

Equity-Based Crowdfunding Project: Affect on Social Capital

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Abstract

The aim of this research is to determine the social capital that can affect the success rate of the equity-based crowdfunding project and which is the most influential factor towards the success rate of an equity-based crowdfunding project. Hence, the researcher uses the descriptive to design quantitative questionnaires. It consists of the social network, obligation and shared meaning. Thus, three independent variables will be proceeding by distributing questionnaire online. The researcher will use Google Form as one of the tools to distribute a questionnaire and collect back 267 respondents from online. After collect data, only 167 respondents involved in this research. Pearson's correlation and multiple regression use to test the relationship and significant effect between the independent variable and dependent variable. Through the statistic of SPSS, it was found the research objective was achieved when the hypothesis of three-factor for the successfulness of equity-based crowdfunding is proving.

Keywords: Equity-based crowdfunding, Social capital, Obligation, Shared meaning, success rate project

1. INTRODUCTION

Crowdfunding is an umbrella term that increasingly widespread fundraising through the internet where there is a small group of people invest money to support certain goals or new business (Bouncken et al, 2015). Equity-based crowdfunding is one type of the crowdfunding which sells company share or equity to attract a large group of investors in order to get the fund. All the investment just takes place via the internet (Walthoff-Borm et al, 2018). They usually are existing in the new firm and do not have enough capital to start their business especially for those creative business ideas. This is because they do not have the financial report for the last few years. This causes them difficult to make the bank loan because the risk of business is too high and have a lot of uncertainty (Ricardo et al, 2018).

On 5 April 2012, President Barack Obama had signed the law of Jumpstart Our Business Startups (JOB) Act, which brings a lot of changes toward the path to collect the financial capital. For this law, there is a section that introduces the Crowdfund Act which under Title III (Borello et al, 2015). This act stimulates new entrepreneur and owners to sell limited equity in order to gather fund from the public through the online platform. Small business owners sell limited amounts of equity in their companies by promoting their projects to many investors via social networks and various Internet platforms (Belleflamme et. al, 2018). Before this, selling shares or bond in the company via the company is illegal under United States securities law. The act tends to save from expensive registration and avoid people to receive substantial registration costs (Wahjono et al, 2015).

Nowadays, the internet is widely used by human. So, because of the network spread over all the country, there is a new funding way emerges in order to increase the number of an entrepreneur (Cassar, 2014). As people know, the new entrepreneur always faces insufficient funds for them to start up the business. So, crowdfunding becomes an efficient method for them to raise money (Wahjono & Marina, 2016). This is because it is a simple platform that easily can be set up. There are a lot of platforms appear for a different purpose. For example, like Kickstarter, Indiegogo,

FundByMe, and other platforms. Some of the projects launched just for donation, some are an innovative idea for new business, and some are modern technology project that launch by their company. These famous platforms have launched a lot of projects to raise money. As a result, there have some of the project successful to raise the money and some project is not (Lagazio & Querci, 2018). As the popularities of the crowdfunding platform to be increased, the criteria that influence the project success rate will a very interesting topic that should be explored especially equity-based crowdfunding project.

2. LITERATURE REVIEW

Advance technology changes our life to the better. So, with the closer technology, it changes the way for getting the financial capital. With the rapid development between the online platform and social network, it has created an opportunity for an entrepreneur to seek financial capital (Viotto, 2018). Among this innovation, crowdfunding is act as widely financial tool whereby individuals are able to supply a small amount of fund directly to the entrepreneur without charge cost by intermediaries (Borst et al, 2018). Crowdfunding is designed to collect money from a large group of individuals in public. The modern internet and communication technology make it easy to be used for the company and individuals to contact people directly. The use of crowdfunding platform can be more efficient in the marketplace if compare to the traditional financing method (Murray, 2015).

