

## "The Impact of Crowdfunding Financial Attributes On Entrepreneurship Risk Taking"

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### Abstract

This paper aims to study the impact of Crowdfunding financial attributes on entrepreneurship risk taking. This study was applied on Arabic Crowdfunding platforms from all crowdfunding models.

The population of the study consists of individuals, entrepreneurs, investors, employees at electronic-crowdfunding Arabic platforms. According to last statics at (2018), there are (12) legit Arabic platforms working in this field.

Several statistical tools were used for data analysis and hypotheses testing, including reliability Correlation using Cronbach's alpha, "ANOVA", Simple Linear Regression.

The overall findings of the current paper show that there is significant statistical impact for financial properties on entrepreneurship and this affect around (25%).

Furthermore, the current paper is unique by topic and population as it is the first study on Arabic crowdfunding platforms.

**Keywords:** Crowdfunding, financial properties, risk taking, entrepreneurship.

## Introduction

Crowdfunding as an additional financing new model for entrepreneurship is still under theoretical and academic study as it is new phenomenon which starts at 1997.

Variables that control crowdfunding still not raise to theoretical phase in literature review and more academic study and depth analysis about it are in need.

This paper is an academic study about financial attributes in Arabic crowdfunding platforms that can support entrepreneurship and support additional financial tools.

According to (Abu Naser et al., 2018), many dynamic variables affecting crowdfunding (legislations, education system, culture, e-business models, financial technology) (Abu Naser, et al., 2018).

The objective of this study is to measure the impact of crowdfunding financial attributes on entrepreneurship risk taking through (12) Arabic crowdfunding platforms.

The history of crowdfunding in the Arab world began late in 2014 through some sites (Eureka) in the United Arab Emirates, (Zomal) in Lebanon and (Ymken, Shukruh) in Egypt. The idea of participatory crowdfunding for entrepreneurship financing still needs further research in the Arab world, with an industry worth \$ 59.564 billion in (2017) and a weak Arab market share worth \$ 35.76 million. (Abu Amuna, et al., 2018).

In view of the literature review, the study raises the question of:

**Q1.** How financial attribute affect Crowdfunding in Arabic region?

**Q2.** What is the impact of financial attribute on entrepreneurship risk taking?

## Literature Review

In addition to the various traditional financing methods, crowdfunding is a modern way of financing that is compatible with e-business models, and there must be certain elements to achieve them and to ensure their success as well as an encouraging culture of entrepreneurship.

A few Arabic studies about crowdfunding focus on foreign platforms like kickstarter and Indiegogo, as they are the most famous worldwide plat forms (Abushaban, 2014).

Other Arabic studies focus on variables affecting Crowdfunding in general and the readiness to accept this model of e-business as additional tool for financing small and micro projects (El Talla, et al., 2017).

In spite that this tool of finance started globally at (2005) when (Kiva) platform for microfinance loans established, and the exist of hundreds of researches studying this field of science from known authors like (Mollick, 2014, Block, 2014, Ahlers, 2015, Agrawal, 2015), the Arabic academic researchers are still rare.

The evolution of the concept of funding in recent decades, developed in a remarkable way in terms of its form and those who offer them. This development was due to several reasons, including:

- Increased competition
- The intensification of inflation
- Direct government intervention
- Indirect economic activity
- The global economic crisis (2008)
- The technological advances

Crowdfunding has been defined under different terms, from different points of view. In simple terms, Crowdfunding relies on the meeting of non-professional investors and entrepreneurs via internet platforms .

It is one of the most important funding resources in internet era which contributes to the activation of the sources of funding for economic foundation, especially start-up projects. Also it is considered an alternative to bank financing that does not fit often with the status of small and medium enterprises at the beginning of the evolution of its activity (Sharma and Lertnuwat, 2016).

The World Bank defines Crowdfunding as "enabling companies and business organizations relying on the Internet to collect the necessary funds, whether voluntary or investment by many individuals" (InfoDev, 2014).

Abu Amuna (2018), Abu Naser et al. (2018), Ahlers et al. (2015) define it as "a broad term used to describe the increasing spread of the fundraising process is done through the Internet, where there are groups of individuals who own the money make small contributions to achieve a particular goal" (Abu Amuna, et al., 2018).

