

PalArch's Journal of Archaeology of Egypt / Egyptology

CROWDFUNDING AS A SOURCE OF EMPLOYMENT GENERATION AND GROWTH

Ayah Enani¹, Muhammad Khan²

^{1,2} College of Business, Effat University, Qasr Khuzam St., Kilo. 2, Old Mecca Road P.O.BOX
34689, Jeddah 21478, Saudi Arabia

Email: 1aenani@effatuniversity.edu.sa, 2mkhan@effatuniversity.edu.sa

Ayah Enani, Muhammad Khan. Crowdfunding as A Source of Employment Generation and Growth -- PalArch's Journal of Archaeology of Egypt/Egyptology 18(13), 241-248. ISSN 1567-214x

Keywords: Crowdfunding; Employment Generation; Funding Source

ABSTRACT

Crowdfunding is a method of increases the capital through the collective effort from pool of individual parties and the primary through online sources such as social media. Crowdfunding serves as an alternative funding source for multiple uses especially for smaller and micro business such as entrepreneurial activities, health, education, and so on. This study aims to identify the crowdfunding in Saudi Arabia and determine the impact of crowdfunding generally in employment generation. The methodology used in this study is qualitative research approach. The primary data were collected through face-to-face interview with nine participants with major background of entrepreneurship eco system in Saudi Arabia. Finally, the results from Interviews that were undertaken in Saudi Arabia have showed that crowdfunding can really help in employment generation and growth and its advantages outweigh. Besides that, the benefit from crowdfunding will contribute to all society as well as the growth of economy if Saudi Arabia. The implementation of crowdfunding is challenging to the Islamic country and legal policy should be applied.

INTRODUCTION

Crowdfunding is a financial resource where announce over the Internet the need for funds in the form of cash donation, sometimes in return for a service or product or a reward [1, 2]. Ramsey (2012) noted it may also be seen as a process [3]. There are three parties involved when crowdfunding and that is the investor, the entrepreneur, and the intermediaries or in other words the platform used that gathers them and helps completing the investment. Investors in this instance are individuals who would generally pay a very small amount, which might be between \$1-\$100, most of them however do lack the expertise an entrepreneur would gain if the capital raised was from venture capitalists or angel investors. This is one of crowdfunding's weaknesses,

among others such as administrative and bookkeeping difficulties, ease of someone stealing displayed ideas, investor protection is weak and since crowdfunding is specially internet based, investors might lack advice in the decisions they will take. In contrast, the ability to test marketability, gaining capital of course, benefits communities, and decision making remains in the hands of entrepreneurs are why crowdfunding seems appealing to many [4].

Crowdfunding features differ from site to site, at their most basic crowdfunding sites are websites that allow non-profit to set up an online fundraising campaign based around a fundraising page and accept money directly from that page using the website's own credit card processor [5]. Many of these sites will also allow individuals to set up fundraising pages on behalf of charities they want to support and others will allow your non-profit to set up a master page for your campaign and then allow your supporters to set up tangential pages that they can use to get their friends and colleagues to donate a portion of the goal of your master campaign.

The study conducted by Judd Hollas (2013) argues that with the great deal flow, low charges, industry diversification options, possible earnings and competitive fee structures the online crowdfunding has, it might potentially be strong enough to stand on its own as oppose to being a minor addition to venture capital [6]. Also, that 75% of companies who participate in crowdfunding require capital that is less than \$500,000. Another study states that although regulatory systems have been developed in the UK and the US towards crowdfunding, crowdfunding is still rapidly evolving and more financial research should be made to determine whether it is a shift to the early-stage capital market or a small complement to it [7].

A study by Borello, Crescenzo, and Pichler (2015) agrees to the previous study but adds that the characters found in the lending-based crowdfunding (aka peer to peer lending) and the equity crowdfunding found in their research are crucial for crowdfunding's future development as an alternative to capital resource [8]. Such as due diligence before posting the company online, and the engagement of precise types of investors when it comes to equity-based crowdfunding. As for the lending based, having a model to protect lenders in the case of borrower's bankruptcy, and the possibility of early repayment provided to borrowers.