Crowdfunding is a part broader concept referred to as crowdsourcing. Claudia Menashe is the first person introduce crowdsourcing in Wired Magazine (Wahjono et al, 2019). It represents an employee performs the action of the company and outsourcing it to an undefined in the form of an open call. Crowdsourcing is a production model that acts as public intelligence and wisdom to solve the problems by taking back the money, prizes, intellectual satisfaction, or others. Ricardo et al (2018) describe that crowdsourcing happens when there is a profit-oriented firm outsources the specific task to sell a product to the public. Crowdsourcing is one of the examples of open innovation. This is explained further by Care et al (2018) that valuable idea can collect from inside or outside the company. The firm should use the external and internal idea to path the market. This is an improvement concept for the company that they can save cost but at the same time contribute something to the company. According to Howe (2016), there is four types of crowdsourcing which are the collective intelligence, crowd-creation, voting, and crowdfunding.

According to Walthoff-Borm et. al. (2018), equity crowdfunding is the most empirical studies that relevant to entrepreneur studies towards an investor. Equity-based crowdfunding is likely different from the other crowdfunding platform where the financial return in equity-based crowdfunding is very important. Information asymmetry in other crowdfunding is less important if compared with the equity-based crowdfunding platform. Zvilichovsky et al (2015) describe equity crowdfunding is likely to receive interest in form equity-exchange arrangement. Bellaflamme et al. (2014) state the funding process between equity crowdfunding and traditional financing method is different. In equity-based crowdfunding, entrepreneurs disclose information online and have limited opportunities to interact with a potential investor. Through the online convincing rather than face-to-face communication, it is more difficult than the traditional method and thus increases the challenging among themselves (Vismara, 2016). Most of the crowd funders do not have enough experience and capability to evaluate different opportunity (Wahjono & Marina, 2016). Massolution Company (2018) said that the equity-based crowdfunding will provide compensation to the funder and funder act as the shareholder of the company that able to get the profit for future interest growth in that enterprise. Funders have the right to vote the decision and involved in the dividend of revenue. Furthermore, the report shows that that equity-based crowdfunding is the most effective towards the digital product such as new system, apps and so on. In addition, it is the faster-growing crowdfunding platform if compare to another platform. It has more than 80% crowdfunding project that gathers fund above 25 thousand dollars. Equity crowdfunding provides an opportunity to issue share in the company in return for company profits (Gabison, 2015).

Social Network

According to Rouse (2016), social networking is a social contact by making a connection through individuals or social media sites such as Facebook, Twitter and so on. Existing literature review discussed the social network and their management is very important (Mollick, 2019; Sleuwaegen et al, 2014). According to Neville et al. (2014), the project has associated with a potential network of an entrepreneur. The number on the connection of social network in entrepreneur will give an impact on the how a project can achieve the funding goal. At the same time, how many web users had seen their pitches will influence the success rate toward the crowdfunding project.

Individual social capital and goodwill that can be found in the entrepreneur will bring favorable effect on hitting the funding goal (Kshetri, 2018). A number of followers, supporters, or interest will estimate the goodwill in entrepreneur project. Family and friends like to grant a beloved one and invests because of trust in a beloved one (Jenkins et al, 2014). Wahjono et al (2014) state that there has a significant impact between the social network of entrepreneur and business which will show how the business to be successful.

In equity crowdfunding, Moritz & Block (2016) highlights the probability to gather funding for small business with a wider social network is higher and it can attract more investors to invest them. A network can be formed in an organization which creates added-value so that member can share information with other members to gain more knowledge by using own unique network (Wahjono & Marina, 2016). The social network effect means an entrepreneur not only using their own network but also utilize the network of supporter (Paakkarinen, 2016). The wider the network is, the stronger the effect will be. (Saxton & Wong, 2018).

The social network effect included herding behavior. It has interaction and influence where can strongly affect the community member's action and opinion (Ward & Ramachandran, 2010). Herding behavior is very influenced in online communities because it interacts in transparent ways and discusses on social media and crowdfunding platform (Frydrych et al., 2014). Funders who are pay attention to the comment and feedback will be an initiative to follow consensus (Paakkarinen, 2016).

