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INDONESIAN CAPITAL MARKET REVIEW

What Information Needed to Present in a Fundraising Campaign through Equity Crowdfunding

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This study aims to determine success factors on equity-based crowdfunding project fundraising in several countries in Asia. We evaluated three categories of factors: campaign characteristics, human capital factors, and social capital factors. We evaluate models using 201 project samples on various platforms from Indonesia, Malaysia, United Arab Emirates, Israel, and South Korea from January 2018 until December 2019. We used Ordinary Least Square (OLS) as the method of hypothesis testing. We found that the most critical variable in the campaign characteristics is the financial information provided. Meanwhile, unless the number of team members, each human capital factor significantly positive to campaign success. Lastly, both social networks and business advisor's presence have a significant positive relationship to crowdfunding project fundraising success. However, we do not found a significantly different pattern between high-income and lower-income countries evaluated.

Keywords: Equity Crowdfunding; Campaign Characteristics; Human Capital; Social Capital; start-ups financing; Asia.

JEL Classification: G23, G24, M13

Introduction

Entrepreneurship is recognized as a critical element of the domestic industry to encourage innovation and economic growth. However, entrepreneurs are often challenging to start their businesses due to insufficient access to financial capital. As for the business funding cycle, companies in various growth phases get access to capital from various sources (World Bank, 2013). However, there are gaps in funding, commonly known as the funding gap (Rossi, 2014).

Business funding can be debt-based or equity-based. Debt-based financing is generally obtained through banks. Small businesses face challenges in obtaining financing through bank loans due to a lack of credit, collateral,

and proven track record (Paschen, 2017). Meanwhile, equity-based financing is generally obtained from private equity firms such as Venture Capital (VC). However, it is difficult for early-stage companies to obtain that funding (Barbi & Mattioli, 2019). Furthermore, VCs also selectively choose businesses by seeking companies with provable ideas, high growth potential, and high return, eliminating most small businesses (Macht & Weatherston, 2014). Therefore, an alternative to traditional entrepreneurial financing that can meet the needs and overcome these problems is needed.

The continuing evolution of technology gives the potential to innovate and produce financing mechanisms from a large amount of funder accessed through an online platform called crowdfunding. A type of crowdfunding

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is a fundraising method for business financing (Pichler & Tezza, 2016), especially as early-stage project funding (Davies & Giovannetti, 2018). In this regard, entrepreneurs commonly seek funding as an equity-crowdfunding. Equity-based financing provides flexibility for entrepreneurs to run a business and adapt to the environment. Moreover, equity-based capital encourages entrepreneurship innovation better than debt-based capital (Dalimunthe, Syakhroza, Nasution, & Husodo, 2019).

Crowdfunding is a new phenomenon developed in line with the increase in public access to the internet. Research on this is relatively limited in developing countries. Based on the Organization for Economic Co-operation and Development (OECD), Asia has become one of the world's fastest-growing equity crowdfunding areas. Moreover, with an increase in average activities of equity-based crowdfunding in Asia in the year 2012 through 2015, that reaches 340% per year and reached around \$10 Billion US dollars in 2015 (OECD, 2018).

Equity-based financing provides an opportunity for investors to enjoy high returns if the project funded is successful. However, equity base financing carries a higher risk for investors due to high information asymmetry. In equity-based financing, investors cannot require repayment in a specific time and amount and cannot ask for collateral. To successfully generate equity-based financing, entrepreneurs have to make an effort to reduce the asymmetrical information, such as provide appropriate data and information describing the prospects of the business.

In funding through equity crowdfunding, campaign success is critical for entrepreneurs to get financial capital, but many fail (Lukkarinen, Teich, Wallenius, & Wallenius, 2016). The failure because the funding targeted unsophisticated investors. Ahlers, Cumming, Günther, and Schweizer (2015) stated that typically, equity-based crowdfunding investors lack experience evaluating the investment opportunity. Similarly, Arifah and Dalimunthe (2020) found indications that Indonesia's investors use crowdfunding as a learning investment process before investing in larger amounts. Thus, an equity crowdfunding campaign project should design to reduce asymmetrical information and to attract appropriate investors. Campaign characteristics provide on equity-based

crowdfunding platforms works as a signal to reduce asymmetrical information problem (Ahlers, Cumming, Günther, and Schweizer, 2015).