According to Ordanini et.al., (2011) Crowd-funding models have precedents. Collecting small amounts of money from many people has a history in the sphere of charity and social cooperation, but crowdfunding extends this model, because the money is invested by consumers to obtain a return, mostly financial, but sometimes intangible (e.g., status, social esteem, identification, etc.) [9]. Second, crowd-funding models include elements of crowd-sourcing frameworks [10], in which the members of a community share ideas to solve a problem or pool their efforts to create favourable exchange conditions for the community's benefit [9]. However, in crowdfunding, it is not idea generation or bargaining power that emerges from the crowd's collective efforts; instead, what the crowd generates is financial support for already proposed initiatives [9]. The crowd funding mechanism is also related to social networking, where

consumers actively participate in online communities to share information, knowledge and suggestions about a new initiative and/or brand [9]. However, crowdfunding goes beyond conventional social-network participation by incorporating more proactive roles for consumers, such as selecting new initiatives to support and providing financial backing for them [9].

There are many Saudi entities are funding entrepreneurs in the Kingdom, such as Saudi Credit and Savings Bank, by giving them loans with low interest [11, 12]. There are also different incubators like Bader ICT Incubator at King Abdulaziz City for Science and Technology, and Verso. However, we are yet to see a crowdfunding platform coming from within Saudi Arabia. Let's hope the coming months and the inspiring stories on crowdfunding platforms inspire Saudis to launch a local version [11]. The concept of crowdfunding may be relatively new in its current form; however, the concept is one that has been adopted in many different ways in the past. Many organizations used to lend money to individuals without the intervention of banks - an example is the Irish Loan Fund led by Jonathon Swift [11]. The fund mainly targeted low-income families living in rural areas.

Therefore, this research aims to identify a new concept of funding here in Saudi Arabia. It will focus on Saudi Arabia and crowd funding. Because no studies have been conducted about crowd funding in Saudi Arabia, new entrepreneurs will benefit from this research and they will know how to rise their funding, and website creators will benefit as well.

METHODOLOGY

Qualitative research is primarily exploratory research. It is used to gain an understanding of underlying reasons, opinions, and motivations. Qualitative data collection methods vary using unstructured or semi-structured techniques. Some common methods include focus groups (group discussions), individual interviews, and participation/observations. The sample size is typically small, and respondents are selected to fulfil a given quota.

A secondary research involves the summary, collation and/or synthesis of existing research rather than primary research, where data is collected from, for example, research subjects or experiments. The key of distinction is the secondary source being used has already been analysed and interpreted by the primary authors.

This study used qualitative research approach to gather the primary data though conducting face to face interview with several selected interviewees in Saudi Arabia.

Sample of Study

The selected participants must equip with knowledge and passion about entrepreneurship and venture capital. In order to have diverse opinion, the targeted participants are designed to from various backgrounds and most of them are experts and practitioners from entrepreneurship eco system. Table 1 tabulates the list of interviewees and their background.

Table 1. Background of The Participants

No.	Participants	Background
1	Rafat Turki	Freelance Consultant
2	Ahmed Nazer	Entrepreneur
3	Suad Hassan	CSR specialist in Panda Retail Company
4	Mozon Abdulla	Legal assistant and researcher
5	Fatimah Enani	Research Fellow at Evidence policy design at the Harvard Kennedy School
6	Wid Hindi	Accounting lecturer & HOD accountant at UBT
7	Maher Saeed	Portfolio Risk Manager
8	Mohammed Abu Dawood	Privet equity at Sedco capital
9	Hisham Manna'a	public equity

RESULT AND DISCUSSION

This study consists of 12 questionnaire survey questions regarding the topic of crowdfunding as a source of employment generation and growth. All the interview answers were summarised accordingly.

The first interview question is “*Can crowdfunding be a source of employment generation? If yes how, if no why?*”. Majority of the respondents agreed. This because crowdfunding creating a business opportunity to the need of employee. Everything online has no assured or credibility, but it takes time to work. Besides that, Software developers are needed as well as financial operation personnel must be hired. There is also a spill over effect where the companies that are successful in raising funds will hire employees themselves. There is one respondent disagreed because crowdfunding is usually done over the internet and there's no face-to-face meeting.

The second interview question is “*Are there any funding alternatives in Saudi Arabia? If yes name them?*”. Majority of the respondent aware there is any funding alternatives in Saudi Arabia. There are three respondents not aware at all, and one of them claims that bank holds the monopoly on financing. There are indirect ways of funding such as charity places. There are some large entrepreneurship corporations such as Abdullatif jamil, Sedco, and Aramco. For example, Abdullatif jamil is under Saudi embassy all over the world and provide funding to health, education and even commercial.

The third interview question is “*Can crowdfunding help entrepreneurs in Saudi Arabia? If yes how, if no why?*”. All the respondents agreed with this

statement. The core of crowdfunding is to help people. This provides an opportunity to young generation who want to start their business. The crowdfunding has several advantages such as time and energy efficient compare to take loan from bank where required complicated procedure. Besides that, bank loan does has interest payment. Crowdfunding allows them to have access to necessary financing without the collateral or obligations needed to access bank financing.