The unprofessional nature of crowdfunder can be seen in social network ties (Wahjono et al, 2015). They have less knowledge, and managerial skill if compare to a professional investor and more social dynamic (Frydrych et al. 2014). Project initiator has higher funding goal who requires he or her to make use of a wider network, defined as the Second (friends of friends) and third (strangers) Degree Network (Rockethub, 2019).

A social network can be made up of a formal and informal conversation between two people in social link. Through the internet-based crowdfunding, the social network will be determined by the number of founder's fan. Each project introduction will link to their personal blog and have the effect of promoting toward that project. Huili & Yaodong (2014) said that trust is a significant factor that is uncertainty and risky. It also means as ability-based where the investor has the belief founder able to complete the project and gain a good result. It can base on the founder's successful experience and identity of the creator.

Obligation

When structural capital achieves determine a range of potential investor within an entrepreneur, it is related to the successfulness of investment (Moran, 2019). This dimension of social capital is defined as a quality of relationship and measure by trust, norm, and identification. In the context of crowdfunding, obligation means the entrepreneur has the commitment or duty to earn back the money and return to a funder (Nahapiet & Ghosal, 1998). They consider the obligation is the "credit slip" held by an individual. "There is no free lunch" is the notion for them to show the importance of obligation.

From entrepreneur perspective, if they receive the fund from the investor, they should have a duty or responsibility to give back the capital to other project creators as a support initiative. This means an entrepreneur can invest in other future crowdfunding projects. Through the sponsorship to another entrepreneur, they increase social capital by building a strong relationship with other project creator and at the same time can develop entrepreneur reputation in a social network. So, with a strong obligation, there are more effort will be put by the entrepreneur (Zheng et al, 2014). Argawal et al. (2015) and Saxton & Wong (2018) states that social pressure and obligation plays a part in online crowdfunding. Funders who close to the entrepreneur like, family, friends feel obligated to contribute to funding (Argawal et al, 2015). This was agreed by Ward & Ramachandran (2010) who believed funder used another funder behavior to find out the relevant information.

According to Frydrych et al. (2014), an effort that put by the entrepreneur will be determined by the high funding target to attract public interest in the project. The action of the entrepreneur will affect whether the project will be successful or not. Entrepreneur activeness will act as a role in sustaining success ability of crowdfunding (Xu. et al., 2016). The description of the project and portion of the money invested will give an effect toward crowdfunding successfulness (Giudici, 2018).

An entrepreneur needs to take a hard and analyze successful project and venture failed. In order to be successful in a crowdfunding project, he or she has to observe and find out subtle nuances and technique why they can be successful in a crowdfunding project. One of the most challenges in online communities are building and fostering knowledge and trust, said by Borst et al (2018). It can be achieved through common identity, a clear goal, activeness in involve experience and credible moderate and strengthen online behavior (Ricardo et al, 2018).

According to Greiner and Wang (2018), crowdfunding platform offers a place so individual able to present and build trust with the investor. The variety of elements in the individual creator is very important. This also will be analyzed by the funder whether they want to invest in a project or not. Chen et al (2009) also believed an effort by entrepreneur put to prepare better crowdfunding project will have a positive effect on funding by presenting the high-quality project and this means the entrepreneur has a higher obligation when they put more effort on the project.

Shared meaning between entrepreneur and sponsor

For the cognitive dimension, the shared meaning is a very important element which focuses on the meaning and understanding an individual. It can be shared in two ways, first is from common language and vocabulary for communication and second is shared the narrative or stories so the knowledge transfer can be more easily happened to increase social capital. Besides that, it means the accuracy of the information needs to suit the project. In order to be attractive, each venture should set their clear plan and funding goal and it should be transparent and the project should be able to persuade the funder to fund your project (Lundborg, 2015). Information asymmetry between funder and entrepreneur was a challenge in order to get the funding capital (Muray, 2015).

When an entrepreneur wants to use this crowdfunding platform to gather money, they hold relevant information than the funders. So, an entrepreneur needs to expose the relevant information about the project and share all the information to the public in order to build the funding interest among potential investor. In addition, equity and lending-based funders always take note on the financial report, an entrepreneur who provides the financial forecast will be taken into consideration and attract the funder (Borello et al, 2015).

