

## Examination of the Motivations for Equity-Based Crowdfunding in an Emerging Market

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Received 3 December 2019; received in revised form 3 April 2020; accepted 4 May 2020

### Abstract

This study investigates the various motivations to equity crowdfunding in Malaysia. A total of 169 responses from survey questionnaires are used to test the relationships using Structural Equation Modelling-Partial Least Squares. Investigation into the influence of both intrinsic and extrinsic motivators on the willingness to support equity crowdfunding shows that the financial motive is insignificant in influencing the decision. Among the intrinsic motivators, aesthetic value, emotional value, novelty and trust are highly significant and the desire to be part of a community is the only intrinsic motivator that is insignificant. The willingness to support has a positive influence on the likelihood to invest in equity crowdfunding.

**Keywords:** Equity crowdfunding, Cognitive values, Affective values, SEM-PLS, Malaysia

## 1 Introduction

Crowdfunding's popularity as a major source of financing for entrepreneurial ventures has grown over the years [54]. It allows entrepreneurs to raise funds through small contributions from a large number of individuals via an online platform [16]. By year 2015, the number of crowdfunding platforms have increased to more than 1250 within just three years. The global amount raised in 2015 via crowdfunding is reported to be US\$34 billion according to crowdexpt.com (Site 1) and the industry is projected to reach between \$90 and \$96 billion by year 2025. Out of the \$34 billion raised in 2015, around one-thirds (\$10.54 billion) was raised in Asia but funding volume in that region grew at a rate of 320%. Up to 81% of the total amount raised in Asia was through donation and lending-based platforms [9] and only around \$2.56 billion was raised through equity crowdfunding (ECF). ECF however experienced the second highest growth at 182% [20] after lending (or P2P) crowdfunding. The projected compounded annual growth rate (CAGR) for equity-based crowdfunding is expected to be around 32.5% in the next 5 years [58]. The growth in equity-based crowdfunding depends very much on its supporters - the *crowd* - hence a study on what motivates the *crowd* is needed to understand and sustain the growth phenomenon.

Many of the studies on crowdfunding in the past few years have been on crowdfunding in general and not specifically on equity or investment-based crowdfunding. Equity-based crowdfunding is different from donation, reward or lending-based crowdfunding (the three other forms of crowdfunding) because unlike donation or reward-based crowdfunding, the crowd is making an investment decision, not a consumption or donation related one [38]. Additionally, the crowd's incentives and/or compensation are different for the other three types of crowdfunding [38]. A study on what motivates an individual to invest through equity-based crowdfunding will therefore shed light on the possible differences in the decision making process involved in this type of crowdfunding when compared to the other three.

In the past 5 years or so, a number of studies have been conducted on what motivates individuals to invest in crowdfunding (such as [15], [19], [26], [33], [34], [38], [49]) but these studies have mostly focused on developed countries such as the United States and countries in Europe, with hardly any focusing on developing countries. A study of this nature is especially important in developing countries such as Malaysia where SMEs and entrepreneurs make up a large percentage (nearly 97%) of the business establishments and the funding gap is large [62]. Alternative financing mechanisms such as crowdfunding can therefore play a big role in narrowing the gap. However, the availability of alternative financing mechanisms is not enough as the success of the mechanism in reducing the funding gap depends on the support of the investors who make up the source. Differences in culture, regulatory environment and the level of knowledge about crowdfunding provide the motivations to study this issue in developing countries as these differences influence investor perception and decision making.

Significant advancement in technology in recent years has introduced investors to the digital investing platform hence investors may establish new investing behaviors as the result of digital innovation. Digital innovation has expanded the technological capabilities of investors where they spend time and effort to learn the new products. While the technical aspect of digital innovation is important to understand, it is equally important to examine the influence of the aesthetic aspect of the new products on investor behavior and decision making. The aesthetic aspect influence investors' feeling and how attractive the product is to them. For the general public interested in the investment world, equity crowdfunding may be perceived as a *black box*, i.e. most of them know what it is and how to use it but do not understand the investing mechanism itself and how it works. Technological advancement has been incorporated into many business processes including that of investment. The *magic* behind digital innovation on an investor's decision making process has directed this study to emphasize on the affective values of investors. Therefore, this study aims to investigate the motivations of investors on equity-based crowdfunding platforms in a developing country such as Malaysia. Specifically, this study focuses on how intrinsic (non-financial) and extrinsic (financial) factors can influence an individual's decision to support a crowdfunded venture and how this decision to support translates into investment in the venture

Malaysia is chosen as the focus because it was one of the first countries in South East Asia to develop a regulatory framework for ECF in year 2016 [60]. In February 2015, the Malaysian Securities Commission (Site 2) *released the Guidelines on Regulation of Markets under Section 34 of the Capital Markets and Services Act 2007 to introduce new requirements for the registration of equity crowdfunding (ECF) platforms and provide governance arrangement for the operation of such platforms*. At that time, six crowdfunding platforms - PitchIN (founded/launched in year 2012); Alix Global, Crowdo and Eurecca (founded/launched in year 2013); Ata Plus (founded/launched in year 2014) and Propellar CrowdPlus (founded/launched in year 2015). By year 2017, the Securities Commission had approved a total of 12 crowdfunding platforms - six equity-based and six peer-to-peer (P2P) lending. In July 2015, the Malaysian Parliament passed an amendment in the Capital Markets and Services Bill 2015 which allowed crowdfunding to be approved as a practice to raise money from the public to start up a project or venture [18]. Under the Capital Markets and Services Bill 2015, private companies with a paid-up capital of not more than RM5 million and with a strong business plan could fund their ventures through crowdfunding. The amount of capital collected through crowdfunding is limited to a yearly total of RM5 million for these private companies and RM3 million for small and medium enterprises (SMEs). Each retail investor is also only allowed to invest a maximum of RM5,000 for each company and RM50,000 a year for total crowdfunding investment [16].

The ECF industry in Malaysia has since seen a steady increase with total funds raised reaching RM21.6 million in 2018, compared to RM8 million in 2016 and RM17.1 million in 2017 [57]. However, the ECF industry in Malaysia is still at a nascent stage of development and its sustainability and growth very much depend on its supporters, i.e. the *crowd*. Although crowdfunding has gained increasing popularity in Malaysia over the years, public knowledge regarding crowdfunding and their willingness to invest in crowdfunded projects is still low. A report by [20] for the Asian Institute of Finance shows that in year 2015, only around 25% of the public (especially those having at least a bachelor's degree) was aware of investment crowdfunding and only 11% had invested in a crowdfunding project before. Thus, awareness regarding crowdfunding does not necessarily translate to investment in crowdfunding as it depends on the perception of the investor and his/her willingness to support crowdfunded ventures. Therefore, there is a need to understand what motivates individuals to support and to eventually invest in ECF in Malaysia in order to ensure its sustainability and to promote its growth.

