

SOCIAL CAPITAL AFFECT THE SUCCES RATE OF EQUITY-BASED
CROWDFUNDING PROJECT

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SUPERVISOR'S APPROVAL

I/ We* hereby declare that have read this works and in my/ our* this works is sufficient in terms scope and quality for the submission Bachelor Degree of Technopreneurship

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DECLARATION

“This report is a product of my own except citation for each of which I have mentioned the sources.”

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I would like to express my deepest gratitude to my supervisor, DrSentot Imam Wahjono throughout the completion of my final year project. This research would never be able to accomplish without support of my beloved supervisor, who is extremely knowledgeable, and he has spent his valuable time giving advice, experience with me and assisted me in every aspect. I am truly grateful for having such a wonderful supervisor.

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ABSTRACT

Equity-based crowdfunding bring the young people into new financial technology world. With this platform, a lot of young entrepreneurs able to gather the fund through online. So, 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 influence factor towards success rate of equity-based crowdfunding project. Hence, researcher uses the descriptive design to design the quantitative questionnaires. It consists of social network, obligation and shared meaning. Thus, three independent variables will be proceeding by distributing questionnaire online. Researcher will choose 30 respondents to conduct the pilot test. Researcher will use Google Form as one of the tools to distribute questionnaire and collect back 267 respondents from online. After collect data, only 167 respondents involve in this research. Pearson's correlation and multiple regression use to test the relationship and significant effect between independent variable and dependent variable. Through the statistic of SPSS, it was found the research objective was achieve when hypothesis of three factor for successfulness of equity-based crowdfunding is prove.

Keywords : equity-based crowdfunding , success rate of equity-based crowdfunding project, social capital

ABSTRAK

Equity-based Crowdfunding membawapeniaga yang mudahkezemanfincancialteknologi. Dengan platform ini, banyakpeniaga yang mudadapatmengumpulkan capital melaluitalian. Olehitu, tujuanpenyelidikaniniadalahuntukanalisis factor yang mempengaruhikejayaanprojek crowdfunding berasaskanekuitidanmenentukanfaktorterpengaruhdalam mencapai crowdfunding projek. Olehitu, penyelidikmenggunakanpenyelidikandeskriptifdenganrekabentukkuantitatifdalamkaji anini. Ketiga-tigapembolehubahbebasakanmenjadiujiankesahihanberubah-ubahdalamperintis. Penyelidikkehendakirawakmemilih 30 respondenuntukmenjawabujianjuruterbang. Penyelidikakanmenggunakan google form sebagaisalahsatu alat untukmengedarkansoalselidikdanmengumpulsemula 267 data reponden. Selepasmengumpul data, hanya 167 respondendipilih kerana memenuhikehendakresponden. Korelasi Pearson danalisisregresi linear digunakanuntukmengujihubungandankesan paling ketaraantaratigapengaruh. Melaluistatistik SPSS didapatibahawakajianobjektiftelahdicapaiapabilaujianhipotesistigafaktorkejayaananda lam crowdfunding projekmenunjukkanhubunganketiga-tigafaktor crowdfunding pentingdalamkejayaan crowdfunding projek.

Kata Kunci: crowdfunding projekberasaskanekuiti, kejayaan crowdfunding projek, factor