Crowdfunding is characterized by its flexibility on the one hand, and its ability to adapt to environmental changes around it to fit with the objectives and policies of each country, and with the patterns of entrepreneurial projects prevailing in each country.

There are four main categories of Crowdfunding: Equity, Debt or Peer to Peer lending (financial models), Reward and Donation based Crowdfunding (non-financial models).

- \* **Reward base:** This type of financing is common in financing a product or project which is still being developed. A form of compensation for the financier is the right to pre-order the product or get the product sent when it is finished. An advantage of this form of financing is that it is an alternative market research; if the investors are not willing to invest, they are not interested in the product or project (Douglas J., et al., 2014).
- \* **Donation based:** In this model, individuals donate to the project without expecting any financial return or percentage from the project owner (Lehner, 2013).
- \* **Equity based:** In this model, the financiers have part of the property rights or participate in the profits or management, as previously agreed with the owner of the project. This model can achieve a high financial gains, and capital can be increased significantly as a result of attracting a large number of investors who are looking for shares in a company or a successful project outside the restrictions of stock market, brokers and do not have large amounts of money to speculate in the stock market (Sharma and Lertnuwat, 2016).
- \* **Lending based:** This model also (Peer-to-Peer). The idea behind this type of Crowdfunding is to cut out the mediators and get cheaper loans or as an investor, get better interest rates (Bruton et al., 2015). Each model has it is own financial attributes which might attract investors to involve in. The following table (1) clarifies those attributes for each model.

**Table 1:** Financial Attributes

Model	Investor	Entrepreneur
Reward	Small contribution	Raise capital
Donation	Small contribution	Charity
Equity	Medium contribution Loosing assets is possible Can't sell the share	Raise capital Might be debtor
Lending	High risk Losing money is possible Return is good	Bankruptcy is possible High interest

**Source:** Authors

Crowdfunding depends on the existence of entrepreneurial culture within the country, and studies on the subject show that factors such as culture, legal environment and economic incentives have an impact on the development and success of entrepreneurship (Josefy et al., 2016)

These factors are either restricts or enables stimulating entrepreneurship projects, and therefore governments should encourage entrepreneurial culture by supporting entrepreneurship, business incubators and business accelerators.

To achieve success, entrepreneurship requires a supportive ecosystem of interrelated factors ranging from infrastructure to access to financial services. Decision-making institutions play a very important role in the entrepreneurial ecosystem.

Risk taking is one of the important factors that effect on entrepreneur capabilities and passion. Risk taking consists of:

1. **Initiative:** One of the most important features of entrepreneurship is that it takes more risky steps than environmental conditions. Initiative is to follow the promising opportunity rather than simply respond to competitors' movements and be a leader in innovation and at the forefront of competitors (Alsakarna, 2010).
2. **Start- up opportunities:** Is a measure of start-up companies that are motivated by opportunity but face regulatory constraints. The motivation to start a business is a good indicator of the quality of work. Entrepreneurs who are aware of the opportunities are more skilled and more willing to profit and continue to work as this is an opportunity to increase income or achieve personal goals. On the other hand, non-entrepreneurs are forced to do this because there are no other options (Ács et al., 2017).
3. **Risk taking:** Is a clear process for selecting projects, collecting basic information in terms of cash flow and return on investment and focusing on negatives and positives that affect project objectives (Alhabeel and Abukarn, 2015).
4. **Access to international markets:** Access to international markets is the main determinant of growth and export capacity is a key factor in entering foreign markets. This requires capacities beyond those required by companies that are produced only for local markets. This also requires opening up the country to international entrepreneurs, accepting them in the local market and applying globalization (Cieslik, 2017).

From previous literature review, the following hypothesis in this paper can be written as:

**H0:** There is a statistically no significant effect for Crowdfunding financial attributes on entrepreneurship risk taking.

## Research design

### 1. Study population and sampling

This study conducted at (12) Arabic Crowdfunding platforms with total members (47.692). A pilot sample of (53) units was used to study the tools of the study, to verify the validity and stability of these tools. The paper sample consist from (545) unit from all platforms.

### 2. Research instrument

Since the nature of hypothesis and the variables involved are the ones that control the selection of the appropriate tool, accordingly, the researchers have prepared a measure for that study commensurate with its objectives and requirements, the elements of financial attributes and risk taking.

