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Review Article

Crowdfunding for Entrepreneurship Development through Islamic Banks: A Systematic Literature Review for Developing a Model

Mohammad Aktaruzzaman Khan*

Department of Business Administration International Islamic University Chittagong Bangladesh

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***Corresponding author:** Mohammad Aktaruzzaman Khan

Abstract

Despite the growing body of literature focused on open innovation concepts; crowdfunding, a new paradigm, has emerged an under-researched type of innovation. Literature reviews evidenced that though studies on outsourcing and crowdsourcing are published mostly in recent years, 2011-2015, a significant gap remains for crowdfunding innovation often enabled by the web. The paper focuses on a type of crowdfunding which keep the option of financial rewards, philanthropists and non-profit organizations (as crowd) are solving problems which solution seekers anticipate to be empirically provable, but the source of solutions is uncertain and addressing the challenge perceived to be of high-risk. There is a growing appeal to crowdfunding, but little is known about an effective donation/charity based model. Hence, the author proposes a model underpinned by stakeholder and systems theories for Islamic banks for social entrepreneurship development by which crowd fund might be of instrumental in the progression of poverty alleviation, increasing dynamism of Islamic economies, and removing unemployment in Muslim societies. The instrumentality of the proposed model can be examined empirically in future research.

Keywords Crowdfunding; entrepreneurship development; Islamic Banks; model.

INTRODUCTION

Indeed, firms in their maiden endeavor face difficulties in managing external finance, be it through bank loans or equity capital [1-4]. Many entrepreneurial ventures remain unfunded, partially either because of a lack of sufficient value that is promised to financial investors or partly due to unsuccessful attempts to convince investors [5-9]. Against this backdrop, the concept of crowdfunding emerged as a novel method for funding a variety of new ventures, allowing individual founder, entrepreneurs for-profit, cultural, or social projects to request funding from many individuals, often in return for future products or equity [10].

Crowdfunding projects vary greatly in both goal and magnitude, from small initiative to entrepreneurs seeking hundreds of thousands of dollars as startup capital (seed capital) which is alternative to traditional venture capital investment [11]. Despite the expenditure of billions of dollars for millions of projects, dynamics of crowdfunding is still lacking [12, 13]. Scholars know very little about the dynamics of crowdfunding mechanisms specially the distribution process. It is important to know whether crowdfunding efforts underpinned by existing theories in order to explain how ventures raise their capital and achieve success in the long run, or vice versa. The uncertainty exists while the importance and growing area of entrepreneurial activity and government action is understudied, even as both practice and policy continue to rapidly advance [14]. Building a community with equity in a nonprofit mode that supports the entrepreneur might be a critical ingredient for crowdfunding process which is believed to be more profitable than traditional funding. Crowd-fund by individuals or philanthropists for Islamic banks financing to establish social enterprises might be instrumental in the progression of poverty alleviation and removing unemployment in Muslim societies. The author of this study found paucity of crowdfunding studies in literature especially within the social base framework of not-for-profit mechanism which is distinct from the existing literature of crowdfunding, an alternative practice ranging from an equity-based model, profit-sharing scheme, and lending to outright donations [15].

The concept of crowdfunding, a form of crowdsourcing, refers to using the crowd to obtain ideas, feedback, and solutions to develop corporate activities [16-18]. In the case of crowdfunding, the objective is to collect money for investment, generally by using online social networks. In other words, instead of raising money from a small group of sophisticated investors, crowdfunding helps firms obtain money from large audiences (the "crowd"), in which each individual provides a very small amount. Such investment can take the form of equity purchase, loan, donation, or pre-ordering of the product [19-23].

The study conclusions shed light on the shifting focus on social environment needed to make crowdfunding a viable alternative to address the socioeconomic phenomena such as employment generation, and poverty alleviation through social enterprises as well as not-for-profit organizations in Muslim societies. To the best of author's knowledge, the systematic review of the literature have found none of the study has evidenced any compatible model for crowd funders pledged initiative based on charity/donation with non-monetary benefits to address the socioeconomic phenomena such as poverty alleviation and eradication of unemployment in Muslim community. Building such a community or attracting the crowd strongly influences the strategic decision-making process requires integrating social networks, especially those on the Internet, into the managerial process as a mean to interact with the crowd.

