THE RECEPTIVENESS OF ISLAMIC P2P MICROFINANCING BY MALAYSIAN SMEs: AN EMPIRICAL ANALYSIS

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Abstract: The process of acquiring loans from traditional financial institutions is arduous for SMEs during economic pressure due to time-consuming procedures accompanied by stringent application criteria. Consequently, SMEs would have a low survival rate while awaiting loan approval from traditional financial institutions. To understand the intention to use Islamic P2P microfinance, this study extended the Technology Acceptance Model (TAM) with Perceived Risks and Perceived Benefits. The current study used a quantitative research design and non-probability snowball sampling to collect data from 248 micro-entrepreneurs across Malaysia. SPSS Version 28.0 software was used to analyse the collected data. The findings indicated that this study partially supports the TAM in predicting the intention to use Islamic P2P microfinancing in Malaysia. In the case of Islamic P2P financing, perceived benefits are also found to be an important predictor. In this paper, the authors open a new avenue for Islamic contributions to the literature on entrepreneurship development. The proposed model will benefit the government as the primary policymaker, entrepreneurs, Islamic scholars and academicians.

Keywords: Technology Acceptance Model, Islamic P2P Microfinancing, SME, Perceived Benefits, Malaysia

Introduction

When Grameen Bank (GB) was established in 1976 by Muhammad Yunus, it sparked the light for the impoverished in Bangladesh to access microfinancing by initiating the issuance of microloans for women in Jobra village (Abdul Rahman et al., 2016). Microfinance institutions (MFIs) subsequently evolved and followed the GB model, including Malaysia. Over time, innovation has revolutionised the globe, making the working process more efficient and accessible. MFIs are no longer the sole alternative to acquiring business financing. The emergence of P2P lending firm and platforms incipiently tackle the global population as a new financial channel since 1950. However, it still clings to the financial institution as the operator in the early stage, such as SHAcom, a P2P lending platform operated by Shanghai Commercial Bank. Not long after, Zopa, the industry pioneer and the world's first P2P lending platform without collateral was introduced in 2005. Thereafter, P2P lending activity was concentrated in the UK but also underwent strong growth as it has spread to other regions in the world to serve the SMEs who seeking an alternative source of financing. This online marketplace provides greater access to funding for the SMEs to expand their business whilst providing investors with an alternative investment option with satisfying returns. Parallel to the platform development, microfinancing via crowd-sourced or P2P microfinance platform for small businesses, education, and health services was also revolutionised in 2005 through the founding of Kiva, a non-profit MFI-P2P provider based in the United States.

In this study context, the innovative cooperation between MFIs and P2P lending platform is known as the MFI-P2P model, where underserved micro-entrepreneurs can borrow directly from lenders through an online platform to tackle the laborious process of acquiring a loan in the form of

crowdfunding as the alternative for traditional bank loan. This model is a market-based financing to help build small businesses and eventually spur and promote economy growth with the assist of P2P operator to raise fund from retail or investors via online platform. Due to this matter, the model was only for business purpose and individuals seeking personal financing would not be entertained (Securities Commission, 2021). It can be seen that the platform was well-performed in Malaysia, especially during turbulent times. In 2020, the financing amount was accumulated to RM503.31 million, under the auspices of 7,760 successful campaigns. This involved 1,325 issuers with 97% or more than 1,285 of them raising funds for working-capital purposes. The proactive restructuring and rescheduling strategies of P2P financing platforms have helped issuers stay afloat during the pandemic by limiting any significant rise in defaults. This platform gained its momentum as financing aid in the following year with RM1.38 billion of P2P financing was raised through 19,248 successful campaigns and 3,153 issuers where 90% of the investment stemming from retail sector by end-March (Capital Markets Malaysia, 2021).