This study uses survey methodology to collect data on the independent (intrinsic and extrinsic motivations), mediating (decision to support) and the dependent (proportion of portfolio likely to be invested in crowdfunding venture) variables. A total of 169 usable responses is finally used for analysis purposes. Analysis results show that among the intrinsic factors, all factors, except for the *desire to be part of a community*, are found to have significant positive influences on the decision to support equity crowdfunding. Extrinsic motivation (financial gains) is found to have an insignificant influence on the decision to support. The decision to support relates positively to the proportion an investor is likely to invest in crowdfunding ventures. Interestingly, it is found that individuals with greater number of years of investment experience are likely to allocate a smaller proportion of their portfolio to a crowdfunding venture. This study shows that investment in crowdfunding ventures may not follow the norms of investment behavior and that supporters of crowdfunding are more focused on intrinsic motivations rather than extrinsic ones.

The remainder of the study is structured as follows: Section 2 discusses the theories surrounding the decision making process in a crowdfunding investment and this is followed by the proposed hypothetical model. The testable hypotheses are also presented in this section. Section 3 covers the data and methodology part, where sampling method and procedures and measurement of variables are discussed. Analysis of the data is carried out in Section 4 while the results are discussed in Section 5. The conclusion follows in Section 6.

## 2 Literature Review and Hypothesis Development

Entrepreneurship is one of the main drivers of economic growth but entrepreneurs face many obstacles in raising finance during the start-up phase of their business. This is due to various reasons such as limited business operating history and the riskiness of the business which may be because their ideas can be too innovative or complex to be understood. They therefore mostly rely on friends, family and fools [45] for their financing but this financing source is unfortunately insufficient to meet their needs. Studies by the Asian Development Bank reveal that around 9 million SMEs in Asia do not have sufficient access to formal financing and this lack of financing inhibits their growth. Only 18.7% of total bank lending in Asia are to SMEs while according to David Rose of Rose Tech Ventures [60], VCs typically invest in only 1 out of every 400 company they evaluate whilst angel investors have a higher hit rate of 1 in 40 companies. Entrepreneurs therefore need alternative sources of financing to realize the potentials of their ideas and crowdfunding is one of the emerging sources of alternative financing. Equity crowdfunding as an alternative financing mechanism has been growing in popularity over the years. Since crowdfunding relies on the *crowd* (the general public), its sustainability and growth depends on the motivations of the crowd to invest in the platforms.

Prior studies in psychology refer to the self-determination theory and the cognitive evaluation theory [25] in trying to explain the motivations for an individual's action. The self-determination theory focuses on the intrinsic and the extrinsic motivations and how they affect behavior [53]. Unlike extrinsic motivation, intrinsic motivation refers to internal motivations that are not associated with external rewards or pressures [19]. Hence an activity is considered to be intrinsically motivating if it contains elements that make it intrinsically interesting or if it is able to provide satisfaction of the basic psychological needs [53]. The cognitive evaluation theory extends the self-determination theory by focusing specifically on the three basic psychological needs (competence, autonomy and relatedness) that are satisfied in order for an individual to be intrinsically motivated [19]. Both competence and autonomy refer to the behavioral characteristics of self-efficacy [37] and self-determination [24], respectively, while relatedness refers to the perception and valuation of the behavior by others to whom the individual feels connected [12]. [19] extend these two theories in the context of crowdfunding and identify four key motivations for individual's willingness to participate in crowdfunding- collect rewards, be part of a community, help others and support a cause [33]. Out of the four, except for *collect rewards* which is considered to be an extrinsic motive, the other three are intrinsic motives.

Aside from the self-determination theory and the cognitive evaluation theory, another model used to explain decision making is the Cognitive-Affective paradigm by [30]. This paradigm builds on models and theories based on rational decision making such as the Rational Choice Theory [13] where the availability of information, the cognitive limitations of the mind and the time available to make a decision are the only restrictions present in the decision-making process [49]. The Cognitive-Affective paradigm incorporates the affective aspect of the decision-making process [31]. Where the cognitive process is rational, utilitarian and data-driven [31], the affective process is hedonic, feelings-driven and intuitive [49].

Based on the three theories, it is clear that the decision making process is a two-part process where individuals are motivated intrinsically and they make decisions based on the affective process; or they are extrinsically motivated and make decisions based on the cognitive process. The study considers the effect of the independent variables (intrinsic and extrinsic motivation) on the mediating variable (the decision to support) which in turn affects the dependent variable (proportion of portfolio likely to be invested in equity crowdfunding). The intrinsic motives considered in this study are trust, novelty, emotional value, aesthetic value and the desire to be part of a community while the extrinsic motive is the financial motive.

## 2.1 Hypothesis Development

Compared to other forms of crowdfunding, investors in equity crowdfunding ventures make an investment decision rather than a consumption decision. Hence, the financial motivation is expected to be the key driver for the investment in such a venture [19]. If supporters of equity crowdfunding ventures are similar to traditional investors, then their main aim would be to generate return from their investments. The rate of return on a supporter's investment is highly related to the future earnings of the company and its share value [49]. Traditional investment theory assumes investors are rational and make decisions based on the risk and return characteristics of the investment therefore these investors make cognitive evaluations of their investment and engage in certain behavior in order to obtain a certain desired outcome [53]. In terms of risk, since crowdfunding is not subject to the information disclosure requirements of traditional equity investments and it is an alternative source of funding, the risk is expected to be higher. Therefore, being rational investors, equity backers would be motivated to invest in crowdfunding ventures if the returns from their investments are high. The first hypothesis of this study is:

*H1: The financial value (return) of an equity crowdfunded venture has a significantly positive influence on the decision to support the venture.*

One of the key motivations for investors to pledge to a crowdfunding venture identified by [19] is the trust in the use of the funds. Trust refers to how comfortable investors feel about the use of the funds by the entrepreneurs [33]. Since entrepreneurs and SMEs use crowdfunding for raising funds and information asymmetry is very high in these ventures, trust is a very important factor. Information asymmetry is found to be greater in crowdfunding activities than in traditional financing method [2]. Funders have limited information and cognitive resources [63] in a crowdfunding environment, hence the ability to create trust and maintaining it improves the success rate of the projects [55]. Trustworthy sources of information provide quality information to investors and investors assess the projects based on information given during the campaign [42]. Comprehensive description of a project can enhance the success rate of funding raised [44] and trust can be built based on the high degree of informativeness provided by fundraisers [47]. Trust therefore plays an important value in the success of crowdfunding activities. The second hypothesis of this study is thus:

*H2: Trust in the use of funds raised for an equity crowdfunded venture has a significantly positive influence on the decision to support the venture.*

In consumer decision making, [56] identify epistemic value as a key factor in influencing decision. Epistemic value refers to the ability of a product "to arouse curiosity, provide novelty and/or satisfy the desire for knowledge" ([56], pp. 162). Therefore, providing something new or simply changing the pace or parts of the product can arouse the curiosity or the need for a difference within an individual. Novelty refers to the extent of the differentiation, value-added and creativity of offerings compared to existing products [7]. Affective behavior from novelty can result in emotion-based behavior and this positive effect can influence action [10]. Creative projects can increase their competitive advantage among others [61], provide assurance of peak performance [23], but may result in failure if the projects are not creative [22]. According to [51], some individuals may be willing to pledge to support crowdfunded ventures in order to be able to pretest a novel product [19]. Supporters of equity crowdfunded ventures would therefore be willing to support the venture if their main reason for investing is to seek new experiences or to satisfy their curiosity given the *newness* of the concept despite the future prospects of the venture. Thus, the following hypothesis is formed.

*H3: The ability of the crowdfunded venture to provide novel experiences and arouse curiosity regarding the venture has a significantly positive influence on the decision to support the venture.*

In the context of crowdfunding, emotional desire for experiencing positive situations increases the chance for successful crowdfunding campaigns [41]. Loans and presales crowdfunding decisions are significantly found to be affected by emotional values [49] such as, having a feeling of satisfaction in taking part in building a business and enjoying the whole process of crowdfunding an investment. In charitable online platforms, the presence of rational and credible promotional campaigns increases the likelihood of receiving crowdfunds [48]. Accordingly, it is hypothesized that:

*H4: The emotional value derived from supporting an equity crowdfunded venture has a significantly positive influence on the decision to support the venture.*

Since crowdfunding depends on the crowd, the crowdfunding process requires the support of the crowdfunding community. When the crowd funds projects, the consumer community will have the power to choose which company's product should be marketed or otherwise [17]. Crowdfunders will support business ideas within their community because they find it rewarding to help realize their local community's business ventures. Small investors are more sensitive to crowdfund based on a community's needs, as compared to professional investors who crowdfund following a market logic [3]. Crowdfunding processes that use the social media to finance innovative online projects, for instance, will have an incentive to gain support from the online community [17]. Individuals may pledge to equity crowdfunded ventures as it provides them with the perception of a shared identity [50]. Based on the arguments above,

*H5: The feeling of belonging to a community as a result of supporting an equity crowdfunded venture has a significantly positive influence on the decision to support the venture.*

Aesthetic quality is a question of beauty, appealing physical appearances, artistic or natural landscape [14]. Aesthetic values explain how a person reacts based on their experience of the surrounding of a beautiful or serene landscape, clean and tidy room, or even soothing sound of music. It has been proven that aesthetic values could be converted to social or economic advantages [46] that affect an individual's decision to invest in crowdfunding projects. According to [40], a project possesses aesthetic value if it is able to provoke positive feelings when experienced aesthetically hence crowdfund project developers have to strategically tailor their marketing communication plan [3] to attract individuals to fund an investment. On the contrary, [49] discovered that aesthetic values do not affect crowdfunding decisions. It is hypothesized that:

*H6: The aesthetic value of an equity crowdfunded venture has a significantly positive influence on the decision to support the venture.*

The willingness to support equity crowdfunding ventures reflects the intentions of the supporter to invest in the venture. According to the theory of Reasoned Action [6], [28], stronger intentions to perform a certain behavior leads to increased effort to perform the behavior and this increases the likelihood that the behavior will be performed. Hence, support of equity crowdfunding ventures is a behavioral intention (a function of attitudes and subjective norms) that has a significant positive effect on the likelihood of the actual investment in crowdfunding. Additionally, applying the Theory of Planned Behavior [4], [5] to this context, it is theoretically assumed that actual investments are made after the intention to invest is performed. However, [8] argue that based on the perceived behavioral control (PBC) by [5], under "circumstances where there were constraints on action, the mere formation of an intention was insufficient to predict behavior" ([8], pp. 472). Therefore, the relationship between willingness to support and the actual investment in crowdfunding may be insignificant. Assuming that the willingness to support results a higher likelihood to invest in an equity crowdfunding venture, the final hypothesis is:

*H7: The willingness to support has a significant positive influence on the proportion of the portfolio an investor is likely to allocate for equity crowdfunding ventures.*

Table 1 provides a summary of the relationships considered in this study, the expected signs and the corresponding theory/theories used to explain the relationships.

Table 1: Independent Variables, expected relationships and theories used

Relationship	Expected Sign	Theory/Theories
Financial value → decision to support	+	Cognitive Evaluation Theory
Trust → decision to support	+	Self-determination Theory & Cognitive Evaluation Theory
Novelty → decision to support	+	Cognitive-Affective Paradigm
Emotional value → decision to support	+	Cognitive-Affective Paradigm
Community → decision to support	+	Self-determination Theory & Cognitive Evaluation Theory
Aesthetic Value → decision to support	+	Cognitive-Affective Paradigm
Willingness to support → investment in ECF	+	Theory of Planned Behavior & Theory of Reasoned Action

### 3 Data and Methodology

In order to achieve the objectives of this study, primary data is collected via the use of survey questionnaires. The sampling method and data collection procedures are explained in this section. Further, the measurement of each variable (independent, dependent and control) is also discussed.

#### 3.1 Sampling Method and Procedures

This study adopts the purposive (judgmental or subjective) sampling procedure, where only individuals who have prior knowledge of crowdfunding are considered in the sampling frame. To ensure this, a tracking question was included in the questionnaire, where the respondents were asked *Do you know about crowdfunding?*. Respondents had to answer Yes or No to this question. Only responses from respondents who answered Yes to this question were retained for the analysis in this study. All 6 equity crowdfunding platforms registered with the Securities Commission Malaysia were approached to assist with the distribution of the questionnaires to their investor clients. Out of the 6, three responded positively by agreeing to assist but finally only two of the platforms - PitchIN and CrowdPlus.asia - distributed the questionnaires to their investors via email. PitchIN is the first crowdfunding platform to be founded/launched in Malaysia and as of year 2018, is the leading equity crowdfunding operator in Malaysia. It had the highest percentage of the market share (75%) of ECF deals in Malaysia in year 2018. Although CrowdPlus.asia was founded/launched a few years later, it is the first equity crowdfunding platform in the ASEAN region and is based in Malaysia.