Previous studies analyzed factors contributing to crowdfunding's success focuses on developed countries like the USA, UK, and other European countries. Quesada (2018) stated that crowdfunding platform creation varies across countries, and distinct national patterns emerge for crowdfunding activity. Little research discusses the factors that affect the success of crowdfunding campaigns in developing countries. Thus, this study aims to fill that gap. Specifically, the study focused on five Asian countries, namely Indonesia, Malaysia, Israel, the United Arab Emirates, and South Korea, due to government policies' similarity to support Micro, Small, and Medium Enterprises (SMEs) in accessing external funding in each country. Those five countries' governments provided support in regulating equity-based crowdfunding activities and related platforms to operate in their respective countries.

The rest of the paper explores the literature review of the topic, followed by methods used to analyze the data in section three. Section four provides results and discusses the empirical result, followed by a summary in section five.

Literature Review

Crowdfunding

Crowdfunding refers to individuals and companies that use the "crowd" or groups of people to get various ideas, input, advice, and alternative funding solutions (Belleflamme Lambert, & Schwienbacher, 2014). Similarly, Rossi (2014) defines crowdfunding as the practice of funding a project by raising a lot of small quantities of money from a large number of people. Davies Giovannetti (2018) defined crowdfunding as a project finance practice for funding early-stage projects involving many people by remote interaction through ICT-enabled platforms.

Crowdfunding is categorized based on the types of rewards provided by project owners to funders into four types; donation-based, reward-based, lending-based, and equity-based crowdfunding (Belleflamme Lambert, & Schwienbacher, 2014; Quesada, 2018). Donation

and reward-based crowdfunding offer funders non-financial or non-monetary benefits in exchange for their investment (Ahlers, Cumming, Günther, and Schweizer, 2015). Meanwhile, debt and equity-based crowdfunding offer funders financial benefits. In loan-based crowdfunding, the lender receives attractive interest payments in return for their investment. Meanwhile, in equity-based crowdfunding, investors generate a return in equity or something similar to equity, such as profit sharing.

Asymmetric Information and Crowdfunding result

Paschen (2017) presents a framework for choosing the right crowdfunding type for each stage in the start-up life cycle and provides practical advice on crowdfunding best practices. There is high information asymmetry when an investor invests in equity crowdfunding. In this regard, asymmetric information is interpreted as an inefficient exchange of information between project owners and a crowd of investors who act as funders on the platform (Belleflamme Lambert, & Schwienbacher 2014). This inefficient exchange of information can create difficulties for funders to evaluate companies looking for funding to lead to opportunistic and irrational behavior in making investment decisions.

Hypothesis Development

Various information on crowdfunding platforms will provide signals and help potential funders to consider investment decisions (Mollick, 2014). One of them is the provision of finances. By communicating the provision of finances, potential investors' level of uncertainty lowered because they use this information to analyze business attractiveness. Thus, investors have a reasonable basis for forming projections about future business opportunities, so that this information will help investors make investment decisions (Ahlers, Cumming, Günther, and Schweizer, 2015). Therefore, we put forward the following hypothesis:

H1: The availability of financial information has a positive effect on the success of raising funds through equity-based crowdfunding platforms.

Furthermore, potential investors in equity-based crowdfunding funding are non-professional investors, so project owners need to find alternative ways to communicate with investors and promote their campaigns (Block, Hornuf, & Moritz, 2018). One way to do this is by simplifying the business plan by using media content such as pictures and videos that are easier for non-professional investors to understand. The information conveyed through images will enter investors' minds easier to remember than components in other documents. Meanwhile, with the video, messages are conveyed through the eyes, ears, and brain, making potential investors more effective in understanding and remembering information about the project (Koch and Siering, 2015). Therefore, based on previous research, we put forward the following hypothesis:

H2a: Images presents have a positive effect on the success of raising funds through equity-based crowdfunding platforms.