In 2020, SMEs contributed 38.2% to the GDP in Malaysia. Despite contributing more than one-third to the GDP, the growth is, however, the lowest registered at -7.3% for the first time over the past 17 years since 2003. Not to mention, it is lower than Malaysia's GDP of -5.6% (Department of Statistic Malaysia, 2020). Compared to larger firms, SMEs are financially more fragile as they own fewer assets and cash reserves (Vaghefi, 2021). The Small and Medium Enterprises Association (SAMENTA) in their survey found that 34% of SMEs in Malaysia had sales declined by more than 20% during the pandemic. It is also reported that 30% of SMEs would have run out of cash during the Federal Movement Control Order (FMCO) and would close down if FMCO is extended (SAMENTA, 2021). In January 2021, 45% of SMEs have sufficient financial reserves to last for two months or less, while slightly more than 20% are expected to last for four to five months. SAMENTA's chairman, Datuk William Ng, voiced the urge to allocate suitable funds to boost technology adoption by SMEs from different industries and sizes. Despite various incentives launched by the government conjoined with financial institutions (FI), such as introducing the Special Relief Facility (SRF) to aid SMEs during the pandemic, there are perpetual financial support issues. Recap from the survey by Bank Negara Malaysia in 2018, 19% of local SMEs, primarily micro-enterprises, are restricted to access funding from traditional financial institutions, mainly citing the uncertainty of required documentation to prove financial position and business viability.

Kandasamy et al. (2018) realized that 46% of respondents mentioned that FI offered financing products that are unsuitable for their business needs due to high financing costs, inadequate financing amount, and onerous documentation requirements. Over the years, SMEs have resorted to alternate finance sources to bridge the financial gap. The emergence of P2P lending for microfinance has resolved the market flaws by filling unmet demands and promoting financial inclusion actively and passively by reaching out to unbanked borrowers. However, with a sole platform such as MicroLEAP, Islamic P2P microfinancing is still in its nascent stage. Moreover, there is a sceptical view on microfinance, which is stated to be focusing more on the lenders' profitability than the borrowers themselves (Hulme & Maitrot, 2014). In addition, microfinance institutions alone cannot deliver their objectives to genuinely help the poor communities. Hence, the study was conducted to ascertain SMEs' intentions to use Islamic P2P micro-financing via different variables, which indirectly determined their perception of the new platform. To date, little research has established the role of perceived usefulness, perceived ease of use, perceived risks, perceived benefits and perceived risks of e-trust on the intention to use the platform among Malaysian SMEs.

The purpose of this study is to investigate the receptiveness of Malaysian SMEs to use Islamic P2P micro-financing for their business. This study modified the Technology Acceptance Model (TAM) by incorporating perceived risks (PR) and perceived benefits (PB) in order to predict the intention to use Islamic P2P microfinance in Malaysia. This research is beneficial to policymakers,

academics, and practitioners. This study exposes Islamic peer-to-peer microfinance for policymakers to promote as a small- and medium-business financing aid. Moreover, the studied variables could aid policymakers in developing a more competitive platform. This study aimed to determine the receptivity of Malaysian microentrepreneurs to Islamic P2P microfinancing. Fintech products were relatively novel at the time of selection, which influenced the choice of certain content. With only one Shariah-compliant peer-to-peer microfinance platform established in Malaysia in 2019, the financial needs of microentrepreneurs who prefer Shariah-compliant financing cannot be met. Malaysia needs more Islamic P2P microfinance offerings.

Literature Review

This research used the TAM model of technology acceptance to study the factors that influence the intention of SMEs to use Islamic P2P microfinancing. Davis (1986) first initiated the TAM model from the theory of reasoned action (TRA) by Ajzen (1967) to fill up the defects in TRA. This research aimed to know whether the external variables impact the intention to adopt and use the Islamic P2P microfinancing platform. TAM model was developed from the standpoint of behavioural science, merging expectation theory and self-efficacy theory. Subsequently, it elucidates and justifies the factors that lead to technology acceptance by describing user behaviour across a wide range of end-user computer systems and user demographics (Davis, 1986).

TAM is recommended in this study because the constructs are more suitable for addressing innovation aspects in Islamic P2P microfinancing and effectively convey the relationship between variables. Darmansyah et al. (2020) found that the TAM model is the most influential model affecting behavioural intention to use Islamic fintech. Considering the shortcomings of the TAM model, which limited to two parameters while overlooking the user's characteristics opined by Venkatesh et al. (2003), the researcher expanded the pioneer TAM model through two variables, namely perceived risk and perceived benefits. Apart from that, to achieve the model's goal to predict the user acceptance of new technology and assist necessary modifications made to a specific system (Haba et al., 2017; Zhang et al., 2018). Hence, extended TAM as the theoretical framework is adopted to examine the effect of an external variable on the intention to use Islamic P2P micro-financing.