Since PitchIN and CrowdPlus.asia preferred to email the questionnaire to their investors, a Google survey form was provided. A total of 26 responses (10 from PitchIN and 16 from CrowdPlus.asia) was obtained in this way. This total number of observations was however insufficient to carry out inferential analysis hence the researchers also approached individuals who were not necessarily investors in crowdfunding but had knowledge about crowdfunding and had considered investing in crowdfunded projects previously. A total of 46 responses was obtained in this way and this resulted in the total responses increasing to 72, which was still insufficient for the purpose of analysis. Using G-power, the minimum number of responses needed to carry out regression analysis with 7 independent variables given an effect size  $f^2$  of 0.15 and alpha error probability of 0.05 is found to be 89. To secure further responses, the researchers attended investor previews conducted by PitchIN, which were held almost every weekend (Saturdays and/or Sundays), and distributed the questionnaires manually to the participants. The responses were later keyed in manually. This approach resulted in 123 responses bringing the total to 195 responses. However, out of the 195 responses, a final sample of 169 responses were usable as some responses had missing data and some had invalid data where the respondents provided the same answers for all the statements, indicating disinterest in filling up the questionnaire. The final sample size of 169 is a more than adequate number to carry out the analysis.

#### 3.2 Measurement of Variables

The dependent variable in this study is the proportion of his/her portfolio an investor is likely to allocate for equity crowdfunding ventures (Prop\_Invest). This is asked using the question *If you have invested or are interested in investing in a crowdfunding project, approximately what percentage of your investment portfolio have/would you allocate(d) to this investment?* Since respondents indicate the percentage amount, the dependent variable is a single item construct and an interval variable. The independent variables in this study represent the intrinsic and extrinsic motivations that could play a major role in the decision of an individual to support and invest in equity crowdfunding. Intrinsic motivations represent the nonfinancial motivations, in this case, *trust of use of funds* (Trust), *be part of a community* (Community) [19], *desire for knowledge* (Novelty), *aesthetic appeal of the project/business* (Aesthetic), and the *emotional benefits derived from the project* (Emotional) [49]. Extrinsic motivation, on the other hand, refers to the financial motivation, i.e. the financial returns that can be obtained from investing in the project/company (Financial). The mediating variable is the willingness to support a project/company that is crowdfunded (Support). For both the independent and mediating variables, a five-point Likert scale is used as the response format, with values ranging from 1 being *Strongly Disagree* to 5 being *Strongly Agree*, to gauge the level of agreement/disagreement of the respondents to the statements that measure each construct. Finally, a control variable *previous investment experience* (Prev\_experience) is also included to control for differences in the respondents' investment experience that might influence the proportion invested in the project. This variable is a single item construct and is of an interval scale where respondents provide a number for the total years of experience they have had in the investment field. [39] find that the learning-by-doing phenomenon through experience is present in equity crowdfunding investments; i.e. as investors become more familiar with the investments, they are less prone to bias. However, their previous investment experience may not be in crowdfunding ventures hence this variable may or may not be significant in influencing the proportion invested in the venture.

The items for each construct/variable are provided in Table 2 along with the sources from which these questions were adopted.

Table 2: Items for construct/variable and their source

Construct/Variable	Item Name	Item	Source
<b>DEPENDENT VARIABLE</b>			
Proportion of Investment Portfolio	Prop_Invest	If you have invested or are interested in investing in a crowdfunding project, approximately what percentage of your investment portfolio have/would you allocate(d) to this investment?	Authors' own
<b>INDEPENDENT VARIABLES</b>			
Financial	FIN1	I expect to gain good monetary return if this project succeeds.	[49]
	FIN2	I may win big money with small money if I support this project.	[49]
	FIN3	My primary goal is to generate return on my investment.	[19]
Trust	TRU1	I want to feel sure that the team knows how to handle the funds they raise for the project.	[19]
	TRU2	It is important that the team knows how long it takes from raising the funds to production and shipping.	[19]
	TRU3	I invest if I feel confident that my money will be used wisely by the founders.	[19]
Novelty	NOV1	Supporting the project would satisfy my sense of curiosity.	[49]
	NOV2	Supporting the project would offer novel experiences.	[49]
	NOV3	If I supported the project I would feel like I'm exploring new worlds.	[49]
Emotional	EMO1	Supporting the project would arouse positive feelings in me.	[49]
	EMO2	I would have fun supporting the project.	[49]
	EMO3	The actual process of supporting the project would give me pleasure.	[49]
	EMO4	I invest in investment projects for the pure enjoyment of it.	[36]
Community	COM1	I enjoy the feeling of belonging to a community of other backers.	[19]
	COM2	I find it gratifying to see myself on the list of supporters for a project.	[19]
	COM3	I like to interact with the online community of backers and offer my advice about the project.	[19]
Aesthetic	AES1	The way the project is displayed is attractive.	[49]
	AES2	The project's page is aesthetically appealing.	[49]
	AES3	I like the way the project looks.	[49]
<b>MEDIATING VARIABLE</b>			
Support	SUP1	I want to support ideas that promise to have social impact.	[19]
	SUP2	I like to back good ideas and give founders the opportunity to retain control of their ventures.	[19]
	SUP3	I enjoy the collaborative spirit in such investments and I want to help people realize their ideas.	[19]
<b>CONTROL VARIABLE</b>			
Previous Investment Experience	Prev_experience	How many years of investment experience do you have?	Authors' own

## 4 Analysis of Data

Having collected the data and ensuring the reliability and the validity of the data, various statistical analyses are then carried out on the data to ensure the reliability and the validity of the data, to gain an understanding of the respondents in this study and to explore the various motivations that could influence these respondents' willingness to invest in equity crowdfunding projects.

#### 4.1 Preliminary Univariate Analysis

Frequency analysis is first carried out based on the demographic category of the respondents to understand the characteristics of the sample. Additionally, for each demographic category, non-parametric analysis is carried out for the groups to evaluate if there is any difference in mean Prop\_Invest. For demographic types with two groups, Mann-Whitney U test is performed while for those with more than two groups, Kruskal-Wallis H test is performed. Results of the frequency analysis and analysis of differences in means are presented in Table 3.