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CHAPTER 1

INTRODUCTION

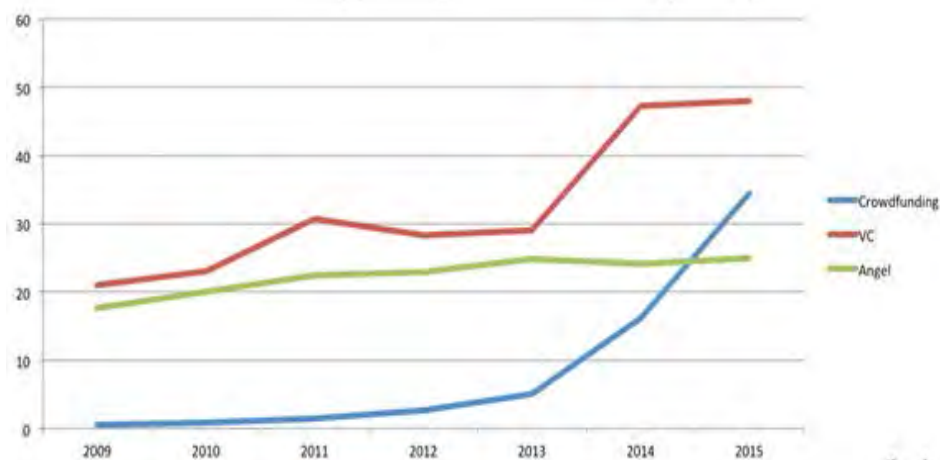
1.1 Introduction

Nowadays, there are a lot of new entrepreneurs have some creative business idea among them. Although they are the new talent in the market, but they still do not have enough courage to do what they want and pursue their dream. They think working under boss cannot make them rich. So, they have their own idea to implement. Some of them would like to start their own business but they always face a lot of challenges when they are taking out the first step especially facing insufficient of capital. So, in order to solve the problem more efficiency, a new technology method emerges among social that enables them to collect money from the public which known as crowdfunding.

Crowdfunding is an umbrella term that increasingly widespread of fundraising through internet where there is a small group of people invest money to support certain goals or new business. Equity-based crowdfunding is one type of the crowdfunding which sell company share or equity to attract a large group of investors in order to get the fund. All the investment just takes place via internet (Ahles et. al, 2015). They usually are existing in new firm and do not have the 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.

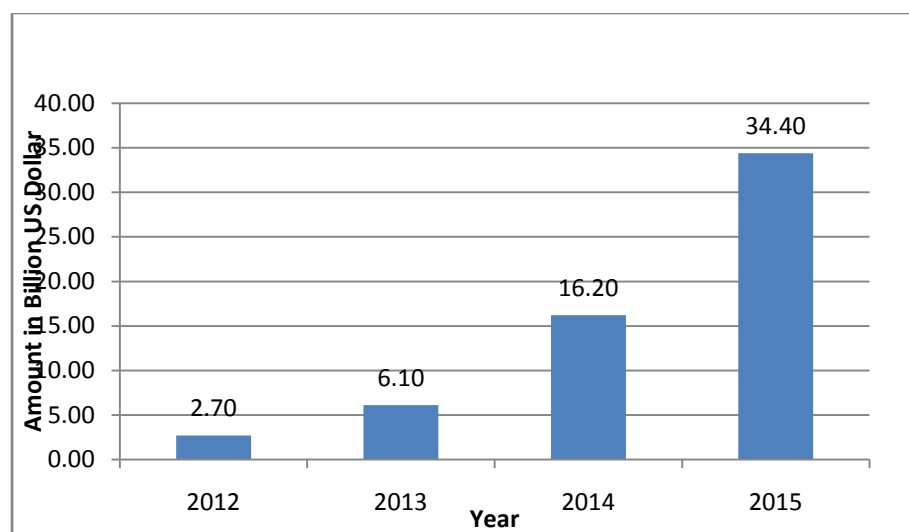
In future, researcher believes that equity-based crowdfunding will be desired by others because of the return of the potential monetary to funders. According to the Lei Guan (2016), crowdfunding has been divided into four types of crowdfunding. First is the reward-based crowdfunding. It refers to the return of the product rather than share in their company for financials' investment. Second type of crowdfunding is lending-based crowdfunding which enable funder receives the interest as return of investment after a long period. Next is the donation-based crowdfunding which funder will not expect to get back return. Last is the equity-based crowdfunding that give funder an opportunity to get interest in form of company equity or share as a return of dividend. Belleflamme, Lambert, and Schwienbacher (2014) explain individual equity investment for start-up business is relatively small if compare with the venture capital or angel investor. The equity-based crowdfunding has been restricted in many countries especially United State because it involves sale of security. It is influenced by the legislative environment of home country. Equity-based crowdfunding project have high information asymmetry because gathering data, cost, monitoring progress and so on are particular important for potential investor.