Intention to Use

Davis (1986) defined behavioural intention to use as the extent to which one intends to carry out a particular activity. Research by Mardiana et al. (2015) stated that behavioural intention plays a crucial role in effective technology adoption. Psychologically, a person would not utilise technology if they had no intention of using it. In terms of technology, the factors that affect the intention to use can be varied. Sipangkar & Wijaya (2020) use individual and platform factors mediated by initial trust and perceived risk to determine the investment intention in P2P lending. Meanwhile, Hartoyo et al. (2019) findings show that attitude towards behaviour influenced online sellers' intention in applying for microcredit. Hence, this study would use external factors in determining their direct influence on the intention to use Islamic P2P microfinancing.

Perceived Usefulness

As Davis (1986) defines, perceived usefulness is the degree to which a person thinks and trusts that the presence of a specific system has a positive correlation to performance and benefits in addressing needs or raising one's level of performance. Mbawuni & Nimako (2015) defined perceived usefulness in the context of a loan as the degree to which an individual feels that obtaining a loan facility will improve their well-being, which is also applicable in P2P micro-financing. Their study revealed that perceived usefulness has a substantial role in determining a client's inclination to acquire future loans from financial service providers. This is corroborated by the findings of Karambut et al.(2019), who discovered that perceived usefulness has a positive

impact on the attitude to apply for credit due to the availability of credit-granting financial institutions. Mohd Thas Thaker (2018) discovered that perceived usefulness positively impacts the behavioural intention of SMEs to employ the Islamic crowdfunding SMEs (ICSMEs) model. Meanwhile, the study by Khan & Siddiqui (2019) shows that perceived usefulness has a weak correlation but still positively impacts the SME owners and managers' intention to use digital financial services.

H1: Perceived usefulness will have significant positive effect on Malaysian SMEs' intention to acquire Islamic P2P microfinancing.

Perceived Ease of Use
Davis (1989) defined perceived ease of use as the degree to which a person expects a particular system can be used efficiently without requiring significant effort. In his work, it is found that the attitude of a person is significantly influenced by their perception of use mediated by two key mechanisms which is self-efficacy and instrumentality. The later study by Davis et al. (1989) found that perceived ease of use directly affects users' intention to use computer technology. Correspondingly, Meyliana et al. (2019) found that perceived ease of use positively affects Indonesian users' attitudes towards using fintech.

Adistyasari et al. (2020) divulged that perceived ease of use is not a vital driver factor for using P2P lending application services. This is because it is not experienced by all respondents in which the traditional way of borrowing and lending practices is preferable. This is coherent with the study of Hu et al. (2019) and Suyanto & Kurniawan (2019) that revealed perceived ease of use does not necessarily impact technology utilisation because some consumers are unfamiliar with the technology and do not have experience in using it. However, Mbawuni & Nimako (2015) highlighted that perceived ease of use is one of the most significant indicators of future loan intentions associated with loan terms and conditions flexibility.

H2: Perceived ease of use will have significant positive effect on Malaysian SMEs' intention to acquire Islamic P2P microfinancing.

Perceived Risk
Bauer (1960) defined "risk perception" as the degree of uncertainty and adverse repercussions linked with consumers' expectations. Cox and Rich (1964) further explained that it depicts the consumer's sense of uncertainty associated with the consequences of activities such as looking for and selecting information about products or services prior to making any purchase decision. Kim et al. (2008) indicate a similar notion in the context of online purchase, in which Chandra et al. (2010) outlined there is a technology-driven risk or environmental risk associated with mobile payment systems. Kim et al. (2008) stipulated that perceived risk is a significant predictor of adoption behaviour in a business-to-consumer (B2C) e-commerce scenario. The study of Kesharwani & Bisht (2012) further discloses that perceived risk negatively impacts the behavioural intention of internet banking adoption due to lack of trust. Hu et al. (2019) revealed that perceived risk indirectly impacts fintech adoption via the element of trust that encompasses financial and privacy risk. Khedmatgozar and Shahnazi (2018) also found that all dimensions of risk comprising performance, privacy, security, financial, time, and social risk, have significant influences on the intention to use corporate internet banking.

H3: Perceived risk will have significant positive effect on Malaysian SMEs' intention to acquire Islamic P2P microfinancing.

Perceived Benefits

Chandon et al. (2000) defined it as a consumer's positive perception of the desired results that linked to their selections. The study of Aisaiti et al. (2019) effectuates the definition of perceived benefits when it influences rural farmers' willingness to use inclusive financing due to positive perceptions. The variables were also found to impact on intention to use in several studies. Ammar and Ahmed (2016) prove that perceived benefits influenced the intention of Sudanese microfinance services providers to adopt mobile banking. In the context of microfinance, Macha (2018) found that perceived benefits influence the farmer's behavioural intention to adopt microfinance services via attitude. Mas'ud et al. (2020) also retrieved a positive relationship between perceived benefits and intention to use.