Table 3: Frequency Analysis

Demographic Type	Group	Frequency	Percent	Prop_Invest Mean Rank	p-value
Age	20 or younger	2	1.2	9.25	0.004
	21 to 40	112	66.3	88.72	
	41 to 60	50	29.6	85.15	
	61 and older	5	3.0	30.40	
Gender	Female	65	38.5	88.59	0.424
	Male	104	61.5	82.75	
Race	Chinese	61	36.1	89.59	0.594
	Indian	34	20.1	88.78	
	Malay	66	39.1	80.08	
	Others	8	4.70	75.75	
Occupation	Employee	79	46.7	80.61	0.119
	Retiree	1	0.6	16.00	
	Self-Employed	83	49.1	89.60	
	Student	5	3.0	74.90	
	Unemployed	1	0.6	169.00	
Education	High School / Certificate	6	3.6	27.7	0.008
	Diploma	30	17.8	96.73	
	Bachelor Degree	95	56.2	84.21	
	Master Degree	31	18.3	84.79	
	PhD	7	4.1	95.57	
Professional Certification	No	150	88.8	86.30	0.302
	Yes	19	11.2	74.71	
Prior Investment Experience	No	11	6.5	30.50	0.000
	Yes	158	93.5	88.79	
Invested in Crowdfunding before	No	86	50.9	79.09	0.090
	Yes	83	49.1	91.13	

Based on the demographic profile, majority of the respondents are between the ages of 21 to 40 (66.23%), i.e. most of those interested in equity crowdfunding are millennials or the Gen Y. This confirms various reports such as by [11], [57] that mostly millennials are more involved with ECF. The respondents are mostly males (61.5%) [38] and of the ethnic-Malay (39.1%) and Chinese (36.1%) race. They are either self-employed (49.1%) or employees (46.7%) while the rest are either students, retirees or unemployed. More than half of the respondents (56.2%) have Bachelor degrees, with Diploma holders and Master degree holders each making up around 18% of the total respondents. Only very few of the respondents (11.2%) have a professional certificate. Out of the 169 respondents, only 11 (6.5%) do not have any previous investment experience while 158 (93.5%) do. Finally, the sample is made up of almost equal numbers of those with (49.1%) and without (50.9%) previous experience in crowdfunding. Analysis of differences in mean (in Table 3) shows significant differences in the proportion of his/her portfolio an investor is likely to allocate to crowdfunding ventures (Prop\_Invest) based on age, education level, prior investment experience and whether or not they have invested in a crowdfunding venture (although this is only at the 10% level). No significant difference is found in the mean based on gender, race, occupation and professional certification. As an additional analysis (not provided in the table), it is found that more than half (117 out of 169) have or would allocate more than 10% of their portfolio to crowdfunding ventures.

#### 4.2 Exploratory Factor Analysis and Reliability Analysis

Since the measurements for each of the independent and mediating variables are adopted from different sources, exploratory factor analysis is first carried out in the first phase of the pilot test so that multicollinearity among the indicators in the measurement model can be reduced [1]. Principal component analysis is carried out on the 22 items using orthogonal rotation (varimax). Descriptive statistics of all the indicators and the dependent variable Prop\_Invest, the correlations between indicators and the pattern matrix are provided in Tables 4 and 5 respectively.

Table 4: Descriptive Statistics

	Mean	Std. Deviation
FIN1	4.21	0.796
FIN2	3.86	0.919
FIN3	4.09	0.956
TRU1	3.89	0.869
TRU2	3.99	0.838
TRU3	3.93	0.939
NOV1	3.49	0.977
NOV2	3.59	0.876
NOV3	3.63	0.998
EMO1	3.53	1.058
EMO2	3.47	0.994
EMO3	3.46	1.041
EMO4	3.29	1.152
COM1	3.36	1.044
COM2	3.35	1.076
COM3	3.44	0.993
AES1	3.79	0.958
AES2	3.82	0.924
AES3	3.79	0.865
SUP1	3.59	1.009
SUP2	3.79	0.899
SUP3	3.70	0.898
Prop_Invest	0.122	0.107

Descriptive statistics in Table 4 show all indicators have mean values of above 3.20, indicating that on average the respondents agreed with the statements. On average, the respondents indicated that they have or would invest around 12% of their portfolio in a crowdfunding project/business.

Table 5: Pattern Matrix

Factors		Component							KMO and Bartlett's test	Cronbach's $\alpha$
		1	2	3	4	5	6	7		
Financial	FIN1							0.746	0.663	0.700
	FIN2							0.801		
	FIN3							0.766		
Trust	TRU1				0.784				0.693	0.776
	TRU2				0.915					
	TRU3				0.752					
Novelty	NOV1		0.877						0.726	0.858
	NOV2		0.842							
	NOV3		0.842							
Emotional	EMO1	0.700							0.804	0.865
	EMO2	0.823								
	EMO3	0.825								
	EMO4	0.812								
Community	COM1			0.787					0.742	0.886
	COM2			0.862						
	COM3			0.882						
Aesthetic	AES1						0.676		0.712	0.820
	AES2						0.791			
	AES3						0.749			
Support	SUP1					0.660			0.701	0.799
	SUP2					0.643				
	SUP3					0.760				

The factor analysis in Table 5 shows 7 distinct factors corresponding to (1) Emotional, (2) Novelty, (3) Community, (4) Trust, (5) Support, (6) Aesthetic and (7) Financial with all factor loadings being above 0.6 and communalities of all variables are found to be greater than 0.6 [59]. Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy is found to be 0.879 for all factors while the p-value for Bartlett's test of sphericity is 0.000. KMO value for each variable is found to be above the acceptable level of 0.5 [27]. Reliability analysis is carried out using Cronbach's Alpha which is found to be greater than 0.7 [35] for each variable with values ranging from 0.7 to 0.886, indicating

adequate to good internal consistency of the indicators. The result of the EFA, test of sampling adequacy and test of internal consistency confirm the appropriateness of the items in measuring the independent and mediating variables.

The Harman's single-factor test is carried out to test for the presence of common method variance in the dataset as the data was obtained from a single source, i.e. the investors. All variables are loaded onto a single factor and the constraint of *no rotation* is imposed as recommended by [52]. The total variance explained by the single factor is less than 50%, i.e. 36.642% indicating the absence of the common method variance problem.

### 4.3 Further Univariate Analysis

Having identified the measurements for each variable, a means difference analysis is carried out on each variable to analyze if there are any significant difference in each construct based on the different demographic categories indicated in Table 3 earlier. The average score of each variable is calculated for each respondent. Again, Mann-Whitney U test or Kruskal-Wallis H tests are performed depending on the number of groups under each demographic category. The results of the means difference analysis are provided in Table 6.