H2b: Videos presents have a positive effect on the success of raising funds through equity-based crowdfunding platforms.

Unger, Rauch, Frese, & Rosenbusch (2011) stated that human capital is associated with a business's success. Thus, higher human capital, which is related to higher abilities and skills, will increase the entrepreneurial aspect's success. The number of human capital in a project is measured by the number of team members (Ahlers Cumming, Günther, and Schweizer 2015). The higher the number of members on a business team will signal the funder that an early-stage company's needs and skills can be fulfilled (Lazear, 2005). Therefore, based on previous research, researchers put forward the following hypothesis:

H3: The number of team members has a positive effect on the success of raising funds through an equity-based crowdfunding site.

More educated individuals on a team have more excellent knowledge and higher skills necessary for an enterprise's survival and performance. Whereas in equity crowdfunding, research on the effect of education level on project fundraising success has been confirmed by Barbi & Mattioli (2019). Therefore, based

on previous research, we put forward the following hypothesis:

H4: High level of education has a positive effect on the success of raising funds through equity-based crowdfunding platforms.

Human capital is not only the result of formal education but also comes from experience. Experience in business is a signal for investors that the company has resources with superior abilities to seek and take advantage of the best opportunities (Spivack, McKelvie, & Haynie, 2014). Also, owners who have business experience considered to have developed a comprehensive set of fundamental skills and competencies in the entrepreneurial profession and effectively play various roles. Meanwhile, experience working in the same industry also signals that the owner has in-depth knowledge of technology, production processes, and competition dynamics in specific industries. Therefore, we put forward the following hypothesis:

H5a: Business experience has a positive effect on the success of raising funds through equity-based crowdfunding platforms.

H5b: Experience in the field has a positive effect on the success of raising funds through equity-based crowdfunding platforms.

In entrepreneurship, social capital is considered a valuable resource because it helps entrepreneurs share knowledge and identify opportunities. One of the variables that explain social capital is the social network, which is explained by the number of connections on Linked in (Vismara, 2016). In crowdfunding, projects with a more significant number of social network connections signal that the probability of project success is more remarkable because of the possibility of offering capital from investors connected to business owners (Vismara, 2016). It also helps business owners disseminate information and generate word-of-mouth about projects (Colombo, Franzoni, & Rossi-Lamastra, 2015). Therefore, based on previous research, researchers put forward the following hypothesis:

H6: The project owner's social network has a positive effect on the success of raising

funds through equity-based crowdfunding platforms.

Moreover, Ahlers Cumming, Günther, and Schweizer, 2015) also used the variable number of advisors to measure the business's social capital. Advisors are usually respected industry veterans who act as advisors (Ahlers Cumming, Günther, and Schweizer, 2015). An advisor will add to the legitimacy of a venture and introduce entrepreneurs to new potential business stakeholders such as investors and suppliers, thereby expanding the project team members' network. Therefore, based on previous research, we put forward the following hypothesis:

H7: The number of advisors in the project has a positive effect on the success of raising funds through equity-based crowdfunding platforms.

Research Methods

Data

Of the five countries, this study used a pioneering platform and have the most considerable amount of funding in each country. The platform chosen can raise funds from professional and non-professional investors to research investors' behavior with little experience. Also, the platform used can meet the availability and ease of access to the researcher's information. For Indonesia, this study used all legalized equity-crowdfunding platforms, namely Santara and Bizzare. Furthermore, for Malaysia, this study will use three platforms, namely CrowdPlus.Asia, PitchIN, and Ata Plus. The study only used one platform for the United Arab Emirates and Israel, namely Eureeca and Pipelbiz. As for South Korea, this study used two platforms, namely Wadiz and OpenTrade. A common characteristic of these platforms is that they operate under the all-or-nothing model. Our sample consists of a hand-collected dataset of 201 successful campaigns conducted through the selected platform between January 2018 and December 2019. In this study, a successful campaign means that each project successfully reached its target funding. The researcher treats the data as cross-sectional. A company that seeks external funding through those platforms must create its business plan to explain its project to

