



**Faculty of Technology Management and Technopreneurship**

**CROWDFUNDING AND INTELLECTUAL PROPERTY RIGHTS: A  
CASE OF MALAYSIA**

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**CROWDFUNDING AND INTELLECTUAL PROPERTY RIGHTS: A CASE OF  
MALAYSIA**

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**A thesis submitted  
in fulfillment of the requirements for the degree of Master of Science  
in Technology Management**

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## DECLARATION

I declare that this thesis entitled “Crowdfunding and Intellectual Property Rights: A Case of Malaysia” is the result of my own research except as cited in the references. The thesis has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.

Signature : .....

Name : .....

Date : .....

## APPROVAL

I hereby declare that I have read this thesis and in my opinion this thesis is sufficient in terms of scope and quality for the award of Master of Science in Technology Management.

Signature : .....

Supervisor Name : .....

Date : .....

## **DEDICATION**

This thesis is dedicated to my parents and my loved one for their endless love, support and encouragement.

## ABSTRACT

Crowdfunding is a novel method for funding a variety of new ventures. It allowing creators of for-profit, cultural, or social projects to request funding from many individuals, often in return for souvenirs, access to future products or equity. It has become the alternative way for many entrepreneurs and inventors (project owner) to raise fund for their businesses. However, the public nature of the online crowdfunding raises many issues including intellectual property issues that relevant to the project owners. Moreover, intellectual property issues and crowdfunding have not been well developed especially in the Malaysian context. Thus, this study aims to explore what are the intellectual property issues related to crowdfunding practice especially the reward-based crowdfunding practices in Malaysia. For that purpose, this study used qualitative methods through in-depth interview with six respondents from Malaysian crowdfunding platforms and crowdfunding project owners. They were chosen because they are the experts who directly involved in Malaysian crowdfunding industry and they have experiences in dealing with the intellectual property issues of crowdfunding practices in Malaysia. The finding of this study suggested that there are intellectual property issues related to crowdfunding namely: patent protection, patent infringement allegation and breach of confidentiality. This study is hoped to provide a clear understanding and knowledge for academicians and public in Malaysia regarding the reward crowdfunding's process and intellectual property rights. This could benefit project owners in implementing crowdfunding campaign in Malaysia. Moreover, this research also advocates some useful recommendations for project owners on how to make a successful crowdfunding campaign. Consequently, a more detailed picture about potential intellectual property issues in crowdfunding was highlighted in this research. It was also found that the importance of intellectual property protection and crowdfunding is still less encouraging amongst the users of crowdfunding. The finding also suggested that although the development of intellectual property rights and crowdfunding is still at the age of infancy, there is a direction and possibility of its importance for the future especially in Malaysia. Crowdfunding users should be more aware of the importance of intellectual property rights before they launch their crowdfunding campaign through online basis.