Wahjono et. al. (2015) have proved crowdfunding project initiator can define and communicate unique sale point of the proposed project. This will enable them to create awareness among backer so they willing to invest in a crowdfunding project. Good implementation project that participates by funder can achieve the funder's satisfaction which caused by the quality of the project (Xu et al, 2016).

Information quality can be described in timeliness, accuracy, and completeness of the project information through the crowdfunding platform. The founder will convert all the accuracy information into video, picture, text and so on to the potential funder. Video plays an important role to show the project because it includes all the information with vividly and attractively. If present the project without video, it will bring negative effect to that crowdfunding project (Bruton et al, 2015).

Hypothesis

In references to the research background in the previous discussion, the hypotheses are formulated as the following:

- H1: Social network has a positive and significant influence toward the success rate of an equity-based crowdfunding project.
- H2: Obligation has a positive and significant influence toward the success rate of an equity-based crowdfunding project.
- H3: Shared meaning has a positive and significant influence toward the success rate of an equity-based crowdfunding project.

3. RESEARCH METHODOLOGY

This study was conducted using quantitative research. According to the collected data, it can determine what factor will make an equity-based crowdfunding project become successful. Equity-based crowdfunding is a new topic in Asia. This design helps the researcher to get the answer of question and decision from the research. It helps the audience improve the understanding of crowdfunding. Both primary and secondary data is used such as online questionnaires and previous research journal. Besides that, the respondent are individual who lives in the Asia countries only and researcher chooses Google Form as one of the tools to distribute their online questionnaire to get the correct data because it is very easy to use and convenient for everyone. For population, this study refers to the population of Facebook crowdfunding group which have 805 members because all the questionnaires we distribute to the member in that group. According to Krejcie table, the population of 805 means that sample should be closed to 267 respondents. After collecting the data from 267 respondents, the researcher discards the data that are invalid which have 23 respondents and also discard 77 respondents who do not use the equity-based crowdfunding platform before. So, as a result, the rest of the respondent's data which still have 167 respondents is used in this study.

4. FINDINGS

The demographic characteristic of respondents shows there have 152 (91%) of the respondent is male and 15 (9%) of the respondent is female. For the age, it found that there have only three respondents is between 18-24 years old out of total respondents. 143 respondents are between 25-34 years old which is 85.6 % of the total respondent. There was had 15 respondents at 35-44 years old and 3 respondents are 45-54 years old. Here have only one respondent that greater the 54 years old. Most of the respondents are Indonesia citizens which occupy 72% in this research. It means there have a lot of Indonesian create a project in the equity-based crowdfunding platform. The second rank is more to Singapore citizen which have 40 respondents only (24%). There had three respondents from Thailand and two respondents from Vietnam. In this research, there has only two respondent who is a citizen in Indonesia. For the education level, most of the project creator only study until high school. There had 127 respondents (76%) showed that they end their study when they are 17 years old and above. However, they still have the 21 undergraduate respondents who occupy the 12.6% of the project. For the post-graduate education level, there had 14 (8.4%) respondents had achieved it. Only have 5(3%) respondents only study their primary school. Besides that, the researcher founded that there had 136 (81.4%) respondents' who focus on self-employment. Respondents that involve in a government job and other jobs just only have six persons respectively. 19 respondents working in the private sector. Respondents who working as self-employed have involved in many various categories.

