueman and Gretchen (2006), performance can be seen from the performance of new product sales and market share. Mishra and Suar (2010), adding a new dimension in performance measurement is social performance and financial performance

## **METHODS**

The population in this study is MSMEs that use equity crowdfunding facilities in Jambi Province, while the sample taken is based on the opinion of Hair (2010), namely in using SEM analysis the sample size is between 100 - 200, so for this study the largest number was taken as many as 150 respondents. Sampling with special characteristics according to the object under study (Akdon and Riduwan, 2007: 240), the researchers took samples, namely MSMEs using equity crowdfunding facilities in Jambi Province.

The data used are primary data and secondary data. Primary data is the result of data that comes from respondents, collecting data through interviews, field observations and distributing questionnaires, while secondary data is obtained from books, journals and government

The variables used are (1) financial resources with indicators of increasing capital, financial market information, low cost financing and dimensions of access to financing; (2) equity crowdfunding with indicators facilitating conditions, performance expectancy, social influence and effort expectancy; (3) performance with indicators of profit growth, market growth, financial performance and social performance

The method used is the Structural Equation Modeling (SEM) measurement using SmartPLS software. The analysis technique is carried out through analysis of results (1) outer model with Average Variance Extracted (AVE) indicators, loading factor and communality as well as reliability testing by analyzing the results of Cronbach's alpha and composite reliability; (2) inner model with analysis indicators based on the results of T-statistics and R-Square

## **RESULTS**

The results of the study carried out measurement tests on the reliability value, the analysis was carried out through Cronbach's alpha with a minimum score of 0.7 and composite reliability with a minimum score of 0.7, where the score of each measurement of each variable if more than 0.7 then the variable is considered reliable. Measurement of the validity of the test, the analysis is carried out through the Average Variance Extracted (AVE) with a minimum score of 0.5, where the measurement score of each variable is more than 0.5, then the variable is considered to meet the validity:

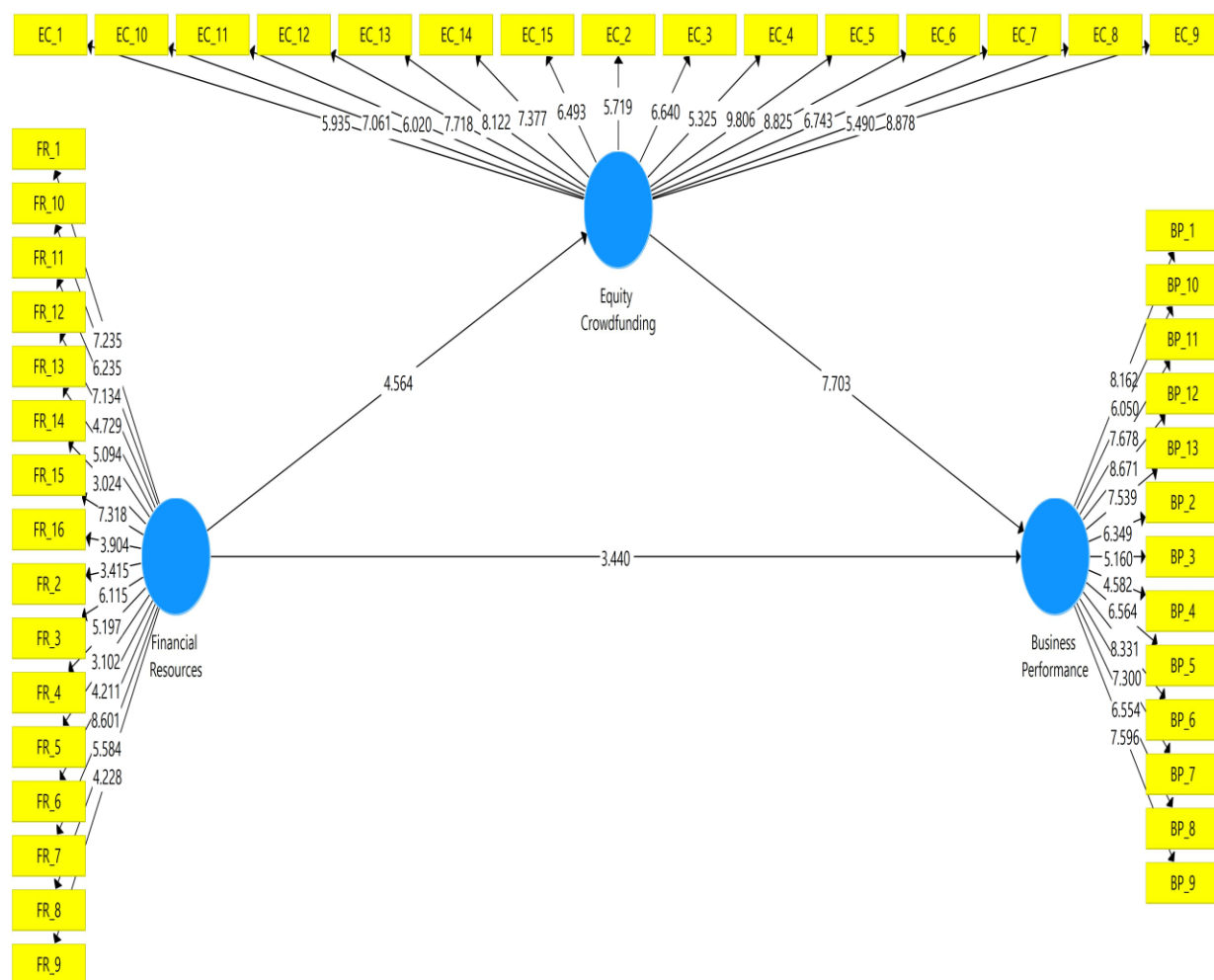
**Table 1. Construct Reliability and Validity**