Table 6: Analysis of Mean Differences

Age	N	SUPPORT	FINANCIAL	TRUST	NOVELTY	EMOTIONAL	COMMUNITY	AESTHETIC
20 or younger	2	67.50	71.00	73.25	13.50	47.50	13.50	53.00
21 to 40	112	85.43	87.84	83.18	87.72	86.67	89.81	84.80
41 to 60	50	85.88	79.65	89.24	83.43	85.83	81.46	86.03
60 or older	5	73.50	80.40	88.00	68.40	54.20	41.30	91.90
	<b>p-value</b>	0.903	0.750	0.878	0.149	0.343	0.021	0.799
Gender	N	SUPPORT	FINANCIAL	TRUST	NOVELTY	EMOTIONAL	COMMUNITY	AESTHETIC
Male	104	79.69	85.12	83.03	82.85	77.44	76.15	80.58
Female	65	93.50	84.82	88.15	88.44	97.10	99.15	92.08
	<b>p-value</b>	0.071	0.969	0.504	0.466	0.011	0.003	0.131
Race	N	SUPPORT	FINANCIAL	TRUST	NOVELTY	EMOTIONAL	COMMUNITY	AESTHETIC
Malay	66	87.98	78.36	88.55	88.50	90.33	88.45	91.20
Chinese	61	82.97	89.45	74.26	85.60	82.84	78.91	86.12
Indian	34	85.66	89.96	96.25	78.49	79.04	83.40	78.29
Others	8	73.06	84.81	89.81	79.25	82.81	109.75	53.75
	<b>p-value</b>	0.837	0.548	0.152	0.782	0.698	0.332	0.161
Occupation	N	SUPPORT	FINANCIAL	TRUST	NOVELTY	EMOTIONAL	COMMUNITY	AESTHETIC
Student	5	85.30	37.00	69.80	76.70	76.10	90.30	91.40
Employee	79	87.14	91.58	86.09	85.73	81.85	86.24	90.30
Self-Employed	83	81.40	81.46	83.98	83.78	88.37	84.02	78.84
Unemployed	1	164.00	77.00	156.50	140.00	81.50	77.50	130.00
Retiree	1	134.50	106.50	88.50	115.50	102.00	49.00	101.00
	<b>p-value</b>	0.364	0.133	0.599	0.754	0.907	0.949	0.496
Education	N	SUPPORT	FINANCIAL	TRUST	NOVELTY	EMOTIONAL	COMMUNITY	AESTHETIC
High School / Certificate	6	76.50	84.33	104.42	93.08	64.83	64.75	109.58
Diploma	30	95.10	76.33	83.13	87.23	92.65	82.43	77.10
Bachelor Degree	95	81.95	88.55	81.29	84.17	87.11	88.28	81.44
Master Degree	31	83.74	85.37	93.71	81.26	72.92	75.55	96.74
PhD	7	95.93	72.93	88.14	96.29	94.43	110.64	94.14
	<b>p-value</b>	0.691	0.752	0.626	0.936	0.390	0.320	0.289

Table 6: continuation

Professional Certification	N	SUPPORT	FINANCIAL	TRUST	NOVELTY	EMOTIONAL	COMMUNITY	AESTHETIC
No	150	83.55	85.67	83.76	85.95	85.81	86.27	83.92
Yes	19	96.45	79.71	94.79	77.53	78.61	74.95	93.50
	<b>p-value</b>	0.274	0.613	0.349	0.476	0.543	0.338	0.414
Prior Investment Experience	N	SUPPORT	FINANCIAL	TRUST	NOVELTY	EMOTIONAL	COMMUNITY	AESTHETIC
No	11	101.68	60.55	83.23	93.77	87.36	68.64	113.73
Yes	158	83.84	86.70	85.12	84.39	84.84	86.14	83.00
	<b>p-value</b>	0.237	0.083	0.900	0.535	0.868	0.247	0.041
Invested in Crowdfunding Before	N	SUPPORT	FINANCIAL	TRUST	NOVELTY	EMOTIONAL	COMMUNITY	AESTHETIC
No	86	89.70	87.31	88.20	87.99	89.06	91.83	91.16
Yes	83	80.13	82.60	81.69	81.90	80.80	77.93	78.62
	<b>p-value</b>	0.198	0.527	0.382	0.414	0.270	0.063	0.091

The analyses of mean for the demographic categories of Race, Occupation, Education and Professional Certification show that there is no significant difference in the mean among the groups in each category for each variable. For the category of Age, significant difference is found for the variable *Community*, where those in the age group of 21-40 assign significantly higher values to the statements relating to being *part of a community* compared to those in the other age groups. Significant differences are also found for the category of Gender, whereby females assign significantly higher values to the variables Support, Emotional and Community. This implies that females are more likely to support a crowdfunding venture and they may be more likely to be emotionally or socially (Community) motivated compared to males. Those with previous investment experience have higher financial motivations compared to those who do not have any experience but the ones with no previous investment experience assign significantly greater importance to *Aesthetic*. It is also found that the need to be *part of a community* and the *aesthetic appeal of the project/business* is higher for those who have not invested in crowdfunding before, although the difference is only significant at the 10% level.

#### 4.4 Structural Model

The relationship between the dependent, mediating and independent variables is analyzed via SEM-PLS. The overall model is presented in Figure 1. All the variables are treated as reflective measurement models as the latent constructs exist independent of the measures used with variations in the constructs causing variations in the item measurements.

