

Analysis of Factors Influencing the Success of Funding in Equity Crowdfunding Registered in the Financial Services Authority in Indonesia

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ABSTRACT

This study aims to determine and test the effect of intellectual capital signals and the level of uncertainty on the success of funding on equity crowdfunding platforms that are officially registered with the financial services authorities in Indonesia.

The population of this study is prospectuses for open offers made by MSMEs on equity crowdfunding platforms in Indonesia in 2019 – 2021, with a total of 147 prospectus observation data. The sampling technique used is purposive sampling, which is a sampling technique with specific criteria. Multiple regression analysis is the method to test the hypothesis.

This study argues that intellectual capital and the uncertainty presented in an open offer in equity crowdfunding can be perceived by novice investors or crowd funders as a signal of business quality and encourages them to invest and meet funding targets by exploiting the role of signalling theory in reducing information asymmetry.

The study results show that only business alliances indicate intellectual capital, and financial projections indicate the level of uncertainty that has a positive and significant effect on the number of funds that indicate successful funding. Meanwhile, business experience and product innovation, indicators of intellectual capital, and date debt, indicators of uncertainty, have no significant effect. Based on these findings, the success of equity crowdfunding, officially registered in Indonesia, is influenced by business alliances and financial projections. This research provides valid

implications for entrepreneurs, platform managers, and policymakers/authorities.

Keywords: funding success, equity crowdfunding, intellectual capital, level of uncertainty

INTRODUCTION

Digital technology development is taking place very quickly in various industrial sectors, including the financial services industry. This development was marked by the emergence of financial technology (financial technology/FinTech) companies. Financial technology (from now on referred to as Fintech) offers new ways of transacting, obtaining financing, collecting funds collectively, online payments, capital, investment, and other Fintech products.

Based on Bank Indonesia (BI) statistics, the number of e-Money instruments in Indonesia reached 353,587,670 in June 2020. The accumulated loan disbursement reached IDR 113.46 trillion (Financial Services Authority, 2020). Both figures show an increasing trend from time to time.

Based on data from the 2019/2020 Annual Member Survey Report by the Indonesian FinTech Association (AFTECH) until the end of the second quarter of 2020, among the four categories of fintech business models, online loans are the most dominant (44%), followed by fintech in the IKD category (24%), digital payments (17%),

and crowdfunding (Crowdfunding Services) (1%).

Collective fundraising or crowdfunding is one of the Fintech products that provide solutions to overcome economic difficulties in terms of capital to build and develop a business. According to a 2020 study from the Institute for Development of Economics and Finance (INDEF), the total investment in the Crowdfunding Service platform in Indonesia reached IDR 15.5 billion in December 2019. Fundraising activities for Crowdfunding Services are focused on increasing MSME capital. As of December 2019, the amount of funding provided by the licensed Crowdfunding Service platform to MSMEs reached around IDR 8.16 billion. The increase in investment in equity crowdfunding as of January – December 2019 reached 336 per cent (INDEF Study, 2020).

There are several types of crowdfunding based on the research that has been done, seen from the form of support (Adiputro, 2017): reward-based crowdfunding, donation-based crowdfunding, debt-based crowdfunding, and equity-based crowdfunding. This research focuses on equity crowdfunding (from now on, referred to as ECF). ECF is an emerging fundraising system (Nielsen, 2018) and involves crowd participation being a dispersed source of equity financing for entrepreneurial projects (Ralcheva & Roosenboom, 2019; Vulkan et al., 2016). ECF is a strategic choice for entrepreneurs (Troise & Tani, 2021) and a popular financing alternative to traditional equity funding sources such as venture capital (Ralcheva & Roosenboom, 2019).

The ECF assists entrepreneurial projects in accessing funds from a novice and unsophisticated investor community (Belleflamme et al., 2014; Vismara, 2018). These novice investors, better known as crowd funders (Polzin et al., 2018; Vismara, 2018), will hold ownership shares in the business. That is, they become shareholders and hope to benefit from the company's profits in the future (Vismara, 2016). Through the ECF online portal,

entrepreneurs can submit projects and require the necessary funds without looking for alternative funding sources.