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
<i>Business Performance</i>	0,827	0,872	0,852	0,740
<i>Equity Crowdfunding</i>	0,785	0,918	0,816	0,614
<i>Financial Resources</i>	0,724	0,882	0,801	0,627

Source: data processed, 2021

The results of Cronbach's alpha analysis on each variable show that the score is more than 0.7, where the business performance variable is 0.827, the equity crowdfunding variable is 0.785, the financial resources variable is 0.724. These results indicate that the accuracy and reliability of all variables in this study. The results of the composite reliability analysis on each variable show that the score is above 0.7, where the business performance variable is 0.852, the equity crowdfunding variable is 0.816, and the financial resources variable is 0.801. These results indicate that the variables as a whole are declared reliable. The results of the Average Variance Extracted (AVE) analysis on each variable show that the score is above 0.5, where the business performance variable is 0.740, the equity crowdfunding variable is 0.614, the financial resources variable is 0.627. These results indicate that the variables as a whole are declared to meet the validity.

Hypothesis testing is done through the results of the t-value model can be seen in the following figure:



**Figure 1. Bootstrapping Model**

Testing the relationship between variables in this study can be seen in the following table:

**Tabel 2. Outer Weight**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ((O/STDEV))	P Values	Results
<i>Equity Crowdfunding -&gt; Business Performance</i>	0,443	0,493	0,630	7,703	0,000	Accepted
<i>Financial Resources -&gt; Business Performance</i>	0,439	0,408	0,305	3,440	0,009	Accepted
<i>Financial Resources -&gt; Equity Crowdfunding</i>	0,709	0,554	0,453	4,564	0,012	Accepted
<i>Financial Resources -&gt; Equity Crowdfunding -&gt; Business Performance</i>	0,514	0,551	0,473	6,663	0,005	Accepted

Source: data processed, 2021

The measurement of the relationship between variables through the analysis of the t-statistical value with a minimum score of 1.972, if the score is more than 1.972 then the variable relationship is declared to have a significant effect. Based on the results in table 5.5, it can be seen that the overall t-statistic score is above 1.972, so all variables in this study are declared to have a significant effect and the model in this study is in accordance with the established criteria.

## DISCUSSION

### Effect of Equity Crowdfunding on Business Performance

The test results are based on respondents' responses, where the equity crowdfunding variable shows a significant effect on business performance. The results of the T-statistical test are 7.703, the value is > 1.972 and the P value is 0.000 with a significant level of 0.05, this proves that equity crowdfunding includes facilitating conditions, performance expectancy, social influence and effort expectancy partially positive effect on business performance. The test results can be interpreted that the higher the equity crowdfunding, the more it will increase

The indicator of security in transactions using crowdfunding facilities is the most important dimension in improving MSME business performance. The sense of security in transactions in crowdfunding increases, the use of equity crowdfunding facilities will increase. The results of the study are in line with those stated by HT, 2018, where the weakness of equity crowdfunding in its implementation is that it is possible that business ideas presented by MSMEs will be plagiarized. This creates concern for business people if their business ideas will be imitated by competitors, so that the feeling of security in using the equity crowdfunding facility is the most important factor. This study shows that a sense of security can increase business actors using equity crowdfunding facilities which affect MSME business performance which includes increased profits, market growth, financial performance and social performance in MSMEs.