The remainder of this article proceeds as follows. The paper organized first with integrative literature review as methodology, offers a definition of crowdfunding, crowdfunding practices, and review related literature with similarities and gap. Then present the model for entrepreneurship development through Islamic banks and discuss its variables, features, extensions, and implications. Finally, the paper concludes with suggested topics for further research.

Methodology

With a considerable expectations various stakeholders, the possibility of crowdfunding to create value in long-term needs to be taken into account. Stakeholder approach, discussed by Harrison and Wicks [24-27], Valanþienơ and Gimžauskienơ [25], Mason and Simmons [26], Sen and Cowley [27] suggests, that it is only possible when interests of all the stakeholder groups are compatible and satisfied. Hence, the study uses two well-grounded theories to develop a process model in order to explain the crowdfunding phenomena: stakeholder theory, and systems theory.

The article intents to clarify the process of crowdfunding and identifies its stakeholders, and by whom and how value is created in this process. The research questions are: how is value created by crowdfunding for its stakeholders? And how value can be added in the crowdfunding process? For research methods, such as systematic literature review, comparison and subjective assessment are employed. The *content, context, linkages* and *stakeholders* logic were employed for the explanation of crowdfunding phenomenon. Value creation is analyzed from the viewpoint of stakeholder approach and value addition in the proposed process model is underpinned by the *systems theory* (input, process, output and feedback).

Review method

The Web of Science database is considered as the main source for articles. The study used concurrently the three terms, "open innovation", "crowdsourcing", and "crowdfunding" as keywords to search articles. On the Web of Science database, articles are classified into various categories. The study selected two categories – business and management (B&M) – to extract articles on crowdsourcing and/or crowdfunding which have been published under those two disciplines. Articles are then extracted under B&M disciplines, which contain open innovation, crowdsourcing, and crowdfunding terms. Altogether only 49 articles have been found through searching on the Web of Science database. However, after reading all articles, 37 are included for systematic review and other 12 articles left out for their irrelevancy. To include more articles, Scopus and Google Scholar databases also searched and found additional five and one articles, respectively. Hence, 43 articles have been finally taken into consideration for this study purpose.

Based on methodologies, the articles are categorized into conceptual, qualitative, quantitative, and mixed categories. A conceptual article focuses primarily on theory development which does not present data and analyzes with a view to test a theory [28]. The study considers articles under qualitative stream if contains qualitative data and analysis while quantitative articles are taken into account having clear quantitative data collection process and quantitative analysis. If an article used both quantitative and qualitative data and analysis, is categorized as mixed method [29]. The above articles further grouped under four crowdfunding models such as reward, lending, equity, and donation before taking into account for review.

Literature review

The objective in this section is to provide insights into the various crowdfunding practices. Section starts with a general discussion on various forms of open innovation narrow down to the specific definition of crowdfunding then provides a review of the related literatures, theory. The gaps in the literature also discussed at the end.

Open innovation

'Innovation' contributes to create and nurture knowledge-based economies with the objective of delivering maximum socioeconomic benefits. It is of two types, closed innovation and open innovation. Openness or the thinking of 'out-of-the-box' is in the centrality of open innovation distinct from constraint mechanism, the in-house R&D (closed innovation). It is though, scholars have argued that openness is a complement rather than substitute for internal R&D capacities of organizations by absorbing and recombining external ideas [30, 31]. Professor Eric von Hippel of MIT's Sloan School argued that open innovation is a term should be defined very carefully to avoid confusion. As he defined, "open innovation is a term that I use to mean innovation that is freely accessible by all via an information commons [32]". Chesbrough assumes a slightly different context and scope. He defined the term, "open innovation is a paradigm that assumes that firms can and should use external ideas as well as internal ideas, and internal and external paths to market, as the firms look to advance their technology [33]". As part of attempt, this study focuses on three forms of open innovation having different characteristics. As illustrated in Figure 1, open innovation, when considered on the continuum with closed innovation (as per the Chesbrough definition), captures open source innovation, outsourcing, and crowdsourcing.