## ABSTRAK

*Pendanaan awam merupakan kaedah baru dalam membiayai pelbagai usaha baru, ia membolehkan penciptaan keuntungan, kebudayaan, atau projek-projek sosial bagi mendapatkan pembiayaan dari banyak individu, sebagai balasan diberikan cenderahati, akses kepada produk atau ekuiti dimasa hadapan. Ia telah menjadi alternatif bagi banyak usahawan dan pencipta (pemilik projek) untuk mengumpulkan dana untuk perniagaan mereka. Walau bagaimanapun, sifat umum pendanaan awam yang berbentuk dalam talian menimbulkan pelbagai isu termasuklah isu harta intelek yang relevan dengan pemilik projek. Tambahan lagi, isu-isu harta intelek dan pendanaan awam tidak begitu berkembang terutama dalam konteks di Malaysia. Oleh itu, kajian ini bertujuan untuk meneroka apakah isu-isu harta intelek yang berkaitan dengan proses pendanaan awam terutamanya pendanaan awam di Malaysia. Untuk tujuan tersebut, kajian ini menggunakan kaedah kualitatif menerusi wawancara mendalam dengan enam responden di Malaysia yang berlatar belakang pendanaan awam dan juga pemilik projek pendanaan awam. Mereka yang dipilih merupakan pakar-pakar yang terlibat secara langsung dalam industri pendanaan awam di Malaysia dan mereka berpengalaman dalam menangani isu hak harta intelek. Hasil penemuan kajian ini mencadangkan terdapat masalah harta intelek yang berkaitan dengan pendanaan awam iaitu perlindungan paten, tuduhan pelanggaran paten dan pelanggaran kerahsiaan. Kajian ini diharapkan dapat memberikan pemahaman dan pengetahuan yang jelas kepada para ahli akademik dan orang awam di Malaysia mengenai proses pendanaan awam dan hak harta intelek. Ini akan memberikan manfaat kepada pemilik projek dalam melaksanakan kempen pendanaan awam di Malaysia. Selain itu, penyelidikan ini juga menganjurkan beberapa cadangan berguna kepada pemilik projek tentang bagaimana menghasilkan kempen pendanaan awam berjaya. Hasilnya, gambaran yang lebih terperinci mengenai potensi isu-isu harta intelektual dalam pendanaan awam dapat ditonjolkan dalam kajian ini. Kajian mendapati juga bahawa kepentingan perlindungan harta intelektual dan pendanaan awam masih kurang menggalakkan di kalangan pengamal pendanaan awam. Didapati juga walaupun pembangunan hak harta intelek dan pendanaan awam masih di peringkat awal, namun terdapat kemungkinan pentingnya untuk masa hadapan terutama di Malaysia. Pengguna pendanaan awam harus mengetahui tentang pentingnya hak harta intelek sebelum mereka bercadang untuk melancarkan kempen pendanaan awam dalam bentuk atas talian.*

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## TABLE OF CONTENTS

	PAGE
<b>DECLARATION</b>	
<b>APPROVAL</b>	
<b>DEDICATION</b>	
<b>ABSTRACT</b>	i
<b>ABSTRAK</b>	ii
<b>ACKNOWLEDGEMENTS</b>	iii
<b>TABLE OF CONTENTS</b>	iv
<b>LIST OF TABLES</b>	vii
<b>LIST OF FIGURES</b>	viii
<b>LIST OF APPENDICES</b>	ix
<b>LIST OF ABBREVIATIONS/SYMBOLS</b>	x
<b>LIST OF PUBLICATIONS</b>	xi
<b>CHAPTER</b>	
<b>1. INTRODUCTION</b>	<b>1</b>
1.1 Introduction	1
1.2 Problem Statement	2
1.3 Research Questions	3
1.4 Research Objectives	4
1.5 Scope, Limitation and Assumptions of Research	4
1.6 Thesis Layout	5
<b>2. LITERATURE REVIEW</b>	<b>7</b>
2.1 Introduction	7
2.2 Definition of Crowdfunding	7
2.3 Defining the Process and Roles in Crowdfunding	10
2.4 Crowdfunding and its Intellectual Property Right's Issues	14
2.5 Patent Protection in Malaysia	14
2.5.1 Requirement for Patent Application in Malaysia	16
2.5.2 Inherent Issues of Patent Protection in Crowdfunding	17
2.5.3 Patent Infringement in Crowdfunding	19
2.5.4 Patent Infringement Allegation from Third Party	20
2.6 Patent Protection Strategies in Crowdfunding	21
2.7 Confidential Information in Crowdfunding	26
2.7.1 What to Disclose in Crowdfunding of Malaysia	27
2.7.2 Breach of Confidentiality	28
2.8 Strategies to Protect the Confidential Information	29
2.9 Conceptual Framework	32
2.10 Summary	36