Source: Chance Barnett, CEO of Crowdfunder.com, in a piece on Forbes.com

Figure 1.1 Annual Funding (Billions): VC vs. Crowdfunding vs. Angel

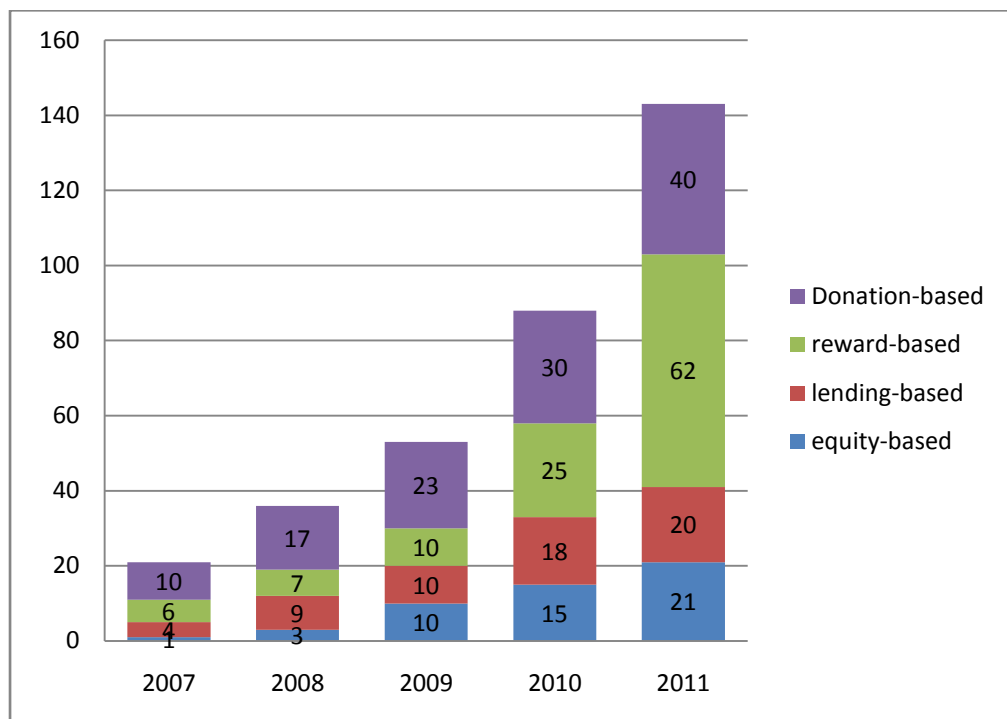
According to the figure 1.1, the statistic can show the comparison of annual funding in venture capital, angel investor and crowdfunding from year 2009 to 2015. From the given data, the annual funding for venture capital is slightly increases in year 2009 and 2010. It faced sharply increase between year 2010 and 2011 and in year 2013 and 2014. It has the highest annual funding if compare with the crowdfunding and angel investor. This means this is the popular method that use by entrepreneur to gather funds. Besides that, the amount funding for angel investor is almost same between these seven years. This means the entrepreneur still using angel investor to get their funding and this trend is not decline. Lastly is the annual funding for the crowdfunding in the period of seven years. In year 2009 to 2013, there has slightly increase in annual funding of crowdfunding. After year 2013, the crowdfunding annual funding is sharply increases to year 2015. From the graph, researcher able to forecast the annual funding for crowdfunding in 2016 will increase and equal to the annual funding for venture capital. This indicates the crowdfunding will be favorable by new entrepreneur to raise their fund via online platform in future. The useful of crowdfunding able collect more funds than venture capital and angel investor in future. Most people will like the financial service technology (Fin-Tech) if compare with traditional financial method. When the user of crowdfunding increases, this means the amount to be collected also will increase.



Source: Statista, 2016

Figure 1.2 Total Crowdfunding Volume Worldwide from 2012-2015 in Billions USD

From the figure 1.2, it shows that the crowdfunding volume worldwide is increasing from year to year. There is a sharply increasing from 2.7 billion to 34.4 billion which increase 3.17 billion in four years. The amount that increases double between 2014 and 2015 show the significant of crowdfunding in global market these recent years. So, from here, the popularity of the crowdfunding is continuously increasing and from year 2014 to 2015. That means there have an increase in crowdfunding knowledge towards people because more people use the crowdfunding to raise their financial capital.