Open source, outsourcing, and crowdsourcing: a comparison

The mentionable aspect between crowdsourcing and open source innovation is that open source production is a philosophy of peer production, a cooperative, voluntarily undertaken activity normally enabled by a web-based innovation platform [34]. Open source problem 'solvers' and 'seekers' can freely use the product and cooperate to contribute to a community good without a financial reward for ownership of a product but are not fully distinguished, and thus, have no clear hierarchical structure of ownership and control exists between the parties compare to other forms of open innovation – outsourcing and crowdsourcing. In the cases of crowdsourcing and outsourcing the seeker defines the problem, reward and many of the conditions and most importantly ownership of the product. In the case of outsourcing, both the format for compensating contributors and who will be compensated is made clear at the beginning of the relationship [34].

For crowdsourcing, it is not specifically known in advance who will be compensated. Additionally, uncertainty is the centrality of the crowdsourcing features. The key difference between crowdsourcing and open source in comparison to traditional outsourcing is that in both crowdsourcing and open-source production, a task or problem is outsourced to a much wider pool of organizational and/or individual innovators in which the 'wisdom of the crowd' should be given due consideration [35].

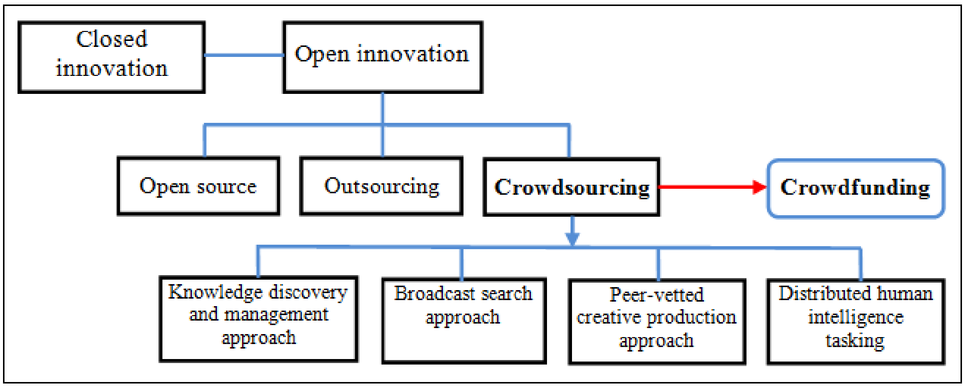

Fig-1: Open innovation towards 'crowdfunding'

Defining crowdfunding

Crowdfunding is rooted in the broader concept of crowdsourcing which draws inspiration from the concepts of micro-finance [36] and crowdsourcing [37]. In one of the few comprehensive published definitions, Schwienbacher and Larralde [38] definition is mentionable, they define crowdfunding as "an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes". Although the use of the Internet to make an "open call" may be efficient for crowdsourcing in general, it can be problematic for crowdfunding, especially if it involves the offering of equity to the crowd. Indeed, general solicitation for equity offering is limited to publicly listed equity. Many countries also limit how many private investors a company can have [39, 38].

Therefore, a broad definition of crowdfunding is tough as it covers so many current (and likely future) uses across many disciplines. Considering the focus of the study, we can search other definition for academics examining new ventures and entrepreneurial finance where crowdfunding is particularly silent, a narrower definition is preferable. In an entrepreneurial context, the following definition has insight in order to help continued evolution of the concept: "Crowdfunding refers to the efforts by entrepreneurial individuals and groups – cultural, social, and for-profit and/or non-profit – to find their ventures by drawing on relatively small contributions from a relatively large number of individuals using internet, without standard financial intermediaries [23]. This definition is a useful starting point for voluntary nonprofit organizations, in general, and social entrepreneurship development in particular.