H4: Perceived benefits will have significant positive effect on Malaysian SMEs' intention to acquire Islamic P2P microfinancing.
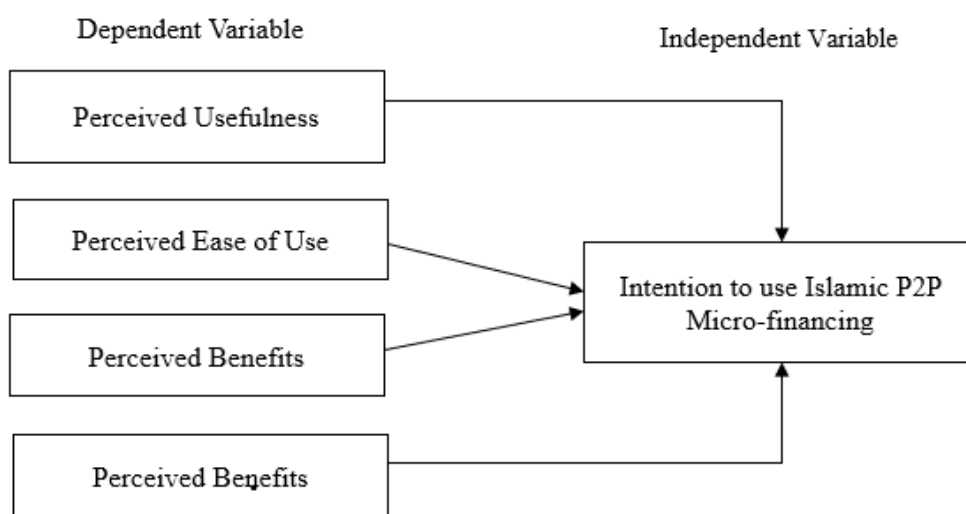
Source: Davis (1986)

Figure 1: Theoretical Framework

Method

This study employed quantitative research design which uses standardized questionnaires to collect numeric data. The target population for the study was micro-entrepreneurs throughout Malaysia. The questionnaire design was a closed ended questionnaire, which adapted and modified based on the context of microfinance services. Subsequently, the indicator of each measurement item is built from previous literature that is fit for the variables. The respondents were required to rate their level of agreement with the statements on a five-point Likert scale ranging from "1" until "5" which represent strongly disagree until strongly agree.

The questionnaires were distributed online via snowball technique from mid of January to mid of February 2022 through various platforms such as Shopee, Lazada, Facebook, Twitter, Whatsapps, and Instagram. The snowball technique was adopted when the researcher used friendship connection, a buyer-seller connection, and networking to receive data from micro-entrepreneurs throughout Malaysia. It took a month to acquire all the data from 249 SMEs of various ages, genders, working nature, education level, and income. As the research is quantitative study, the findings will be expressed numerically. Statistical Package for Social Science (SPSS) Version 28.0 was used to run tests of the raw data in terms of the measurement model to finalize the outcome. In this study, data was analysed using both descriptive and inferential statistics. Data were coded and

entered into the SPSS statistical software, and then further analysis was performed to confirm the hypothesised relationship.

Result and Discussion

The demographic profile of respondents is summarised in Table 1. Demographic analysis was used to uncover the respondents' demographic information. According to Table 1, after the data cleaning procedure, the majority of the 249 respondents in the sample (63.9%) were female, while 36.1% were male. In terms of ethnicity, the data shows that the proportion of Malay entrepreneurs is the highest at 45.8%, followed by Indigenous Sabah entrepreneurs at 23.3%. This analysis also revealed that millennials dominated the SME business scene, with 155, or 62.2%, of them falling between the ages of 20 and 30 and 33.3% falling between the ages of 31 and 40. This explains why bachelor's degree holders account for 66.7% of the total. because it is the age at which a person has just finished tertiary studies and is attempting to generate a consistent income while also being technologically savvy. Given the survey's focus on SME entrepreneurs, 47.8% of respondents were self-employed. 23.7% of the entrepreneurs were also private employee and 16.1% of them were civil servant while managing their business. Aside from that, 43.4% of entrepreneurs owns a monthly income between RM2,001 and RM3,000, while 41.4% have a monthly income of less than RM2,000. In terms of their familiarity with the Islamic P2P microfinancing platform, only 46.2% of the respondents were aware of its existence.