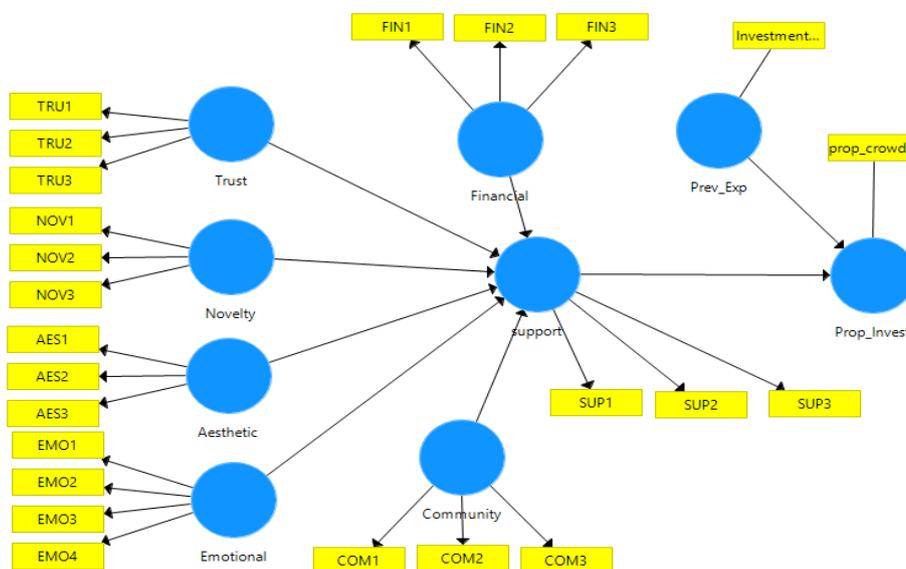


Figure 1: Structural Model of the motivations to invest in equity crowdfunding

Assessment of the reflective measurement models is first carried out before the measurement model is evaluated. Internal consistency, indicator reliability, convergent validity and discriminant validity are first assessed. Additionally, outer loadings for all the indicators are calculated. Internal consistency is measured via the Cronbach's alpha and as per the values obtained from the factor analysis, the values for all constructs range between 0.7 and 0.886 satisfying the internal consistency requirement. Composite reliability is found to be greater than 0.8 for all indicators indicating sufficient convergence or internal consistency [32]. Average Variance Extracted (AVE) values also indicate adequate convergent validity with values greater than 0.5 for all constructs. The outer loading is found to be greater than 0.6 for all indicators hence fulfilling the indicator reliability condition. Discriminant validity is assessed via the Heterotrait-Monotrait Ratio (HTMT) and the Fornell-Larcker Criterion [29] and the results show that this condition is also satisfied. Finally, collinearity statistics (VIF) are calculated for all the constructs and the highest inner VIF value is found to be 2.084 (for Community) while the highest outer VIF value is 2.744 (for COM2). Since all values are found to be less than 3, no collinearity issues are detected between the constructs and the indicators. A summary of the results of the various assessments is provided in Table 7.

Table 7: Summary of Measurement Models

Construct	Indicator	Outer loading	Cronbach's Alpha	Composite reliability	AVE	Discriminant validity	VIF
Financial	FIN1	0.856	0.695	0.815	0.597	Yes	1.308
	FIN2	0.768					1.348
	FIN3	0.685					1.285
Trust	TRU1	0.887	0.778	0.870	0.690	Yes	1.765
	TRU2	0.799					1.618
	TRU3	0.804					1.510
Novelty	NOV1	0.894	0.859	0.914	0.780	Yes	2.365
	NOV2	0.845					1.907
	NOV3	0.909					2.409
Emotional	EMO1	0.874	0.868	0.910	0.718	Yes	2.438
	EMO2	0.865					2.312
	EMO3	0.900					2.719
	EMO4	0.741					1.704
Community	COM1	0.900	0.886	0.929	0.814	Yes	2.738
	COM2	0.917					2.744
	COM3	0.889					2.258
Aesthetic	AES1	0.861	0.821	0.893	0.736	Yes	1.831
	AES2	0.873					2.032
	AES3	0.840					1.733
Support	SUP1	0.887	0.802	0.883	0.716	Yes	1.548
	SUP2	0.799					1.883
	SUP3	0.804					1.872
Prev_experience		1.000	1.000	1.000	1.000	Yes	1.000
Prof_Invest		1.000	1.000	1.000	1.000	Yes	1.000

A summary of the relationships, their significance and the model fit statistics of the structural model are provided in Table 8. The independent variables (Financial, Trust, Novelty, Emotional, Community and Aesthetic) are found to explain 56.5% of the variation in Support while Support and Prev\_experience are able to explain only 6% of the variation in Prop\_invest. Model fit statistics show good model fit with SRMR being 0.064 (less than 0.08 as proposed by [43]). Using blindfolding procedure (with omission distance of D=7) shows predictive relevance (Q<sup>2</sup>) for Support to be 0.336 while the value for Prop\_invest is 0.035.

Table 8: Summary of Structural Model

Direct Effects	Path Coefficient	f <sup>2</sup>	R <sup>2</sup>	SRMR
Financial -> Support	0.069	0.010	0.565	0.064
Trust -> Support	0.195***	0.069		
Novelty -> Support	0.207***	0.052		
Emotional -> Support	0.204**	0.047		
Community -> Support	0.045	0.002		
Aesthetic -> Support	0.330***	0.156		
Support -> Prop_Invest	0.202**	0.043	0.060	
Prev_exp -> Prop_Invest	-0.126**	0.017		
<b>Indirect Effects</b>				
Financial -> Prop_Invest	0.014			
Trust -> Prop_Invest	0.039**			
Novelty -> Prop_Invest	0.042*			
Emotional -> Prop_Invest	0.041			
Community -> Prop_Invest	0.009			
Aesthetic -> Prop_Invest	0.067**			

\*, \*\*, \*\*\* indicate significance at 10%, 5% and 1% levels respectively.

Using bootstrap method with 500 subsample setting, the path coefficient between Support and Prop\_invest is found to be highly significant at 5% level. Referring to the direct effect, all the variables representing the different motivations are found to be significant in influencing the willingness to support a crowdfunded venture at least at the 5% level, except for Community and Financial, which are insignificant. The f<sup>2</sup> effect size is found to be small (less than 0.1) for all the relationships except between Aesthetic and Support which has an f<sup>2</sup> of 0.156 (moderate effect). The indirect effect shows that only Trust and Aesthetic have significant influences on Prop\_Invest while Novelty is only significant at the 10% level. The control variable, Prev\_experience is found to have a significant negative relationship with Prop\_invest although the f<sup>2</sup> value is only 0.017, indicating small effect size.

#### 4.5 PLS Multi-Group Analysis (PLS-MGA)

Finally, as a robustness check, PLS Multi-Group Analysis (PLS-MGA) is carried out because the respondents are from two different groups, i.e. those who have invested in equity crowdfunding projects before (83 respondents) and those who have not but intend to invest in the future (86 respondents). The PLS-MGA analysis allows to test for significant differences in the group-specific parameter estimates of the two groups of respondents. The results presented in Table 9 show that aside from the relationship between Prev\_experience and Prop\_Invest (p-value of the difference in the path coefficient is 0.011), there is no significant difference in the path coefficients for the two groups of respondents (p-values of the difference in the path coefficients are greater than 0.05). Therefore, it is evident that there is no significant difference in the motivations to support equity crowdfunding between the two groups of respondents.