Crowdfunding theory

Nascent entrepreneurs and firms having disadvantage of small size and limited access to resources. Some entrepreneurs overcome the 'liability of newness' through a series of techniques and actions to facilitate resource assembly [40, 41]. Studies demonstrated that in the process of resource assembly crowdfunding platforms are developing into capital intermediates [42, 43]. There were more than 800 active online crowdfunding platforms in 2012, listing over 1.1 million crowdfunding projects and invested capital of US$2.7 billion [44]. Kickstarter, a world famous platform, surpassed US$1 billion in funded projects in early 2014. Crowdfunding's growth may ultimately impact the traditional venture capital market. The rapid growth of crowdfunding justifies research to better understand similarities and distinctions from traditional venture finance. Strands of research finds the links between venture creation, resource assembly, and crowdfunding processes merit careful investigation [45]. Lehner opined that crowdfunding, including donation-based crowdfunding, may require new theories of resource assembly and venture heterogeneity. Further, donation based crowdfunding model is relatively well-aligned with models of social entrepreneurship [43], and hence need social entrepreneurship model to understand the crowdfunding phenomena in the Muslim societies. The drivers, processes, and outcomes of traditional venture capital activity may not be entirely applicable in the context of crowd-fund finance in Muslim countries.

Literature on crowdfunding

It is no surprising that the crowdfunding related literature is only nascent as it is relatively a new phenomenon [1]. Though the crowdfunding model has emerged as a novel concept and viable method of funding new venture, there has been very little published peer-reviewed work to date on the topic [23]. Schwienbacher and Larralde [38] in their early endeavor work on a case study of a French music crowdfunding startup in order to subsequently develop a theoretical model by which individuals would choose to crowd fund [1]. However, the few recent studies on the topic, all in working paper form, have focused on the role of backers and investors in crowdfunding. Several working papers such as Kuppuswamy and Bayus [22] examine backer's support on Kickstarter on project success and timing, Agrawal *et al*. [12] used a market of musicians in order to understand geographic constraints on crowd fundraising, and finally, Burtch *et al*. [13] examined how timing and exposure affected 100 pitches for new journalism stories.

In two mentionable studies, firstly, Agrawal *et al*. [19] establish that distance plays a role in crowdfunding as local investors response relatively early in funding decision. Secondly, using data from Kickstarter, Mollick [23] also examines and uncovers that the underlying cultural products of their geographic area strongly contribute into the determinants of success in crowdfunding ventures. Kuppuswamy and Bayus [22] also examine funded projects listed on Kickstarter and show that social information (i.e., other crowdfunders' funding decisions) plays a key role in the success of a project also in line with the findings of Ahlers *et al.* [21] regarding importance of information such as credible signals, quality of start-ups, and sound information disclosure flowing from the entrepreneur to the crowd.

All the above studies including working papers have significant contributions in advancing crowdfunding literatures, but no donation-based work to date available focusing on empirical dynamics of crowdfunding across various projects, and they only have focused on backers, mainly lies on reward, lending, and/or equity-based features of crowdfunding in where monetary and tangible returns are associated. Hence, the motivation of the study circles around the donation-based crowdfunding model for Islamic finance which will be philosophically and socially non-monetary/charity in nature and be pivotal in alleviation of poverty and eradication of unemployment in Muslim societies, particularly in developing countries. Therefore, in order to achieve the above objective the following crowdfunding process model is proposed.

The Model

Mollick described crowdfunding as an inherently spread out and socially-embedded process. Equity and lending-based crowdfunding activities may incorporate significantly more social and psychological processes than traditional venture capital observed [23]. Four models of crowdfunding have been observed: donation, reward, lending, and equity-based [45]. All rely on the crowdsourcing mechanism to obtain capital from a previously distributed and heterogeneous group (the crowd) who provide the capital injection in exchange for tangible or intangible returns. Mollick [23] argues that the difference between crowdfunding models lies in the goals of the entrepreneurs and supporters. Equity and lending based models rely on relatively traditional investment mechanisms. Lending-based model link founders and supporters in a debtor and lender relationship, and the equity-based model (similar to traditional venture capital) creating an entrepreneur-investor relationship. In the case of reward-based crowdfunding, the predominant online model, entrepreneurs are characterized as "creators" or "project founders" and project supporters represent early customers or co-creators rather than investors. In donation based models, project creators are social entrepreneurs while supporters serve as philanthropists.