<b>3.</b>	<b>RESEARCH METHODOLOGY</b>	<b>37</b>
3.1	Introduction	37
3.2	Research Philosophy	37
3.3	Research Design	38
3.3.1	Qualitative Research	39
3.3.2	Research Strategies	40
3.3.3	Semi-structured Interview	42
3.3.3.1	Pre-interview	44
3.3.3.2	During Interview	44
3.3.3.3	Post Interview	45
3.4	Time Horizon	45
3.5	Sample	46
3.6	Primary and Secondary Data	48
3.7	Data Analysis	48
3.8	Scientific Canon	52
3.8.1	Issue of Validity	53
3.8.2	Triangulation	54
3.8.3	Reliability	56
3.9	Summary	57
<b>4.</b>	<b>RESULT AND DISCUSSION</b>	<b>58</b>
4.1	Introduction	58
4.2	Interviewee's Background	59
4.3	Understanding of Crowdfunding	60
4.4	Process of Crowdfunding	61
4.4.1	Selecting Crowdfunding Project based on its Feasibility	61
4.4.2	Fundraising Campaign Starts	64
4.4.3	During Fundraising Campaign	66
4.4.4	Post Fundraising Campaign	69
4.5	Intellectual Property Issues in Crowdfunding	75
4.5.1	The Lack of Awareness on the Importance of Patent Protection amongst the Project Owners	76
4.5.2	Lack of Expertise in Intellectual Property Protection amongst Crowdfunding Platforms in Malaysia	78
4.5.3	Launching a Crowdfunding Campaign without having Proper Intellectual Property Protection	81
4.5.4	Unaware about the Importance of Confidentiality amongst Crowdfunding Users	84
4.5.5	Public Disclosure in Crowdfunding leads to Patent Infringement Allegation	87
4.6	Strategies to Overcome the Patent Issues in Crowdfunding	89
4.6.1	Prioritise in Patenting	90
4.6.2	Early Identification of Technology	92

4.6.3	Using a Patent Agent and Patentability Searches	93
4.6.4	Define which Jurisdiction to File	94
4.6.5	Awareness-Building about the Importance of Intellectual Property Protection amongst Crowdfunding Users	97
4.7	Protecting Confidential Information in Crowdfunding	99
4.8	Summary	105
<b>5.</b>	<b>CONCLUSION AND RECOMMENDATIONS</b>	<b>108</b>
5.1	Introduction	108
5.2	Conclusion and Research Implications of Research Findings	108
5.3	Research Contribution	113
5.4	Recommendations for Future Research	115
	<b>REFERENCES</b>	<b>117</b>
	<b>APPENDICES</b>	<b>132</b>

## LIST OF TABLES

<b>TABLE</b>	<b>TITLE</b>	<b>PAGE</b>
2.1	The Model of Crowdfunding	8
2.2	The Process of Crowdfunding	12
3.1	Techniques of Data Analysis	49
4.1	Understanding and Interpretation on Crowdfunding by the Respondents	60
4.2	Information Needed for Crowdfunding Platforms	63
4.3	Similarities and Differences Between the Process of Crowdfunding between Literature and Respondent's Opinion	72
4.4	Issues Need to be Considered Before the Patent Filing	96
4.5	The Disclosure of Confidential Information amongst the Users of Crowdfunding	104

## LIST OF FIGURES

<b>FIGURE</b>	<b>TITLE</b>	<b>PAGE</b>
2.1	The Roles in Crowdfunding	12
2.2	The Confidentiality, Integrity, Availability Triad	32
2.3	Conceptual Framework	35
4.1	Framework of Crowdfunding and Intellectual Property Rights for Malaysia	107

## LIST OF APPENDICES

APPENDIX	TITLE	PAGE
A	Questionnaire	132
B	Case Study Protocol	134

## **LIST OF ABBREVIATIONS/SYMBOLS**

CIA Triad	-	Confidentiality, Integrity and Availability Triad
IP	-	Intellectual property
SCM	-	Securities Commission of Malaysia
SME	-	Small and medium-sized enterprises

## LIST OF PUBLICATIONS

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# CHAPTER 1

## INTRODUCTION

### 1.1 Introduction

Funding is very important for many businesses, it is the fuel that keeps the business engine running. However, obtaining funding is extremely difficult, especially for start-up companies. The most common challenge faced by many entrepreneurs and inventors is the lack of funding sources during their product development stage. Traditional financial institutions, in fact, often slow down the process of getting promising innovations produced and into the market due to the long processing time (Bank Negara Malaysia, 2005). Because of this, crowdfunding has become an alternative for many entrepreneurs and inventors. According to Rich (2014), crowdfunding is a viable alternative as compared to traditional ways of raising capital through investors, bank loans, or by utilising the credit. Crowdfunding provides platforms that allow people from anywhere in the world to start a business; it completely opens up a whole new realm of possibilities and opportunities for the global business. In business, crowdfunding is getting popular in many countries and could be viewed as a source of seed capital for start-up companies who otherwise struggle to get the necessary support from traditional financial institutions. The birth of crowdfunding enables entrepreneurs and inventors to get much-needed funding faster and helps to gauge public interest in their product or service before launching the product into the market.