Table 9: PLS-MGA results

Direct Effects	Path Coefficient-difference	p-value
Financial -> Support	0.099	0.758
Trust -> Support	0.007	0.519
Novelty -> Support	0.145	0.195
Emotional -> Support	0.107	0.270
Community -> Support	0.127	0.790
Aesthetic -> Support	0.177	0.878
Support -> Prop_Invest	0.104	0.261
Prev_exp -> Prop_Invest	0.250	0.011

## 5 Discussion of Results

The results of the PLS analysis show that supporters of equity crowdfunding are not significantly motivated by the financial aspect (return), i.e. indicating that the single extrinsic motivator considered in this study does not influence the decision to support equity crowdfunding. On the other hand, out of the 5 intrinsic motivators, only Community is not found to be significant in influencing the decision to support. Among the intrinsic motivators, Aesthetic, Trust and Novelty are all highly significant in influencing the decision to support an equity crowdfunding venture with Aesthetic having the strongest effect.

The results of this study are contrary to that found by [19] where the study investigated two types of crowdfunding - reward-based and equity-based crowdfunding. [19] find that only the financial motivator was significant in influencing the decision to invest in equity crowdfunding while nonfinancial motivators were insignificant. This result is also contrary to the findings of [49], whereby the financial motivation is found to play a dominant role in the decision to support equity crowdfunding. The financial motive being insignificant in this study suggests that supporters of equity crowdfunding in Malaysia are not traditional investors who judge an investment solely by its risk and return characteristics and this in a way is consistent with the significant negative relationship between the control variable (Prev\_experience) and Prop\_invest. The negative relationship suggests that the longer the duration of investment experience an individual has, the less likely he/she will invest in equity crowdfunding ventures. This could be due to the high risk of these investments as the chances of failure to realize the venture/project is high in crowdfunded ventures. It was observed earlier that it is mostly the millennials who invest in crowdfunding. Millennials are described as impact investors who are willing to support a good cause and they prefer microinvesting [21]. [3] find that small investors are more sensitive to crowdfund based on a community's needs, as compared to professional investors who crowdfund following a market logic. According to a study by Goldman Sachs in 2015, millennials are supportive of the society and environment and are more likely to accept lower return with higher risk through investments in companies that have a positive impact. The millennials are therefore more likely to support small businesses or start up entrepreneurs despite the high risk and low return, hence this supports the insignificant impact of financial value.

The non-significance of the financial motive therefore suggests that the investors in equity crowdfunding in Malaysia seem to rely less on the cognitive evaluation process and more on the affective process. The way the venture/project is presented influences the evaluation of the venture. The investors in equity crowdfunding need to know that they can trust the entrepreneur with their funds therefore the ability of the entrepreneur to create trust and maintain it improves his/her success rate of funding the projects [55] as increased trust increases the support in equity crowdfunding. Hence, the quality of information provided by the entrepreneur can improve trust and enhance the success rate of the funding [44]. The investors are also influenced by the aesthetics of the venture, i.e. how it is presented and this result is contrary to the findings of [49], whereby only financial and informational value are significant in influencing the willingness to support crowdfunding. Aesthetic value was found to be insignificant in their study. However, this confirms the suggestion by [3] that crowdfunding project developers have to strategically tailor their marketing communication plan to attract individuals to fund a project/business. The supporters are also looking for novelty in their investment. This confirms the claim by [51] that the ability to pretest a novel product may be a reason why some individuals may be willing to pledge to support crowdfunded ventures in order to be able to pretest a novel product [19]. Therefore from the results of this study, it is found that the way the venture/project is presented (aesthetics and information quality) and the *newness* of the venture attracts individuals to invest in equity crowdfunding ventures. Additionally, the feeling of satisfaction and enjoyment (Emotional value) from investing in the crowdfunding venture is also significant (at 5% level) in influencing the willingness to support equity crowdfunding, supporting the argument by [41] that emotional desire for experiencing positive situations increases the chance for successful crowdfunding campaigns [41].

Community is found to be insignificant possibly because the construct measures the extent to which the supporter sees himself/herself as part of the community of backers, instead of his/her contribution to the community. This result is contrary to the observation by [50] that individuals may pledge to equity crowdfunded ventures as it provides them with the perception of a shared identity.

Finally, the significantly positive relationship between the willingness to support and the proportion of an investor's portfolio likely invested in equity crowdfunding confirms the predictions of the theory of Reasoned Action [6], [28] and the Theory of Planned Behavior [4], [5] in the context of crowdfunding, i.e. support of equity crowdfunding ventures is a behavioral intention (a function of attitudes and subjective norms) that has a significant positive effect on the likelihood of the actual investment in crowdfunding.

## 6 Conclusion

This study investigates the various motivations to invest in equity crowdfunding in Malaysia. A survey questionnaire was distributed both manually and through online to individuals who had knowledge about equity crowdfunding. A final total of 195 responses were obtained out of which 169 were usable and the relationships were tested using

SEM-PLS. Investigation into the influence of both intrinsic and extrinsic motivators on the willingness to support equity crowdfunding shows that the extrinsic motivator (financial returns) is not significant in influencing the decision but that the supporters of crowdfunding are mostly intrinsically motivated. Among the intrinsic motivators, aesthetic value, emotional value, novelty and trust are found to be highly significant. The desire to be part of a community is found to be the only intrinsic motivator that is insignificant in influencing the willingness to support equity crowdfunding. The study also finds that the willingness to support has a positive influence on the investment in equity crowdfunding. The control variable, years of investment experience, is found to have a significant negative impact on the investment in equity crowdfunding. The results of this study thus suggest that the crowd of investors in equity crowdfunding are not the typical investor who evaluate an investment based on its risk and return characteristics. Instead, the equity crowdfunding supporter uses his/her affective process rather than the cognitive decision process and is involved in equity crowdfunding because of the desire to try something new that is aesthetically appealing and can be trusted, and that which he/she can emotionally connect to. This reflects the *magic* of digital innovation whereby the advancement in technology has made online investing feasible with the support from investors who are influenced by their emotions and their intuition when making investing decisions.

The results are important as it highlights the new trend towards investments that resonate with investors' beliefs and ideas. This study is one of the few studies conducted in an emerging market where financial markets are at most times inefficient. Many of the results found in this study are contrary to previous studies and this could be due to the nature of the country/market in which the study is done. It could however also be simply the nature of investors supporting equity crowdfunding so it is encouraged that similar studies be carried out in other countries to confirm whether the result is due to investor trend or geographical location.

## Acknowledgments

The authors would like to thank the Ministry of Higher Education, Malaysia for the support provided in funding this research under the Fundamental Research Grant Scheme (FRGS) Cycle 1/2017 [FRGS/1/2017/SS01/MMU/02/4]. The authors would also like to thank the panel of reviewers for their constructive feedback which helped improve this research paper.

## Website List

Site 1: Crowdexpert.com

<http://crowdexpert.com/crowdfunding-industry-statistics/>

Site 2: Securities Commission Malaysia

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