Figure 1. Research Model Developed in This Study

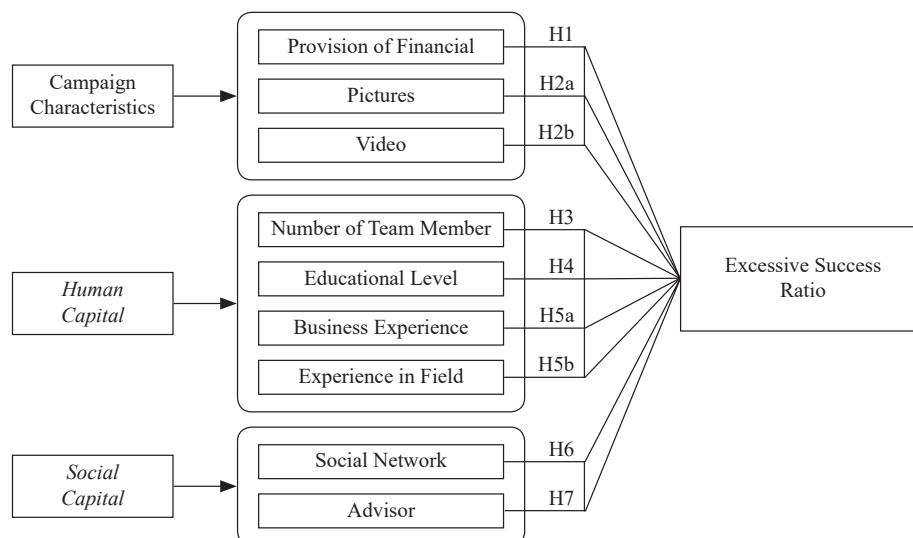


Table 1. Operationalization of Variables

Variables	Description	Measurement
Dependent Variable		
Excessive Success Ratio (E_{sr})	The measurement of the success of raising project funds through crowdfunding platforms.	(Amount of funds collected) / (Funding target)
Independent Variables		
Campaign Characteristics		
Provision of Financial Information (FI)	The existence of financial information on the project's campaign webpage	1 = The project has at least a number for EBIT, 0 = Otherwise
Pictures (Pic_i)	The number of pictures on the project's campaign webpage	Σ Picture on the campaign webpage
Videos (Vid_i)	The number of videos on the project's campaign webpage	Σ Video on the campaign webpage
Human Capital Factors		
Team Members ($Team$)	The number of team members within the company	Σ Company's main team member
Education Level (Edu_i)	The ratio of the number of teams who have at least a master's degree to the number of teams	(The number of team members who have master's degree) / (Number of team members)
Business Experience (BE_i)	The existence of at least one member who has business experience (as a serial entrepreneur)	1 = There is at least one member who has business experience, 0 = Otherwise
Experience in Field (EF_i)	The existence of at least one member who has previously worked in the same industry as the company	1 = There is at least one member who works in the same industry, 0 = Otherwise
Social Capital Factors		
Social Network (SN_i)	The number of founders' Linked-in connections.	(The number of founders' Linked in connection) / 100
Business Advisors Presents (AD_i)	The number of the advisor of each company	Σ Advisor of each company
Controlled Variable		
Level of GDP (x_i)	Country classification based on GDP per capita in the year 2018 with constant price base in the year 2010	1 = Higher real GDP per capita (Arab Emirates, Israel, and South Korea), 0 = Indonesia & Malaysia

the crowd or potential investor. Therefore, the detailed information gathered for this research based on what is available to the crowd on each platform's webpage.