There have 129 respondents involved in the service sector, 5 involve in retail and 2 involved in the manufacturing sector. 148 of respondents have working experience between 10 years to 20 years and 15 respondents who have a maximum of 10 years' experience only. There have 4 respondents have more than 21-30 years of working experience only. From the collected data, it showed us crowdo platform is the most popular platform which has 88 respondents using it and follows by the fund by me platform which have 57 respondents, crowd funder platform which only 17 respondents, 3 Equity Net platform respondent and 2 for Funded here platform. The tool of respondent who used Facebook to promote is the highest and have 154 times. Second media tool usage by the total respondents are Instagram apps which have the frequency for 145 times. The third one is the Google platform. Next is the twitter that used by 19 times and myspace which used by 9 times to promote projects. As a result, there have 126 respondents prepare their project for less than three months. 27 of respondent use 3-6 months to planning for their project. 10 respondents plan the project between 7 to 10 months. Lastly only 4 respondents plan their project for more than 10 months. Our respondent was able to update the latest information in 28 to 35 times to complete the equity-based crowdfunding project. There has 5 respondent that update information for more than 36 times. 100% of respondents who have to create a project have uploaded a video to describe their business nature. It will be more creative and attractive if compare with the other project who do not have upload a video.

Hypothesis Testing

The current research had studied the relationship between the social network, obligation and shared meaning towards the success rate of the equity-based crowdfunding project. Hypothesis testing Table 1 has measured the relationship independent variable towards the dependent variables. This study has three variables and one dependent variable. Pearson correlation coefficient (r) has been studied to correlate social network, obligation and shared meaning with success rate of equity-based crowdfunding project towards project creators.

Table 1 Hypothesis Test Result

Hypothesis	Pearson Correlation Coefficient	Significance	Hypothesis Test Outcome
H1: Social network has a positive and significant influence toward the success rate of an equity-based crowdfunding project.	0.470	0.000	Supported
H2: Obligation has a positive and significant influence toward the success rate of an equity-based crowdfunding project	0.462	0.000	Supported
H3: Shared meaning has a positive and significant influence toward the success rate of an equity-based crowdfunding project.	0.582	0.000	Supported

Finding Research

The findings of this study, Figure 1, prove that Social Network, Obligation, and Shared meaning have a positive and significant effect on the success rate of an equity-based crowdfunding project. This explains that emotional closeness based on reputation, trust, and the integrity of the project initiator towards prospective shareholders is very large, decisive, and cannot be ignored.

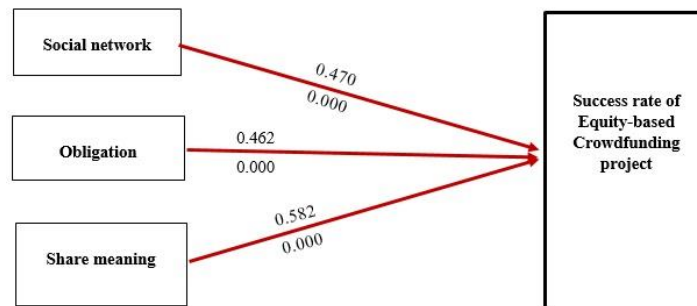


Figure 1. Finding Research

Social Network

Based on the findings, this study examines the factor affect the success rate of equity-based crowdfunding projects. The result was indicated the social network was significant determinant to make the equity-based crowdfunding project success (H1). This finding confirmed by the Mollick, 2019 which stated an individual's personal network helped predicted the success of crowdfunding. In this study, the social network is measured based on the number of friends and number of followers. In a different study, Lundborg (2015) measured social network in terms of usage of one's social network. It tests the effect of the social network in crowdfunding. In their finding, the usage had a negative significant negative effect rather than positive effects on the pledge. This result is inconsistent with our findings. At the same time, they do not find a significant effect of social network on the ratio of pledge over the goal. There may have some possible reason that brings to this result which was the usage of the social network is the improper measurement on size and scale of social network (Chow & Chan, 2008).

Obligation to fund other projects

The obligation to fund other project is said to be a significant predictor on the success rate of equity-based crowdfunding projects (H2). This finding was confirmed by Walthoff-Borm et al (2018) who stated the role of reciprocity exchanges in crowdfunding is one of the important sources of social capital. They argued that the return of obligation depends on the crowdfunding platform community in our study. At the same time, the project creator

has to repay an entrepreneur in the form of his or her status and honor (Ahlers et al, 2015). In addition, obligation able to motivate people who are funded directly by an entrepreneur to reciprocate with a greater amount of funding (Moritz & Block, 2016; Wahjono et al., 2019).