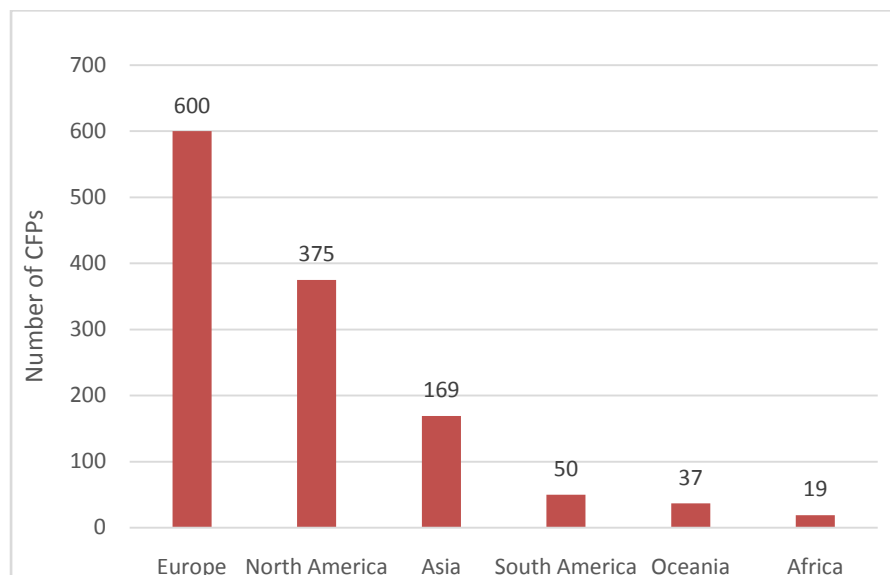


Source: Statista, 2016

Figure 1.3 Growth of Number of Crowdfunding Platforms from 2007 to 2011, by Category

According to figure 1.3, it shows the statistic for growth of the number crowdfunding platform from year 2007 until 2011. So, through the data above, researcher can know there is a growing of the crowdfunding platform from year 2007

to 2011. The highest increase crowdfunding platform between 2007 until 2011 is the reward-based crowdfunding and second growing faster is the donation-based crowdfunding which has 40 crowdfunding platforms in year 2011. The slowest increase of crowdfunding platform is the lending-based crowdfunding which only have 20 platforms between five years. The number of equity-based crowdfunding platform increase slightly from year 2007 to 2011 and achieve 21 crowdfunding platforms. Because of the growth of the crowdfunding platform, it boosts the number of crowdfunding in Asia and allows Asia to become third rank of the country in the number of crowdfunding platform globally.



Source: Statista, 2016

Figure 1.4 Number of Crowdfunding Platform in December 2014

Based on figure 1.4, there have only 169 crowdfunding platforms in Asia. Among these crowdfunding platforms, Europe has the most number of crowdfunding platforms that equal to 600 whereas North America has 375 crowdfunding platforms. Asia becomes third rank in number of crowdfunding platforms which has 169. So, it means Europe and North America is more popular and more people use the

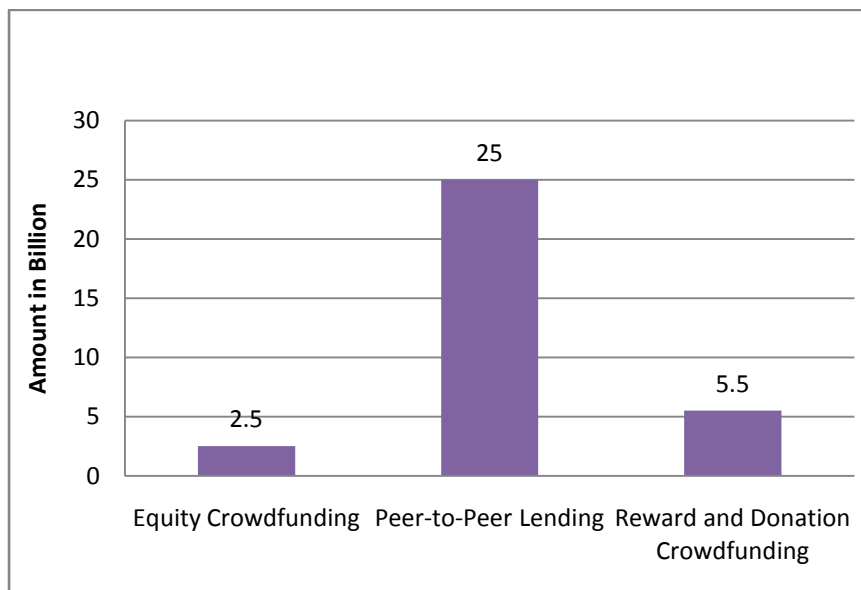
crowdfunding platform. At the same time, Asia still have a lot of space to develop the crowdfunding platform.