The fourth interview question is “*What is the role of crowdfunding in venture creation?*”. Crowdfunding plays a significant role for those who required funding to start their business. It creates business opportunity for individual and also helps in venture creation. Crowdfunding websites allow people to interact each other and become chance to create connection which led to more venture creations.

The fifth interview question is “*Can crowdfunding add something to the growth of economy?*”. All the respondents have same opinion where crowdfunding will enhance the economy of Saudi Arabia as well as generate revenue and add investment to the country. Crowdfunding provides an opportunity to start and boost the small business, which in return will contributes to the growth of country. The accessibility of financial system to the idle financing allows relocation of the funding which may lead to economic growth. Moreover, the increase of business help reduces the unemployment.

The sixth interview question is “*What are the appropriate platforms of crowdfunding? Personal, charitable, entrepreneurial, and Education*”. Majority of the respondents do think that all except personal are the appropriate platform of crowdfunding. There are three respondents claim that entrepreneurial is the most appropriate platforms of crowdfunding, because young people are more creative ideas that needed to support, but vary according to the project type, size, age and geographic place.

The seventh interview question is “*How do you rate the appropriateness of the crowdfunding with regards to traditional forms of venture capital?*”. Most of the respondents claim crowdfunding is a new idea for the society, so it’s going to be at a low rate until the society has gain credibility and trust. The respondent claims crowdfunding would be the last option for finding funding, because of credibility of entrepreneur, also political and security reasons. Besides that, government in Saudi Arabia has not play an important role in adopting this new initiative. On the others hand, there is one respondent claims it as very appropriate, because crowdfunding created some of the biggest innovations such as 3Doodler and Oculus rift.

The eighth interview question is “*In your opinion what would be the three distinct benefits of crowdfunding over traditional forms of venture capital*”. Crowdfunding allows direct to a certain fields target, easily spread though social media and such ides would minimize counting on government support and subsidies. Next, crowding allows people to get exposure to more funds easily, not necessarily financial benefit but also add value, also crowdfunding much flexible than traditional forms of venture capital. Besides that, crowding

empowers the entrepreneur with more motivation and have certain degree of contribution to society. Moreover, crowdfunding allows consumers to direct to product development. They not need to sell their company's shares for funding. In addition, the riskier projects can be easily financed, less bureaucratic and its capture knowledge and expertise of the different contributors.

The ninth interview question is "*In your opinion what would be the three distinct drawbacks of crowdfunding over traditional forms of venture capital?*". The possibility of taking long time to gain credibility, hesitation concerning about the possibility of metabolizing the funds, and the complications with regard obtaining necessary government approval. Next, lack of trust and there is difficult to convince someone to fund a company. In addition, no accountability, no sustainable, no guarantee for support, intellectual property and copy right are the complicated issues to handle. The funders may loss some or all of their money in financing products that they do not fully understand.

The tenth interview question is "*The first interview question is Who should be responsible to create crowdfunding platforms in Saudi Arabia, Government, Entrepreneurs or anyone else?*". Most of the participants claim the entrepreneurs should responsible to create crowdfunding platforms in Saudi Arabia. Some of them claim for collaborators, Non-government sector (NGO) and government.

The eleventh interview question is "*Do you think Government will allow creation of these platforms, if yes, why, if no why not?*". Some of the respondents claims for not, because it's illegal in Saudi Arabia. Wile, most of the respondents claim government will allow creation of these platforms because it helps the growth of economy, provided with certain conditions such as rules and regulations such as protect the bank system.

The twelfth interview question is "*Do you think there is any legal implication for crowdfunding platforms in Saudi Arabia, especially in relation to the banned activities?*". There is one respondent have no opinion toward this condition. The rest of the participants agreed that there will be a lot of legal procedures should be applied, in addition to the complaint with the Islamic rules such as Sharea laws.

Overall Discussion

Based on the obtained interview results, the implications, relationship or contrast on the crowdfunding as of employment generation and growth can be deathly discussed. Majority of response were in agreement to the crowdfunding as a source of employment generation. This is also asserted by the literature by Ordanini et al., (2011), which has reflected that the crowdfunding would be source of employment generation in certain industries like software development, etc [9].

Regarding the funding alternatives, most of the respondents were not aware of any alternatives in Saudi Arabia, while the minority knew few such as sponsorship by companies and Abdullatif Jameel. According to Farhat (2015), Rahatallah and Jannah (2015), many Saudi entities are funding entrepreneurs in the Kingdom, such as Saudi Credit and Savings Bank, by giving them loans with low interest [11, 12].