Table 1: Demographic Characteristics

Demographic Profile	Category	Frequency	Percentage (%)
Gender	Male	90	36.1
	Female	159	63.9
Ethnicity	Malay	114	45.8
	Chinese	36	14.5
	Indian	8	3.2
	Indigenous Sabah	58	23.3
Age	20-30 years old	155	62.2
	31-40 years old	83	33.3
	41-50 years old	11	4.4
Education Level	SPM	25	10.0
	STPM/Diploma	44	17.7
	Bachelor Degree	166	66.7
	Master	11	4.4
	Others	3	1.2
Occupation	Self-employed	119	47.8
	Civil Servant	40	16.1
	Private Employee	59	23.7
	Others	31	12.4
Monthly Income	Below RM2,000	103	41.4

	RM2,001-RM3,000	108	43.4
	RM3,001-RM4,000	27	10.8
	RM4,001-RM5,000	9	3.6
	Above RM5,0001	2	0.8
Familiarity	Yes	115	46.2
	No	134	53.8

This paper analysed the model in a two-step process. The initial step consisted of analysing the measurement model, which included a test of reliability and validity. The second step was to evaluate the structural relationship between potential constructs and hypotheses and test the structural model.

Factor Analysis and Reliability Analysis

One of the statistical tools used to confirm the construct validity of scales using principal component analysis with varimax rotation is factor analysis. The Kaiser–Meyer–Olkin (KMO) sample size measure was 0.907%. Our sample data were suitable for factor analysis based on the advice of Kaiser and Rice (1974) and the significance of Barlett's sphericity test. The extraction of four fractions with eigenvalues greater than 1.0. All factors combined explained 70.915% of the variance. Everything has been neatly loaded on a factor with loadings greater than 0.6. Nunnally (1978) proposed that the minimum factor loading be greater than 0.6. The factor loadings range from 0.59 (PB2) to 0.91. (PR1). According to Hair and Anderson (1995) if it was less than 0.4, the item did not load well on the construct. According to Table 2, the results of the factor analysis revealed that all items loaded highly on their respective factors and no cross-loads found on other factors. Thus, the data demonstrated excellent convergent validity.

This study also considers Cronbach's alpha to assess the reliability of the scales used in this study. The findings revealed that the Cronbach's coefficient alpha values for all dimensions ranged from 0.852 to 0.940. All Cronbach's alpha values exceeded the standard threshold of 0.70 Nunally (1978), indicating that the scales were deemed reliable and retained for further analysis.

Table 2: Rotated Component Matrix

	Component			
	Factor 1	**Factor 2**	**Factor 3**	**Factor 4**
PR1	.909			
PR3	.908			
PR5	.898			
PR4	.883			
PR2	.871			
PEOU1		.812		
PEOU2		.789		
PEOU5		.722		
PEOU4		.710		
PEOU3		.615		
PB5			.823	
PB4			.786	
PB3			.777	
PB1			.627	

PB2			.599	
PU1				.759
PU5				.717
PU3				.647
PU2				.624
PU4				.619
Eigenvalue	7.627	4.184	1.353	.874
Variance explained	38.13	20.921	6.767	4.371
α	6	0.873	0.871	0.852
Kaiser-Meyer Olkin Measure of Sampling	0.940	0.907		
Bartlett's Test of Sphericity	Chi-square 83308.832 (df 190 p-value = .000)			

Correlation

The correlations of the major variables used in this study are shown in Table 3. The findings indicated that PU, PEOU, and PB have a positive correlation with the intention to use Islamic P2P microfinance ($p< 0.01$). This means that the greater the strength of the PU, PEOU, and PB, the greater the use of Islamic P2P microfinancing. On the other hand, PR show a positive correlation with the intention to use Islamic P2P microfinancing ($p<0.05$).