## 1.2 Problem Statement

The capital structure of start-up ventures depends heavily on the entrepreneur and inventor's personal resources, including finances (Allen, 2008). Most of them face the common problem of a lack of funding at the beginning of their new product development and have difficulty attracting outside capital or funding. Banks and investors are risk averse, therefore it is not easy for entrepreneurs and inventors to get the financial support they need. Because of this, crowdfunding emerges as an alternative tool for entrepreneurs and inventors to access capital.

Even though crowdfunding in practice appears to be simple and user-friendly, there are several risks. Robert and Nowotarski (2012) claim that intellectual property issues is the most significant risk that associated with crowdfunding practice. Intellectual property issues are the most widely debated issue in crowdfunding practices. The risk is having one's ideas copied by another party and infringing on the criteria for patentability of those ideas. Since crowdfunding platforms are merely a platform used to connect project owners (entrepreneurs and inventors) with funders (public crowd), the platforms do not protect the intellectual property rights of projects posted on the site. This may create many intellectual property issues. Furthermore, many entrepreneurs and inventors fail to consider the importance of intellectual property rights before launching their crowdfunding campaign. Some perhaps do not have the necessary knowledge about how to protect their patent rights in crowdfunding, therefore patent protection is the very first issue in crowdfunding with which the project owner needs to deal. As a result of this issue, this thesis discusses the issues of breach of confidentiality in crowdfunding, the mandatory disclosures for a crowdfunding platform before launching a crowdfunding campaign and the having a large

number of funders that may threaten the project owners' ability to keep proprietary information confidential.

Intellectual property is a fundamental consideration when raising capital from the public crowd through crowdfunding. Public disclosure of intellectual property can have a significant effect on the product's legal status (Nicholas, 2013). Funders want to know that the intellectual property is protected as a barrier to entry against competitors. When raising funds, project owners in crowdfunding gain credibility with funders when intellectual properties are identified, secured, and managed effectively, therefore building an intellectual property portfolio for crowdfunding is a long-term capital expense.

The proposed research investigates the use of reward crowdfunding as a tool for entrepreneurs and inventors in Malaysia and also examines the potential issues of intellectual property rights that emerge from reward-based crowdfunding in the Malaysian context. This study reveals current reward crowdfunding's process in Malaysia and the intellectual property issues that might challenge the crowdfunding practice in Malaysia. The result will help the crowdfunding project owner (entrepreneurs and inventors) in terms of protecting the intellectual property rights while launching the crowdfunding campaign.

### **1.3 Research Questions**

The research questions are:

- i. What is the process of crowdfunding practice in the Malaysian context?
- ii. How do intellectual property issues challenge crowdfunding practice in Malaysia?
- iii. How to handle the intellectual property issues of crowdfunding in Malaysia?

## **1.4 Research Objectives**

The birth of crowdfunding gives small businesses and entrepreneurs opportunity and greater access to capital. But it is important for entrepreneurs contemplating investing in a crowd-funded project to attend to intellectual property rights. Often, companies considering crowdfunding are in the early stages of development and entrepreneurs may not have the appropriate knowledge regarding intellectual property rights.

The objectives of this research study are:

- i. To describe and explain the process of crowdfunding practice in the Malaysian context.
- ii. To investigate the intellectual property issues of crowdfunding practice in Malaysia.
- iii. To recommend a strategy in handling intellectual property issues as they relate to crowdfunding in Malaysia.

## **1.5 Scope, Limitation and Assumptions of Research**

This research conducted to assess the process of reward crowdfunding and intellectual property issues of crowdfunding in Malaysia. The experts engaged through qualitative data collection methods were those experts who are involved directly in crowdfunding practices in Malaysia. They are the top management of crowdfunding platforms and project owners who launched the crowdfunding campaign in Malaysia. They were chosen as key informants because they are the key persons directly involved in crowdfunding practices in Malaysia.