The donation-based crowdfunding model is relatively well-aligned with models of social entrepreneurship [43]. The other three models align more closely with traditional venture capital, since they assembly risk capital for entrepreneurial activities [23]. Reward, lending, and equity-crowdfunding models feature a tangible or monetary exchange. This creates contractual relationships and instruments between the entrepreneur and stakeholders comparable to those in traditional venture capital [20, 46]. Donation based crowdfunding is believed to serve the society for the higher level of well-being. A strand of researches has employed the stakeholder theory in order to describe the interests of stakeholders of high-level of wellbeing involved in a firm's system of value creation [24, 47, 27]. Stakeholder approach consists of three perspectives or values: descriptive, instrumental and normative. Crowdfunding is a novel phenomenon and, according to stakeholder approach, its success requires satisfying the interests of all its stakeholders. Hence, with a view to clarify the process of crowdfunding and identify the features of its stakeholders, the descriptive approach (through a model) is employed in this article. This will serve as value creation. For the purpose of value addition another well-grounded theory-Systems theory is also employed. Thus, based on the above discussion this study has developed the following crowdfunding process model for the Islamic banks for social entrepreneurship development.

Systems theory perspective

Various crowdfunding business models based on reward, lending, and equity exist. Figure 2 shows a simplified crowdfunding process model underpinned by the Systems theory (main variables: input, process, & output). The main *inputs* into the process comprise problem definition and specification, advertisement of the innovation challenge and the identification of potential solution providers. The *process* involves organizing, managing and appraising of innovation activity of multiple stakeholders. Stakeholders can have various roles in the crowdsourcing process. The ICT platform managed by Shari'ah-based Islamic banks as their intermediary roles should impart training and conduct evaluation of the crowdfunding process. Kirkpatrick's four-level training evaluation model [54] can be employed here to effectively utilize the fund and follow the advice (if any) of the far-flung philanthropists/donors [55-57]. In the third phase of the model, the primary *outputs* are potential solutions (arising for the solution seeker) and potential rewards (for the solution provider). This output, in turn, generates economic and/or social benefits (as outcome)—for example, poverty alleviation, dissolving massive unemployment, increased productivity, health gains, improved quality of life, or enhanced environment in Muslim communities. Figure 2 also summarizes how crowdfunding process can be carried out (e.g. via international philanthropist/donor, or directly coordinated with solution providers, e.g. Social entrepreneurs, Islamic NPOs, SMEs, individuals).

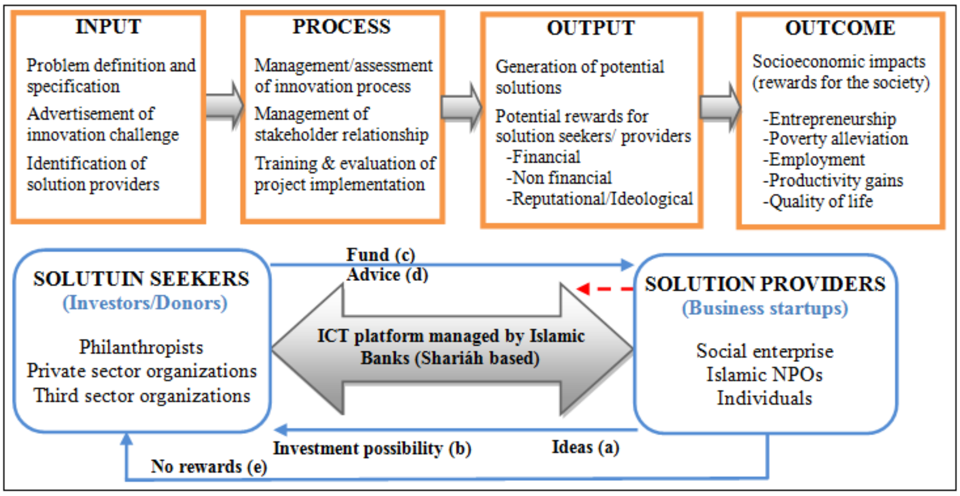

Fig-2: A crowdfunding process model adapted from Marjanovic *et al.* [34] and Valanþieno & Jegeleviþinjto [48]