ECF has rapidly become popular in recent years, and its market is growing in number (Technavio, 2018; Politecnico Milan, 2019). This is starting to get the attention of world institutions, and more and more countries and regulatory authorities are introducing new laws or special regulations (Vismara, 2016). As for Indonesia, ECF has been stated in OJK regulation number 37/POJK.04/2018 concerning Crowdfunding Services through Information Technology-Based Stock Offerings (equity crowdfunding).

Previous studies have shown that many open bids are unsuccessful (Mochkabadi & Volkmann, 2020; Piva & Rossi-Lamastra, 2018; Troise et al., 2020; Vulkan et al., 2016), which states that many projects on the ECF platform do not increase the amount capital targets. The main reason why many ECF open offerings tend to fail is that there is a profound information asymmetry between founders and crowd funders (Ahlers et al., 2015). Information asymmetry usually arises between investors and entrepreneurs because what is assumed about the value of the company or business offered does not match reality (Dorfleitner et al., 2018). The information asymmetry is even more apparent in the ECF context as crowd funders are small amateur investors often characterized by limited experience and a lack of ability to evaluate entrepreneurial projects. Signalling theory (Spence, 1973) is considered the most suitable theory. Small investors can assume information about the ECF platform as a signal of business quality and can convince them to invest, thus reducing the problem of information asymmetry. Credible signals help entrepreneurs communicate their business's quality to investors and collect funding through the ECF platform (Ahlers et al., 2015; Vismara, 2016).

Currently, 3 ECF organizers in Indonesia have obtained permission from OJK as of December 2019:

- 1) Santara under PT. Santara Daya Inspiratama,
- 2) Bizhare under PT. Nusantara Digital Investment and
- 3) Crowddana under PT Crowddana Teknologi Indonusa.

So far, there are two types of business models in ECF, namely:

- 1) Capital raising for MSMEs and
- 2) Capital raising for the property.

LITERATURE REVIEW

Intellectual capital

Intellectual capital is an intangible asset in the form of information and knowledge resources that increases competitiveness and can improve company performance. Intellectual capital is a significant source of competitive advantage for companies, and its components are considered the main competitive levers of companies because they can create value (Bontis, 1998, 2001; Chen et al., 2005; Hormiga et al., 2011). Most researchers classify intellectual capital in three dimensions: human, structural, and relational.

Researchers adopt these three dimensions to investigate whether and how intellectual capital influences the success of funding on the ECF platform. The three dimensions of intellectual capital are divided into:

1. Human Capital

Several previous studies have mentioned the importance of human capital in the success of ECF funding, which is expressed in variables: the number of founding team members who have MBA degrees (Ahlers et al., 2015), team size and experience (Li et al., 2016); business education and experience (Piva & Rossi-Lamastra, 2018); business experience (Nurasri, 2018). Based on some of these studies, the researcher focused on business experience. It takes into account the experience of starting a business. This experience generates excellent value because the central part of human capital in a business lies in the entrepreneur

himself (Hormiga et al., 2011). Referring to the ECF, business experience can play a relevant role. Overall, it is possible to make the premise that business experience is a driver that can positively influence the success of investments by investors or crowd funders. This is associated with the higher the human capital, the higher the capability and ability to pay attention to various aspects of entrepreneurial success. In this case, companies with "high quality" human capital are thought to be more efficient and attract investors who make successful funding. The influence exerted by human capital is more significant for companies that are still new than for older companies (Barbi & Mattioli, 2019). Long business experience can be used as a signal by fundraisers to attract investors because entrepreneurs who have been in business for a long time tend to be more trusted than those who have just started a business (Nurasri, 2018). Previous start-up experience had a positive impact, and this holds for the funding raised (Troise et al., 2021).

2. Social Capital or Relational Capital

Social capital or relational capital is a harmonious relationship/association network owned by a company with its partners, both from reliable and quality suppliers, the company's relationship with the government, and the surrounding community. Relational capital can emerge from various parts outside the company environment that can add value to the company (Nurasri, 2018)

The second dimension of intellectual capital is relational capital, which comes from a set of external business relations. Environmental context influences companies, and relational capital creates value from stakeholder relationships (Bontis, 2001; Hsu & Fang, 2009; Ordóñez de Pablos, 2003).