Source: Massolution/Crowdsourcing.org, 2015

Figure 1.5 Growth by Crowdfunding Region Prediction for 2015 in millions of USD

According to figure 1.5, Asia has a double annual growth rate which is 210% and has the total funding \$10.64 billion in year 2015. The funding volume is higher than Europe but lower than South America, Oceania, Africa and North America if compare with other countries. It means the popularity of crowdfunding in Asia is still small from time to time and in future has a very big market due to the high percentage annual growth rate 210%. Crowdfunding in Asia has the potential to raise more funds and bring a very big effect towards economy. Total funding is sum from the 4 types of crowdfunding volume which known as reward-based crowdfunding, donation-based crowdfunding, equity-based crowdfunding, and lending-based crowdfunding.



Source: Statistic Brain 2016

Figure 1.5 Total Amount of Funding in Crowdfunding 2015

From figure 1.6, total amount for equity-based crowdfunding, peer-to-peer crowdfunding and reward and donation based crowdfunding are 2.5, 25 and 5.5 billion respectively. It has a meaning that Equity-based crowdfunding raised the least amount and difficult to be successful in Equity-based crowdfunding project.

1.2 Background of study

Crowdfunding is one of the advance technology tool that can solve the problem faced by entrepreneur and SME Company. Crowdfunding can define as innovative internet-based financial model to create new product or new business for small medium enterprise or new venture to get funding through internet. Crowdfunding came from the concept crowdsourcing and micro-finance, which is one of the direct financial methods through internet platform to number of investor

(Huili&Yaodong, 2014). Because of insufficient of the credit, financial report, and operating history, this make most of the new company are very difficult to sustain and make a loan with bank (Fink, 2012). For example, approximately six million companies in the United State, only three thousand receive venture capital in 2010 (Statistics about Business Size, 2012). According to the Massolution Company's research report, global crowdfunding had got more than 2.7 billion funding, successfully support 1 million projects. Majority project funded are more to donation-based crowdfunding but equity-based crowdfunding was on average (Huili&Yaodong, 2014). Mollick (2014) stated each investor provides small financial capital for exchange the equity or share of the company.

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 introduce Crowdfund Act which under Title III. This act stimulates new entrepreneur and owners to sell the 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, 2011). Before this, selling shares or bond in company via company is illegal under United States securities law. The act tends to save from expensive registration and avoid people receive the substantial registration costs. Besides that, Malaysia is the first country that has built up few of the equity-based crowdfunding platforms. According to the announcement of the securities Communities Malaysia, they approved six equity crowdfunding platforms to operate and act as new source to get the funding for the small organization and innovation business idea (SueAnn,2015). For example, there have few equity-based crowdfunding platforms just been established such as Alix Global, Ata Plus, Crowdonomic, Eureeca, PitchIN and Propella Crowd. So, from here, we can see that the potential of the equity crowdfunding platform in the future. There has an evidence show that if the capital needed is very large, founder will more desire on equity crowdfunding if compare with the reward-based crowdfunding (Belleflamme, 2014). This is the reason why equity-based crowdfunding is growing fastest by year to year.

1.3 Problem Statement

Nowadays, 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 entrepreneur. As people know, the new entrepreneur always faces insufficient funds for them to start up the business. So, crowdfunding become an efficient method for them to raise money. This is because it is a simple platform that easily can be set up. There are a lot of platforms appear for different purpose. For example, like Kickstarter, Indiegogo, FundByMe and other platforms. Some of the project launched just for donation, some are 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 are not. 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. So, crucial point of this study is to attract individual customer who are willing to invest in equity crowdfunding project. In order to attract them, there is essential to know how project creator bring value to equity-based crowdfunding project and dominant factor of project creator that affects the public to invest in equity-based crowdfunding project.

The purpose of this study is first to examine factor affect the success rate of equity-based crowdfunding project. This study more comprised more information of equity-based crowdfunding. As such, there needs a greater understanding on the relationship of social network, obligation to fund others and shared meaning toward the success rate of equity-based crowdfunding project.

1.4 Research Questions

Based on the problem statement, researcher will examine how project creator attract funders to make an investment. So, with this problem, researcher faces two research question as below:

1. What are the influences that affect the success rate of equity-based crowdfunding projects?
2. What is the dominant influences that affects the equity-based crowdfunding project?

1.5 Research Objectives

To solve the research question above, there are essential for researcher to explore more and find out the answer toward the research question. There have two objectives that audience able to understand at the end of the topic:

1. To know the influences that affects the success rate of the equity-based crowdfunding project.
2. To determine the dominant influence that affects the success rate of the equity-based crowdfunding project.