Table 3: Correlation

	PU	PEOU	PR	PB	INT
PU	1				
PEOU	.726**	1			
PR	.009	.024	1		
PB	.662**	.581**	.204**	1	
INT	.711**	.572**	.040	.612**	1

Note: Significance at: *$p< 0.05$ and **$p< 0.01$

Hypotheses Testing

Table 4 exemplify the regression analysis for the mentioned four hypotheses. Results shown that two constructs, perceived usefulness and perceived benefits, are shown a positive relationship with the intention to use Islamic P2P microfinancing. Perceived usefulness is positively related to the intention to use Islamic P2P microfinancing at the 1 percent significance level ($p<0.000$, $t= 7.136$). Perceived benefits also found to be positively related to the intention to use Islamic

P2P microfinancing at 1 percent significance level ($p=0.000$, $t=3.983$). As a result, *H1* and *H4* are supported. This result supported the previous discovery of by Kesharwani and Bisht (2012), Rokhim et al. (2021), and Sunardi (2021) that individual intention towards the use of technology could be affected by perceived usefulness in terms of fintech and banking, loan adoption via online, and P2P lending. Another line of evidence indicated that perceived benefits influence the intention to adopt microfinance services like (Ammar & Ahmed, 2016; Macha, 2018).

The perceived ease of use ($p<0.300$, $t=1.039$) and perceived risk ($p<0.730$, $t=-0.346$) are found to be not significant with the intention to use Islamic P2P microfinance. Thus, the *H2* and *H3* are not supported. This finding aligns with the prior study of Kesharwani and Bisht (2012) where perceived ease of use has insignificant linear impact on behavioural intention and must mediated by perceived usefulness. Sunardi (2021) found similar finding as perceived ease of use impact customers' intention to use P2P lending platform via perceived usefulness. For the perceived risk, this study supported Wolfinbarger and Gilly (2003) who found that security/privacy is not important predictor customers preference in the context of internet retailing. It is unsurprising that the perception of risk or security is no longer a significant factor when consumers interact with internet technologies. Perhaps the provider has addressed the security issue so that the end user is more confidence when dealing with an online system for any linked financial transaction. The entire model's adjusted R^2 is 0.536, indicating that the four factors explain 53 percent of the SMEs entrepreneurs propensity to employ Islamic P2P microfinance. The overall findings concludes that this study partially support TAM in explaining the intention to use Islamic P2P microfinancing with PU as the strong predictors.

Table 4: Regression Model

Variable	Standardize β	*t*-value	*p*-value
Perceived Usefulness	0.554	7.136	0.000**
Perceived Ease of Use	0.067	1.039	0.300
Perceived Risk	-0.010	-0.346	0.730
Perceived Benefits	0.273	3.983	0.000**
F-value = 72.341 (0.001**)			
$R^2 = 0.544$			
Adjusted $R^2 = 0.536$			

Notes: Significance at: *$p<0.05$ and **$p<0.01$; ns, not significant

Conclusion

This study aimed to examine the level of acceptance of Malaysian SMEs towards the usage of Islamic P2P microfinancing. To understand the context of the study, the extended version of the Technology Acceptance Model (TAM) was applied, which incorporated perceived risk and perceived benefits. The results showed that only Perceived Usefulness (PU) was found to have a significant impact on the intention to use Islamic P2P microfinancing in Malaysia, suggesting that TAM was only partially supported. Moreover, the study highlighted the importance of perceived benefits in predicting system usage. On the other hand, perceived ease of use and perceived risk were found to be insignificant. Despite previous studies suggesting the

significance of perceived ease of use in technology adoption, the results of this study indicated otherwise.

The study provides valuable insights for policymakers and platform providers to improve the development of Islamic P2P microfinancing platforms that cater to the needs of clients. Given that perceived usefulness and perceived benefits are crucial factors in determining SMEs' intentions to use Islamic P2P microfinancing, policymakers and service providers should prioritize these factors when offering their services to attract more consumers to P2P microfinancing platforms.

However, the study also had certain limitations. It included both SME owners who have and have not utilized Islamic peer-to-peer microfinancing, which might have led to varying perceptions of the factors affecting their receptiveness to the platform. Furthermore, due to time and financial constraints, a cross-sectional design was employed, and to validate the findings, future research should utilize a longitudinal research strategy where data is collected over time.

Given the rapid growth of microfinance platforms in recent years, further research is required to overcome the limitations of the current study. Future research should focus on a specific group of SMEs to gather their actual perspectives and experiences with Islamic P2P microfinancing. Additionally, future studies should be proportionately distributed among all respondents to accurately reflect the situation in the study location. For example, assigning options for the state of origin in the questionnaire to determine the state they represent, and if respondents were targeted in a specific state, they should be questioned about their district or area to ensure the accuracy of the study's location. These considerations are crucial in generating more accurate generalizations.

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