Troise et al., 2021 stated that a positive and significant relationship from

relational capital using partnerships and third-party support as variables has a higher chance of obtaining funding from the ECF platform. The results of this study are by the theoretical argument that assumes the relevance of relational capital for companies seeking funding on the ECF platform. Support from incubators, large corporations, and stakeholder partnerships encourage crowd funders to invest because these prominent relationships demonstrate a company's good reputation with the public.

Venture alliances easily prove even to amateur investors who cannot evaluate entrepreneurial projects, and as such, they are strong signals that can reduce information asymmetry. In the ECF context, information about relational capital can easily be provided by entrepreneurs and verified by potential investors.

3. Structural Capital

Many researchers state that structural capital is a company's internal resources. These resources include several components, such as intellectual property rights, technology, infrastructure assets (e.g., organizational models, culture, and processes), R&D, innovation activities, and new products/services (Bontis et al., 2000; Choong, 2008; Dumay, 2009; Hormiga et al., 2011; Kim & Kumar, 2009).

Product innovation reflects a company's tendency to engage in new products with novelty or new quality (Troise et al., 2021). Product innovation is considered a variable of business innovation efforts and is often included in the structural capital dimension in intellectual capital (Dumay, 2009; Kim & Kumar, 2009) because product innovation is essential in increasing business competitiveness (Huang & Liu, 2005).

The research by Ayuningtias & Kurnia (2013) showed that dividend policy did not significantly affect firm value. At the same time, research from Wahyuni et al. (2013) concluded that dividend policy has no

significant positive effect on firm value.

The Dividend Payout Ratio was chosen as an indicator of dividend policy because dividends reflect the percentage of each rupiah generated distributed to company owners (Wati et al., 2018).

Uncertainty Level

The choice of the theory of the level of uncertainty refers to the pattern of investors who feel reluctant to invest their funds in something where the information is still ambiguous. The level of uncertainty is a definite indicator directly related to investors in choosing investments (Nurasri, 2018). The level of uncertainty can be defined as a cognitive process in which highly accessible attributes are replaced with less accessible attributes of the object of judgment to reduce the complexity of certain judgments (Kahneman, 2003). As a result, judgment is mediated by the degree of uncertainty when an individual assesses a property of the object of judgment by substituting other properties of that object (Gammelgaard & Bossen, 2018). The level of uncertainty will be explained in the following financial projections and debt-to-date ratios:

1) Financial Projection

When the theory of the level of uncertainty is associated with the current funding success, entrepreneurs try to provide signal characteristics that can be seen from their business as a way of reducing the level of uncertainty (reducing information asymmetry) for investors. Entrepreneurs use prospectuses to provide financial forecasts to potential investors, such as income forecasts or non-audited financial reports that summarize and contain risk factors (Ahlers et al., 2015). Suppose the entrepreneur does not contain financial forecasts or disclaimers (non-audited financial statements). In that case, potential investors have higher uncertainty than when promoting an open offer, where financial forecasts and disclaimers are provided. Thus, prospectuses must clearly state their

vision, views, and potential withdrawal risks (Michael, 2009). Investors can use this information to analyze business attractiveness, provide a more precise picture of risks and opportunities, and help reduce asymmetric information risk. Therefore, investors will have a better basis for forming expectations, which are generally favoured by investors (Epstein & Schneider, 2008), and increase funding success—in line with Nurasri's 2018 research, which tested 70 data from the ECF platform in Indonesia, stated that financial projections affect the success of funding.

2) Debt to Date (Debt Ratio)

Hillier D. et al. (2014) introduced the concept of corporate leverage and debt signalling, stating that investors view debt as a signal of company value. Companies with value issue more debt than those that are less valuable, and rational investors tend to conclude that company value is higher than higher debt. Further, a company with low predicted profits will take on a low level of debt because a small interest deduction is needed to offset all this company's pre-tax profits. More debt will increase the company's predicted costs. On the other hand, a more successful company will likely generate more debt. The company will use the extra interest to deduct taxes from its more significant income. In other words, companies rationally increase debt levels (and concurrent interest payments) when profits are expected to increase (Hillier D. et al., 2014). At the same time, Yan (2015) revealed that he found no impact and no statistical significance of debt to date on all measures of funding success tested through 50 sample data on the Crowd cube platform in England.