Research Model

This research model was built to find the effect of campaign characteristics, human capital, and

social capital factors as independent variables towards equity crowdfunding campaign fundraising in Asia. Referring to Ahlers Cumming, Günther, and Schweizer (2015), Barbi & Mattioli (2019), and Lukkarinen, Teich, Wallenius, & Wallenius (2016) with several adjustments. Mathematically, the model in this study can be represented as follows:

Table 2. Regression Result

Variables	1 st Model (Champaign Characteristics)	2 nd Model (Human capital factors)	3 rd Model (Social capital factors)	4 th model (overall)
Constant	1.007***	0.773 ***	1.072***	0.608***
Provision of Financial Information	0.298***			0.114**
Pictures	0.002			0.004
Video	0.030			0.003
Number of Team Members		0.051**		0.018
Education Level		0.309**		0.184**
Business Experience		0.157**		0.159***
Experience in Field		0.263 ***		0.166***
Social Network			0.091***	0.075***
Business Advisor Presents			0.343 ***	0.323***
Level of GDP				0.041
Observations	201	201	201	201
R-Squared	0.0402	0.1371	0.2913	0.3626
Prob > F	0.0000	0.0000	0.0000	0.0000

**) sig at $\alpha=5\%$, ***) sig at $\alpha = 1\%$

$$ESR_i = \beta_0 + \beta_1 IF_i + \beta_2 Pic_i + \beta_3 Vid_i + \beta_4 Team_i + \beta_5 Edu_i + \beta_6 BE_i + \beta_7 EF_i + \beta_8 SN_i + \beta_9 AD_i + \beta x_i + \varepsilon_1$$

Table 1 shows the definition of how each variable is operationalized.

Figure 1 shows the model used in this study.

Results and Discussion

Results

From the descriptive statistics of 201 successful projects evaluated, we found that the average excessive success ratio is 131,8%. This number shows that, on average, the projects in the research sample succeeded in raising more than 31,8% from the funding target. We found that 85% of the sample has provided financial information about their companies from the campaign characteristics factor. Moreover, our sample projects also actively published pictures and videos on their campaign webpage to make it easier for a potential investor to understand their business, presented seven pictures and one video on average on their campaign web page. Furthermore, on average, the project owns many team members for the human capital factor, as many as three people where 32,8% of the overall members have a master's degree. It also indicates that small teams still run most companies that get funded in five Asian countries. Next, based on team members' experience, the quality of human capital in the sample can be said to have well, with more than

60% of the project having one member who has experience in business and working experience in the same industry company. Lastly, on the social capital factor, our sample has 176 people on Linked In.

Table 2 provide the regression result of the model evaluated here. This study used the Ordinary Least Square (OLS) method with robust standard error to eliminate heteroscedasticity problems. We run four research models, where each model includes a different set of independent variables. The first, second, and third models respectively focus only on the characteristic campaign, human capital, and social capital impact on the excessive success ratio. Meanwhile, the fourth model analyzes the independent variable's impact and control variable on the dependent variable. We also conduct relevant diagnostics tests such as Variation Inflation Factor (VIF) and pairwise correlation coefficient to ensure no multicollinearity problems. Table 2 shows that the fourth model has the highest R-square, amounting to 36,26%, which means model capabilities to explain fundraising success.

Discussion

Based on the regression result in table 2, at the 1% significance level, the campaign characteristic factor explained by the financial provision is statistically significantly related to the success ratio of the equity crowdfunding project fundraising shown in models 1 and 4. So, we concluded that hypothesis 1 could be

accepted. The research results align with Ahlers Cumming, Günther, and Schweizer (2015) and Lukkarinen, Teich, Wallenius, & Wallenius (2016). This finding is based on the investor's financial provision to analyze the business appeal, provide an accurate description of risks and business opportunities, and reduce asymmetric information (Ahlers Cumming, Günther, and Schweizer, 2015).

However, the different results showed by the picture and video variable where both do not significantly impact the crowdfunding project fundraiser success in models 1 and 4. We concluded that hypotheses 2a and 2b are rejected. This research contradicts the research done by Kunz, Bretschneider, Erler, & Leimeister (2017) and Bao & Huang (2017) that focuses on reward-based crowdfunding. However, this research results align with the research conducted by Borello De-Crescenzo, & Pichler (2019) and Mamonov & Malaga (2018). The two variables are not significant in this research because of the availability of several companies' live business pitches. Therefore, we conclude that the potential investor also considered its founder's business pitch in investment decisions. This variable only accounts for the number of videos and pictures that are presented on the campaign page. Thus, the research does not consider other media content provided by the crowdfunding platform on social media such as Facebook. It indicates that the funder can obtain other information about the company through various sources and not only focus on videos and pictures uploaded through the campaign page.