The process of designing and preparing the study scale has gone through several stages and steps:

1. Review the literature of crowdfunding, and previous studies on the subject of the current study.
2. Collect and define scale paragraphs.
3. Formulation of the standard expressions according to the study sample.
4. Set the meter instructions.
5. Correct the meter.
6. Conduct a study of stability and honesty of the scale.

The first dimension referring to Crowdfunding financial attributes prepared by authors from (12) paragraphs. The second dimension of the instrument which measure entrepreneurship risk taking was developed depending on Global Entrepreneurship Index (GEI) and consist from (6) paragraphs.

Also Trustees validity has been conducted by a group of expert in Crowdfunding and entrepreneurship field. Those statements were further revised and modified by the experts in a subsequent stage before drafting the final version of the questionnaire.

A five-point Likert scale of agreement was used for measurement, running from “Strongly Agree” to “Strongly Disagree”, with a Neutral category for scale midpoint.

Several statistical tools were used for data analysis and hypothesis testing, including reliability Correlation using Cronbach’s alpha, “ANOVA”, Simple Linear Regression.

### 3. Validity and reliability assessment

The study adopted Cronbach’s  $\alpha$  to measure the internal consistence reliability of the questionnaire. The results showed that Cronbach’s  $\alpha$  values for all dimensions were  $> (0.5)$ . It indicated that the design of the questionnaire had a high internal consistency as shown in table (2).

**Table 2:** Coefficients of Alpha Cronbach

Field	No. of paragraphs	Alpha-Cronbach stability
Financial attributes	12	0.680
Entrepreneurship risk taking	6	0.622

### 4. Data analysis and discussion of results

Simple linear regression used to test whether there is an impact for one independent variable (Financial attributes) on a dependent variable (Entrepreneurship risk taking). The results are shown in Table (3) and table (4).

**Table 3:** Anova Test

Field	F	Sig.	R	R <sup>2</sup>
Entrepreneurship risk taking	181.873	0.000	0.501	0.250

**Table 4:** Linear Regression

Field	Model	B	Beta	T	Sig.
Entrepreneurship risk taking	constant	0.877		5.438	0.000
	Financial Attributes	0.689	0.501	13.486	0.000

The results of Anova test indicate that sig. is less than (0.05) for independent variable (Financial Attributes), which mean that there is significant statistically effect for independent variable (Financial Attributes) on entrepreneurship risk taking.

Pearson coefficient and regression coefficient sign for independent variable was positive. This result means whenever the value of independent variables increase, there will be increase in entrepreneurship risk taking.

Changes in the independent variable is responsible for the interpretation of a rate ( $r^2 = 25\%$ ) of all the changes that occur in entrepreneurship risk taking, and there is a rate ( $100 - r^2$ ) due to other factors specific to the other independent variables and other factors not mentioned in the model, in addition to the random error. Table (3) reveals that the findings of significance level are less than (0.05), which means that we can rely on the previous model and circulating the sample results on research community.

Therefore, the results of the analysis proved the existence of a relationship between the independent variable and the dependent variable. According to that, we accept hypothesis H1 and refuse H0. The H1 hypothesis can be written as:

H1: There is a statistically significant effect for Crowdfunding financial attributes on entrepreneurship risk taking.

Table (4) determines the figure of linear regression equation for the impact of Crowdfunding financial attributes on entrepreneurship risk taking. This equation can be written as follow:

$$\text{Entrepreneurship risk taking} = 0.877 + (0.689 * \text{Financial attributes})$$

**Conclusion:**

Crowdfunding as a new concept needs more attention and declaration to the community, especially in poor communities where there are high unemployment and less work opportunities.

Microfinance has become a tool of democratization of entrepreneurship funding, while Crowdfunding potentially opens entrepreneurship funding to masses. Combining both Crowdfunding and microfinance can lead to an acceleration of poverty eradication.

One of the most factors for Crowdfunding that effect on entrepreneurship risk taking is financial attributes for Crowdfunding models. As shown from data analysis, Crowdfunding financial attributes effect on entrepreneurship risk taking. This result encourages entrepreneurs to adopting new financial models to enhance their start-up projects.

Other factors which not included in this study such as Crowdfunding models, legislations, Fintech also effect on entrepreneurship and need to be study in future researches.

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