FRAMEWORK & HYPOTHESIS

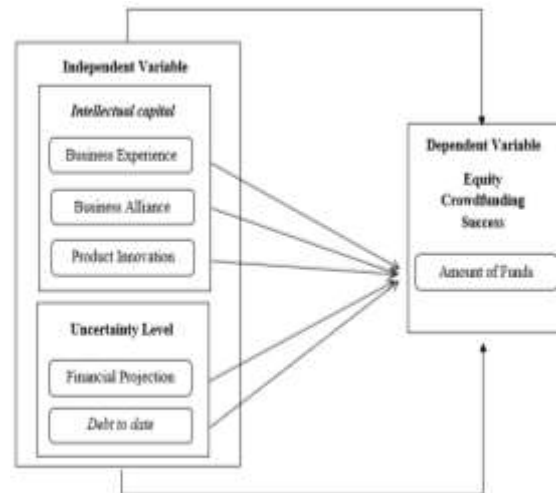


Figure 1. Framework

H1: Business experience positively affects the number of funds obtained on the equity crowdfunding platform registered with the Financial Services Authority in Indonesia.

H2: Business alliances positively affect the number of funds obtained on the equity crowdfunding platform registered with the Financial Services Authority in Indonesia.

H3: Product innovation affects the number of funds obtained on the equity crowdfunding platform registered with the Financial Services Authority in Indonesia.

H4: Financial projections positively affect the number of funds obtained on the equity crowdfunding platform registered with the Financial Services Authority in Indonesia.

H5: The company's debt to date has a negative effect on the amount of funds obtained on the equity crowdfunding platform registered with the Financial Services Authority in Indonesia.

H6: Business experience, business alliances, product innovation, financial projections, and debt to date affect the number of funds obtained on the equity crowdfunding platform registered with the Financial Services Authority in Indonesia.

MATERIALS & METHODS

This research was conducted using a comparative causal approach, or causal

research. The research aims to examine causation by observing the existing effects and re-examining the factors that may be the cause through specific data. This type of research is included as descriptive research because it describes the circumstances that have occurred. This type of research is quantitative descriptive research because it was conducted by emphasizing its analysis of numerical data (numbers) to find out and analyze the factors that influence the success of funding in equity crowdfunding in Indonesia.

The population used in this research is MSMEs or start-up companies that publish open offers on equity crowdfunding platforms officially registered with the Financial Services Authority (OJK) in Indonesia. The population is 206 businesses from three platforms, consisting of 92 publisher businesses from the Santara platform, 91 from the Bizhare platform, and 23 from the Crowddana platform.

The sampling technique in this study was to use a purposive sampling technique. The purposive sampling technique is a sampling technique by determining specific criteria (Sugiyono, 2008). An effort to obtain data on the problem under study requires data sources that have specific criteria, including:

1. MSMEs or companies that make offers on the ECF platform that are officially registered with OJK.
2. An open offer that has been completed (closed) but can still open its bidding data (prospectus).
3. Offers must be within the period 2019 – 2021.
4. The prospectus has complete data regarding the variables studied.

Based on the above criteria, the sample obtained was 147 samples.

The data collection method was carried out using documentation techniques, namely by collecting financial reports, records, and other information related to research through libraries, mass media,

and so on.

The data analysis method used is panel data regression, namely estimation of the panel data regression model, selection of the panel data regression model, and hypothesis testing.

RESULT

A. Classic Assumption Test

1) Multicollinearity Test

In this study, multicollinearity symptoms can be seen from the VIF value. Ghozali (2013) states that if the VIF value is > 10 , this is an indication of multicollinearity. The results of the multicollinearity test are presented in Table 1.

Table 1. Multicollinearity Test with VIF

Independent Variable	VIF
EXP	1.16428
AL	1.142062
IP	1.051431
FP	1.037413
DTD	1.032241

Based on the table above, it can be concluded that there are no symptoms of multicollinearity between the independent variables. This is because the VIF value < 10 (Ghozali, 2013).

2) Autocorrelation Test

The assumption regarding the independence of the residuals (non-autocorrelation) can be tested using the Durbin-Watson test. The statistical value of the Durbin-Watson test ranges between 0 and 4. A statistical value of the Durbin-Watson test that is less than one or greater than 3 indicates autocorrelation.