Next, we focus on the impact of human capital have on the funding success ratio. According to table 2, the human capital factor - explained by the number of team members- has a different result in models 2 and 4. In model 2, at a significance level of 5%, the number of team members is positive and statistically significant related to the success ratio on equity-based crowdfunding project fundraising. However, model 4 shows the opposite result. The different significance can exist because other variables in campaign characteristics, human capital or social capital factors, have a more considerable

impact on the independent variable than the number of team members. Thus, we conclude that hypothesis 3 is accepted partially. This research result is in line with Correia, Sousa, & Brandão (2019). This finding indicates that the investor of equity-based crowdfunding in Asia, focusing more on quality than the size of the human capital in analyzing project quality.

Furthermore, at the 5% significance level, the education level is statistically significantly related to the success ratio of the equity crowdfunding project fundraising shown in models 2 and 4. With a statistic value greater than the critical value of 1.65, we accept hypothesis 4. This research result in line with previous research by Ahlers, Cumming, Günther, and Schweizer (2015) and Barbi & Mattioli (2019). This conclusion is based on the fact that more educated individuals in a team have more excellent knowledge and higher skills necessary for the enterprise's survival and performance (Spence, 1973). Similarly, at the 1% significance level, the human capital factor described by business experience and experience in the field is proven to have a significant and positive effect on the success ratio of equity crowdfunding project fundraising. So, we concluded that hypotheses 5a and 5b are accepted. This study's results align with previous research conducted by rbi & Mattioli (2019) and Piva & Rossi-Lamastra (2018). Thus, the founder who experienced doing business and working in a related industry perceived as prefer signal for investors.

Next, we focus on the impact of social capital have on the funding success ratio. Based on the regression results in table 2, at the 1% significance level, the social network has a significant effect and positive on the success ratio of equity crowdfunding project fundraising, so that hypothesis 6 is accepted. The research results align with Vismara's (2016) and Piva & Rossi-Lamastra's (2018) findings. In other words, the social network explained by the higher number of LinkedIn connections gives a signal that the probability of project success is more remarkable because of the possibility of offering capital from investors connected to the business owner. Moreover, the advisory variable also shows a similar result where this variable has a significant and positive effect

on the success ratio of equity crowdfunding project fundraising at the 1% significance level. Thus, the result has sufficient evidence to accept hypothesis 7. The study results are in line with previous research conducted by Kim & Viswanathan (2019). This finding indicates that although the advisor's role and contribution to project productivity are low, the advisor can introduce the project owner to other investors to achieve funding quickly.

Finally, model 4 shows that the GDP level significantly determines a crowdfunding campaign's success ratio, whereas the crowdfunding campaign is significantly higher in countries with high GDP levels (Arab Emirate, Israel, and South Korea). However, further research is needed to analyze what factors cause these differences, whether infrastructure factors, laws, and regulations, community culture, or other factors. Previously, Arifah and Dalimunthe (2020) concluded that financial literacy affects one's decision to engage in equity-based crowdfunding in Indonesia. Meanwhile, Wulandari, Saeedi, and Meskaran (2020) found that high return expectations significantly motivate crowdfunding investors in Malaysia.

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Conclusion

This research concludes that financial information provision can mostly determine equity-crowdfunding success in Asia, especially in Indonesia, Malaysia, United Arab Emirates, Israel, and South Korea. However, there is not enough evidence that investors responded positively to the number of pictures and videos provided in the campaign. On the other hand, human capital factors that are important to fundraising success are the team's capability involved in the project. In comparison, the critical social capital factor is the team's social network and a business advisor's presence. In sum, we suggest entrepreneurs – especially an SME's founder – emphasize providing financial data, building strong teamwork, social network, and presenting a capable business advisor to win the campaign. However, This study deal with limited data. Crowdfunding platforms generally do not provide data on unsuccessful crowdfunding campaigns. Also, data limitations mean that this study does not cover crowdfunding activities growing rapidly in other countries like China.

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