### The Influence of Financial Resources on Business Performance

The test results are based on respondents' responses, where the financial resources variable shows a significant influence on business performance. The results of testing the T-statistical value of 3.440, the value is > 1.972 and the P value of 0.009 with a significant level of 0.05, this proves that financial resources include increasing capital, financial market information, low cost financing, and dimensions of access to financing as a whole. partial positive effect on business performance. The test results can be interpreted that the higher the financial resources, the business performance will increase

The indicator of business capital obtained at a low cost is the most important dimension in improving MSME business performance. Business capital obtained at a low cost is increasing, the financial resources will increase. The results of the study are in line with those proposed by Camison and Lopez (2010), where financial resources in a business are influenced by 2 factors, namely (1) increasing capital, a business is measured on the capacity and ability to increase the capital of a business; (2) low cost financing, a business in borrowing capital is charged with high costs so that it can reduce the profits of a business, the ability to obtain financing sources at low costs is a factor in the performance of a business. This study shows that the business capital obtained at a low cost affects the business performance of MSMEs which includes increased profits, market growth, financial performance and social performance in MSMEs.

### **Effect of Financial Resources on Equity Crowdfunding**

The test results are based on respondents' responses, where the financial resources variable shows a significant effect on equity crowdfunding. The results of the T-statistical test are 4.564, the value is  $> 1.972$  and the P value is 0.012 with a significant level of 0.05, this proves that financial resources include increasing capital, financial market information, low cost financing, and dimensions of access to financing in general. partial positive effect on equity crowdfunding. The test results can be interpreted that the higher the financial resources, the use of equity crowdfunding facilities will increase

The indicator of venture capital obtained at a low cost is the most important dimension for business actors in using equity crowdfunding facilities. As business capital obtained at low costs increases, the use of equity crowdfunding will increase. The results of the study are in line with those proposed by Camison and Lopez (2010), where financial resources in a business are influenced by 2 factors, namely (1) increasing capital, a business is measured on the capacity and ability to increase the capital of a business; (2) low cost financing, a business in borrowing capital is charged with high costs so that it can reduce the profits of a business, the ability to obtain financing sources at low costs is a factor in the performance of a business. In this case, this is in line with the opinion of Estrin, 2018 that equity crowdfunding is an opportunity for MSMEs to introduce their business to investors, so that the disclosure of information can foster interest for investors to invest, by treating them with profit sharing or dividends from the composition of their share ownership. This study shows that venture capital obtained at low costs affects equity crowdfunding which includes facilitating conditions, performance expectancy, social influence and effort expectancy.

### **The Role of Equity Crowdfunding as Mediating the Effect of Financial Resources on Business Performance**

The test results are based on respondents' responses, where the role of equity crowdfunding as a mediation of the influence of financial resources on the business performance of MSMEs has a significant effect. The result of testing the T-statistical value is 6.663, the value is  $> 1.972$  and the P value is 0.005 with a significant level of 0.05, this proves that financial resources include increasing capital, financial market information, low cost financing, and dimensions of access to financing as a whole. partial positive effect on business performance through equity crowdfunding which includes facilitating conditions, performance expectancy, social influence and effort expectancy

The ability of a business to achieve its goals in the form of quality and quantity outcomes is the performance of the business. Performance is very important to be measured in a business as an evaluation process in achieving business goals. Performance measurement can be seen from the increase in profit, market growth, customer growth and ROI (Bakar, Sulaiman and Osman, 2014) while according to Tajeddini, Trueman and Gretchen (2006), performance can be seen from the performance of new product sales and market share. Mishra and Suar (2010), added a new dimension in performance measurement is social



performance and financial performance. This study concludes that equity crowdfunding is able to mediate MSME business performance which is influenced by financial resources owned by business actors.

## CONCLUSION

Based on the results of research and discussion, it can be concluded as follows: (1) equity crowdfunding shows a significant positive effect on MSME business performance, it is proven that the higher equity crowdfunding from business actors, MSME business performance will increase; (2) Financial resources show a significant positive effect on MSME business performance, it is proven that the better the financial resources owned by business actors, the MSME business performance will increase; (3) Financial resources show a significant positive effect on equity crowdfunding, the better the financial resources owned by business actors, the better equity crowdfunding; (4) Equity crowdfunding as a mediation of the influence of financial resources shows a significant positive effect on MSME business performance, where equity crowdfunding is considered a variable that strengthens financial resources in improving MSME business performance.

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