Table 2. Autocorrelation Test with Durbin-Watson Test

Log likelihood	-286.4522	Hannan-Quinn criter.	4.028535
F-statistic	3.116581	Durbin-Watson stat	1.745304

Based on the table above, the value of the Durbin-Watson statistic is 1.745304. Note that because the value of the Durbin-Watson statistic lies between 1 and 3, namely $1 < 1.745304 < 3$, the non-autocorrelation

assumption is met. In other words, there is no high autocorrelation in the residuals.

3) Heteroscedasticity Test

To test whether there is heteroscedasticity or not, the Breusch-Pagan test can be used. Table 3 presents the results of the heteroscedasticity test using the Breusch-Pagan test.

Table 3. Heteroscedasticity Test with the Breusch-Pagan Test
Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.224889	Prob. F (5,141)	0.3006
Obs*R-squared	6.119264	Prob. Chi-Square (5)	0.2948

Based on the results of the Breusch-Pagan test in the table above, it is known that the Prob. Chi-Square 0.2948 > 0.05, which means there is no heteroscedasticity.

B. Hypothesis Test Results

Results of the Partial Effect Significance Test (t-test)

The t-statistical test indicates how far the influence of one independent or explanatory variable individually explains the variation of the independent variable (Ghozali, 2013). The hypothesis is accepted if the β value has a direction that is by the hypothesis and has a significance level <0.05. In addition, the hypothesis is accepted if the calculated t value is higher than the t table value. The results of hypothesis testing using individual parameter tests (t statistical test) are shown in the following table:

Table 4. Table of Partial Effect Significance Test (t-test)

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta				Tolerance	VIF
(Constant)	15.641	.370			42.260	.000		
EXP	.027	.028	.085	.981	.328	.859	1.164	
AL	.653	.309	.180	2.113	.036	.876	1.142	
IP	.324	.384	.069	.844	.400	.691	1.051	
FP	.886	.371	.194	2.387	.018	.964	1.037	
DTD	-.015	.600	-.015	-.186	.872	.969	1.032	

From the calculation results presented in Table 4, the regression model is then written as follows:

$$Y = 15.641 + 0.027X_1 + 0.653X_2 + 0.324X_3 + 0.886X_4 - 0.015X_5 + e$$

Based on these equations can be interpreted as follows:

1. It is known that the constant value is 15.641. This value can be interpreted if EXP, AL, IP, FP, and DTD do not affect AF, then the value of the dependent variable AF is 15.641.
2. It is known that the value of the regression coefficient of the EXP variable is 0.027, which is positive. This means that when EXP increases by 1 unit, AF tends to increase by 0.027.
3. It is known that the value of the regression coefficient of the AL variable is 0.653, which is positive. This means that when AL increases by 1 unit, AF tends to increase by 0.653.
4. It is known that the value of the regression coefficient of the IP variable is 0.324, which is positive. This means that when IP increases by 1 unit, AF tends to increase by 0.324.
5. It is known that the value of the regression coefficient of the FP variable is 0.886, which is positive. This means that when FP increases by 1 unit, AF tends to increase by 0.886.
6. It is known that the value of the regression coefficient of the DTD variable is -0.015, which is negative. This means that when the DTD increases by 1 unit, the AF decreases by -0.015.

Based on Table 4, the following results are obtained:

1. It is known that the statistic t or t count of EXP is 0.981, namely < t table 1.6557, and the value of Sig. is 0.328, i.e., > 0.05 significance level, then EXP has no significant effect on AF. The results of testing the H1 hypothesis were declared rejected.
2. It is known that the t statistic or t count from AL is 2.113, namely > t table 1.6557, and the value of Sig. is 0.036, i.e., < 0.05 significance level, then AL has a significant effect on AF. So it can be concluded that AL has a positive and significant direction of influence on AF.

The results of testing the hypothesis stated that H2 was accepted.

3. This means that IP has a positive direction of influence on AF. It is known that the statistical t or t count of IP is 0.844, namely < t table 1.6557, and the value of Sig. is 0.400, i.e., > 0.05 significance level, then IP has no significant effect on AF. The results of testing the hypothesis stated that H3 was rejected.
4. It is known that the t statistic or t count from FP is 2.387, namely > t table 1.6557, and the value of Sig. is 0.018, i.e., < 0.05 significance level, then FP has a significant effect on AF. So it can be concluded that FP has a positive and significant direction of influence on AF. The results of testing the hypothesis stated that H4 was accepted.
5. It is known that the t statistic or t count of the DTD is -0.186, namely < t table 1.6557, and the value of Sig. is 0.852, i.e., > 0.05 significance level, then DTD has no significant effect on AF. The results of testing the hypothesis stated that H5 was rejected.