Shared Meaning

In this research, it revealed that the shared meaning is the strongest predictor of success rate toward the equity-based crowdfunding projects. Shared meaning exerted the strongest impact on the success rate of equity-based crowdfunding projects. ($r = 0.582$, $p < 0.01$), followed by social network ($r = 0.470$, $p < 0.01$). It is consistent with the literature on shared meaning is the strongest predictor toward success rate of equity-based crowdfunding. From the finding, the shared meaning has a significant and positive relationship with the success rate of equity-based crowdfunding (H3). This is because it involved between an entrepreneur and other participants who sponsor the crowdfunding project. According to Vioto et al. (2018) the finding has a significant role in shared meaning. Vioto et al. (2018) demonstrated that improving the shared meaning of a crowdfunding project is an effective way to attract individuals to invest in the project. The detail narrative project is a significant method to communicate with potential funders (Belleflamme et al., 2014).

So, for second research objective, it shows that shared meaning ($\beta = 0.375$, $\text{sig} = 0.000$) is the main factor to make a project success, followed by social network ($\beta = 0.173$, $\text{sig} = 0.000$) and lastly is obligation to fund others project ($\beta = 0.165$, $\text{sig} = 0.005$) because shared meaning has the highest beta value among these three independent variables.

5. CONCLUSION

The research determines the factor affect the success rate of equity-based crowdfunding projects. The social network, obligation to fund others project and shared meaning significantly influence the success rate of the equity-based crowdfunding project. This research project has achieved its purpose to investigate the relationship between independent variables and dependent variable. However, there have faced some limitation when conducting this research. Thus, the researcher has suggested some recommendation regarding these limitations. In conclusion, the research can provide insight into future research related to this topic.

This study generates useful knowledge on a better understanding of the equity-based crowdfunding. They know better on how to create an equity-based crowdfunding project with a high success rate towards them. This finding of research provides a clear picture of how the project creator's project can be successful. The study has identified the social network, obligation to fund others and shared meaning to be significant determinants when addressing the project creator's success level. In the present study, the shared meaning was clearly contributed to the most crucial factor when the project creator wants to success when conducting an equity-based crowdfunding project. Besides that, social network and obligation to fund another project will affect the success rate of equity-based crowdfunding.

Based on the finding research, it can conclude that share meaning is the most influence and significant factor to make the equity-based crowdfunding project to be successful. In addition, equity-based crowdfunding project is a target to the public who interest with the project and willing to invest them. So, the communication between the project creator and the public and catch the public's eyes is important to increase the success rate of equity-based crowdfunding. The project creator is suggested to describe their project based on their creativity and also some animation video to attract public awareness towards the information of their projects.

Furthermore, the findings show us the social network is placed at a second position which is the second strong variable that which can influence the success rate of equity-based crowdfunding. Thus, the project creator should have a good plan on how to expand their social network toward the public. They should plan well to widen their social network through social media such as Facebook, Twitter, Instagram and so on.

In addition, project creator should always share their tips with the new entrepreneur when they had been a success in an equity-based crowdfunding project. The clear guideline and should be given by them and help the new entrepreneur more easily success in an equity-based crowdfunding project. Senior project creator may generate a relationship to them and has an obligation to invest on them to encourage them until they are successful. When a new entrepreneur

has faced some problem, senior project creator can give some advice to them so that the success rate of the equity-based crowdfunding project will be higher.

From research suggested including measure actual behavior of funder to invest in a crowdfunding project. Research about funder trend to invest the crowdfunding project should be analyzed so that can increase the success rate of an equity-based crowdfunding project. Since the crowdfunding project in Indonesia is still new, further study should be done by another university in order to generate finding and also validate the social network, obligation to fund others project and shared meaning is positive relationship related to the success rate of an equity-based crowdfunding project. Besides that, it is recommended that future research should explore the nature and extent of the impact of other possible variables that will affect the success rate of an equity-based crowdfunding project.

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