Crowdfunding will be a huge help for entrepreneurs in Saudi Arabia, as all the responses agreed with it. Because Saudi Arabia have lots of young entrepreneurs with ideas that just need to be funded. All respondents do agree that this dynamic will definitely lead this country to growth, generate revenue and it will gradually add investment to the country. Besides that, the increasing the transactions and trade for businesses will help growing the economy, subsequently support for small and medium business.

The role of crowdfunding is major in venture creation as it will create jobs and opportunities such as creation of their first viable products. Education, health and entrepreneurial are the most appropriate platforms that can be developed in Saudi Arabia. But it can vary according to the project type, size, age, and geographic place.

The traditional form of funding opportunities is low as due to the new concept and the ability to gain credibility and trust. Crowdfunding has more advantages than disadvantages as it provides funding opportunities to the entrepreneur with lower interest. The funding sources are from various party which is much flexible than traditional funds. While in the other hand, the disadvantages are can be solved within time such as credibility and trust, losing intellectual property and get accepted by society.

The entrepreneurs should start establishing this new concept in Saudi Arabia. Also, government encourage focusing on such platforms. Most of the respondents believe the creation of crowdfunding platforms is a big challenge to government, but it still can be developed under rules, restrictions and regulations. This definitely helps in growing the economy of Saudi Arabia.

CONCLUSION

The obtained interview results have shown the importance of crowdfunding and it is a necessary tool for entrepreneurs in Saudi Arabia. Based on the finding and the discussion, crowdfunding will bring a new concept and create an environment, which is more in conjunction with international venture creation. Crowdfunding is suitable for smaller and micro business, education, health and medical assistance. As it has a verity of uses and by nature crowdfunding is for competitively smaller and charitable projects.

Crowdfunding will help in employment generation and growth of our economy as it will connect entrepreneurs to funders and that will create job opportunities that will lead to more trade and transaction in the Saudi economy. So, this cycle directly benefits the entrepreneurs in Saudi Arabia. Crowdfunding will also be source of both indirect and direct employment. The indirect employment will be the software developers, researcher, and back-

office support people as it will need maintenance and monitoring, while the direct employment is for the entrepreneurs and in their projects.

REFERENCES

- Frank Kleemann, G. Günter Voß and Kerstin Rieder 2008. Un(der)paid Innovators: The Commercial Utilization of Consumer Work through Crowdsourcing. *Science, Technology & Innovation Studies*, 4, 1, 5-26.
- Belleflamme, P., Lambert, T., and Schwienbacher, A. 2011. Crowdfunding: tapping the right crowd. *International Conference of the French Finance Association (AFFI)*, 11-13.
- Ramsey, Y. A. 2012. What the heck is crowdfunding? Business people, November, p. 54-57.
- Loreta Valančienė, Sima Jegelevičiūtė, 2014. Crowdfunding for Creating Value: Stakeholder Approach. *Procedia - Social and Behavioral Sciences*, 156, 599-604.
- Joe Garecht 2016. How to Use Crowd-Funding Sites to Raise Money for Your Non-Profit. The Fundraising Authority content and design, The Fundraising Authority LLC. Retrieved December 21, 2018 from <http://www.thefundraisingauthority.com/internet-fundraising/crowdfunding-your-non-profit/>
- Judd Hollas 2013. Is Crowdfunding Now a Threat to Traditional Finance? *CORP. FIN. REV.*, 27-30.
- Crowdfunding and the revitalization of the early-stage risk capital market: catalyst or chimera? 2013. Venture Capital, 2013
- Borello G. Crescenzo V. D., and Pichler F. 2015. The Funding Gap and the Role of Financial Return Crowdfunding: Some Evidence from European Platforms. *Journal of internet banking & commerce*. 20, 1, 18.
- Ordanini, A., Miceli, L., Pizzetti, M., and Parasuraman, A. 2011. Crowdfunding: Transforming Customers into Investors through Innovative Service Platforms. *Journal of Service Management*, 22, 4, 443-470.
- Dell, K. 2008. Crowdfunding, Time, 15 September, pp. 51-2.
- Farhat, R. 2015. The evolution of crowd funding in the Arab world. Retrieved November 15, 2015 from <https://www.wamda.com/2015/02/crowdfunding-arab-world>
- Rahatullah and Baarmah 2015. Leadership and Sustainable Development. *Journal of Entrepreneurship*, 1, 1, 43-60.