Simultaneous Effect Significance Test Results (Test F)

The F test aims to test the effect of the independent variables together or simultaneously on the dependent or dependent variable (Ghozali, 2013). The results of hypothesis testing using a simultaneous test (statistical test F) are shown in the following table:

Table 5. Simultaneous Effect Test with F Test

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	46.865	5	9.373	3.117	.011 ^b
	Residual	424.055	141	3.007		
	Total	470.921	146			

a. Predictors: (Constant), DTD, EXP, FP, IP, AL

b. Dependent Variable: AF

Table 5 shows the calculated F value of 3.117, namely > t table 2.09 and the Sig.

0.011 < 0.05, it can be concluded that business experience (EXP), business alliances (AL), product innovation (IP), financial projections (FP), and date debt (DTD) simultaneously or jointly have a significant effect on the number of funds (AF). Because the probability is less than 0.05, the regression model can be used to predict the amount of funds (AF). The results of testing the hypothesis stated that H6 was accepted.

C. Analysis of the Coefficient of Determination

The coefficient of determination (R²) is a value (proportion value) that measures the ability of the independent variables used in the regression equation to explain the variation of the dependent variable.

Table 6. Determination Coefficient Table

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.315 ^a	.100	.068	1.73421

a. Predictors: (Constant), DTD, EXP, FP, IP, AL

Based on Table 6, it is known that the coefficient of determination (R-Square) is 0.100. This value can be interpreted that the variable business experience (EXP), business alliances (AL), product innovation (IP), financial projections (FP), and debt to date (DTD) simultaneously or simultaneously can affect the number of funds (AF) of 10%, variables or other factors explain the remaining 90%.

CONCLUSION

Based on the results of the research and discussion in the previous chapter, the following conclusions can be drawn:

1. Business experience does not affect the amount of funds obtained on the equity crowdfunding platform registered with the Financial Services Authority in Indonesia.
2. Business alliances positively and significantly affect the number of funds

obtained on the equity crowdfunding platform registered with the Financial Services Authority in Indonesia.

3. Product innovation does not affect the number of funds obtained on the equity crowdfunding platform registered with the Financial Services Authority in Indonesia.
4. Financial projections positively and significantly affect the number of funds obtained on the equity crowdfunding platform registered with the Financial Services Authority in Indonesia.
5. Debt to date does not affect the amount of funds obtained on the equity crowdfunding platform registered with the Financial Services Authority in Indonesia.
6. Business experience, business alliances, product innovation, financial projections, and debt to date significantly affect funding success on an equity crowdfunding platform registered with the Financial Services Authority in Indonesia.

LIMITATIONS

Based on the discussion and conclusions that have been put forward, the research still has several limitations, including:

1. The equity crowdfunding platform, which is the object of research, needs to display information on the number of investors and prospectuses whose funding has not been fulfilled in an open offer. The reasons obtained by the researcher after confirming with the organizer of the relevant platform are that there is no obligation for the organizer to show the number of investors in each issuer, and the number of investors can change after the issuer trades its shares through the secondary market and the data is only for internal parties.
2. This research is limited to one country, namely Indonesia. That is, the insights of this research cannot be extended to other countries, especially countries that adopt different equity

crowdfunding regulations. However, this research may help predict the effects that similar equity crowdfunding regulations and similar socioeconomic conditions have.

3. This research only focuses on several aspects of intellectual capital and the level of uncertainty that the success of funding in equity crowdfunding may also be determined by unmeasured factors (for example, personal motivation) that can affect the success of crowd funders to invest (Cholakova & Clarysse, 2015) and so forth. A final limitation is that the sample is relatively small, although the size agrees with other empirical studies

SUGGESTION

Based on the conclusions and limitations that have been put forward, the researcher provides several suggestions, including:

1. Future researchers should observe data daily to determine the progress of the funding status and the number of investors participating in the funding.
2. Future researchers are advised to provide a more in-depth investigation of each component of intellectual capital and other variables to find out what components can affect the dependent variable, offering excellent opportunities for future research.

Declaration by Authors

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