There are several limitations in scope for this study. First, the research assesses the Malaysia-based crowdfunding platforms only. Second, this study only focuses on the intellectual property issues of crowdfunding in Malaysia; other criteria are not involved in this study. Third, this research is a business research study and only views the subject in

terms of management aspects. This research does not look into the legal aspects of crowdfunding beyond intellectual property issues. Fourth, given that crowdfunding is new and emerging in Malaysia, relevant literature is sparse, especially when limited in Malaysian context.

## **1.6 Thesis Layout**

The structure of this research study is as follows:

Chapter 1 provides an outline of the research study; it includes the research questions and research objectives, the research's scope and limitations and the significance of the study.

Chapter 2 includes a review of the literature on crowdfunding, definitions of crowdfunding and how the crowdfunding works. Furthermore, intellectual property issues of crowdfunding practice and the strategies to overcome the issues are provided. This chapter reviews literature on components that are involved in the integration and the implementation approach of crowdfunding in Malaysia.

Chapter 3 presents the research philosophy and research strategies appropriate to this study design. Furthermore, this chapter also discusses the rationale for the choice of particular philosophies, research design, strategies, data collection and data analysis methods.

Chapter 4 presents the data analysis results according to the research questions and objectives presented in Chapter 1. The data collected was based on semi-structured questionnaires and in-depth interviews conducted with selected respondents that are actively involved in crowdfunding practices in Malaysia. In addition, the findings for the crowdfunding implementation, the intellectual property issues of crowdfunding and the proposed strategies by the respondents are also highlighted.

Chapter 5 outlines the conclusion of the research. The findings from the study are summarised and a discussion regarding research contributions and theories is made. Moreover, this chapter provides suggestions and recommendations for future research in this field.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter discusses the definition and theory of crowdfunding in reference to research conducted on the subject and frameworks used to understand it. The literature review defines all the terms and concepts of crowdfunding used in this thesis throughout the supporting points starting from the existing secondary data, such as books and academic journals. Furthermore, this study discusses crowdfunding and intellectual property issues that are involved in crowdfunding practices because it is critical to protect intellectual property rights in crowdfunding practice before launching a crowdfunding campaign. At the end of this chapter, the conceptual framework that guides the research is provided. The presented framework will help enhance crowdfunding practices in Malaysia.

#### **2.2 Definition of Crowdfunding**

An inherent problem that most inventors or entrepreneurs face at the very beginning of their entrepreneurial initiative is attracting outside venture capital. This is difficult for them given the lack of collateral and sufficient cash-flows and the presence of significant information asymmetry with funders (Cosh et al., 2009). Obtaining financing is one of the biggest hurdles most entrepreneurs will have to overcome during the beginning of their business. Due to insufficient funding at the beginning stage, some entrepreneurs started to rely on crowdfunding to directly seek financial support from the public instead of

approaching conventional financial investors, such as business angels, banks or venture capital funds. The establishment of crowdfunding platforms opens up the whole new realm in Malaysia by giving small businesses and entrepreneurs opportunity and greater access to capital (The Star, 2015).

Crowdfunding is a novel method for funding a variety of new ventures, allowing creators of for-profit, cultural, or social projects to request funding from many individuals, often in return for access to future products or equity (Mollick, 2013). Furthermore, crowdfunding is not only viewed as an option for business start-ups, but it is also an attractive new option for funding research projects, especially for students and early-career scientists who lack governmental aid in some countries (Lau and Chew, 2016; Vachelard et al., 2016). Crowdfunding projects can range greatly in both goal and magnitude, from small projects to entrepreneurs seeking hundreds of thousands of dollars in seed capital (Schwienbacher and Larralde, 2010).

There are several models of crowdfunding practice that found in the academic literature as shown below (Mitra, 2012; Collins and Pierrakis, 2012; Canada Media Fund, 2014).

Table 2.1: The Model of Crowdfunding

<b>Model of Crowdfunding</b>	<b>Explanation</b>
Donation Crowdfunding	The Donation Model is individuals make a financial contribution to a project without any expectation of a financial return. Donation crowdfunding sites are a platform for charities and another non-profit fund raising.
Reward and Pre-purchase	The reward and pre-purchase crowdfunding sites are