Stakeholder's theory perspective

As it is discussed in the previous section the proposed crowdfunding model (see Figure 2) can be portrayed from the stakeholder theory perspectives. The descriptive perspective of stakeholder approach serves this purpose and so it is employed in this article. The phenomenon of crowdfunding model could be better perceived through description of its content, analysis of the context it exists in, identification of linkages which form and enable the phenomenon, and understanding its stakeholders' nature. The below Table 1 clearly depicted, from descriptive perspective, the interaction between the features and the three variables of the proposed model in details. Crowdfunding could be better understood by its content and context such as *who* is involved in the funding process, what *roles* they are supposed to play for the *incentives/rewards* and what *risks and risk management* strategies they should take into account for the effective and efficient implementation of the project.

Beugre and Das [49] suggest that three main stakeholders of crowdfunding are identified by the researchers: investors as *input* (philanthropists/donors), platform to *process* (ICT platforms run and managed by Shari'ah based Islamic banks), and entrepreneurs associated with the *outputs* (Islamic NPOs/SMEs/Individuals). Despite that the elementary structure of crowdfunding involves only three main stakeholders; there are several linkages among them. The existence of crowdfunding platforms allows Islamic NPOs, SMEs, or individuals to present ideas (a) for the far-flung philanthropists or donors and ask for funding. Crowdfunding platforms (ICT platforms of Islamic Banks) announce ideas and thus create an investment possibility with their Shari'ah compliance, Islamic financing ability and integrity of imparting training and evaluation of the project (b) for philanthropists and donors. Philanthropists and donors analyze proposed ideas and choose the ones they like and believe in to fund (c). They also provide advice (d) from their experience for the project implementation. Here the donors and philanthropists are not expecting any offer or return for their money or anything in monetary terms, image or else they spent. The only spiritual motivation or expectation of these donors/philanthropists is charity, solution for the society (e.g. poverty alleviation and/or dissolving massive unemployment in the Muslim society).

Table-1: Analysis of key features of crowdfunding process model

SL.	Features	Variables	Descriptions
01	Who	Solution seeker	: Grant making bodies, donor, philanthropist
		Platform	: ICT platform of Islamic banks provides connections and relationship management services between solution seekers and solution providers (social enterprise, nonprofit organizations/SMEs/individuals)
		Provider	: Social enterprise/nonprofit organizations/SMEs/individuals
02	Roles	Solution seeker	: Presents challenge and liaises with platform : Decides which solution proposals to implement : Involved in implementation of successful proposals from solution providers
		Platform	: Matches seekers and potential solvers : Maintain network of innovators : Assist with consulting service, training also (strategic thinking, implementation process modeling, evaluation), logistics and legal framework management
		Provider	: Develop proposals for problem and involved with implementation team (if proposal is successful and selected by solution seekers) or ICT platform of Islamic Banks
03	Rewards/ incentives	Solution seeker	: Solution for the society (e.g.: poverty alleviation, dissolving of unemployment)
		Platform	: Charity based for Banks or salary based for their officers
		Provider	: Success fee or potential nonfinancial benefits (e.g. reputational, ideological) or career for individuals
04	Risks	Solution seeker	: May not obtain solution required
		Platform	: Minor: related to viability of charitable model if number of successes is not adequate
		Provider	: No guarantee of reward for upfront, time investments
05	Risk management	Solution seeker	: Social entrepreneurs, Nonprofit organizations will be rigorously selected based on their diverse expertise and integrity. : ICT based Islamic banks will act as an intermediary force retaining anonymity of problem seeker's competitive intelligence
		Platform	: Legal frameworks and clear terms and conditions of engagement exist for both relationships with solution seeker and solution providers
		Provider	: Internal assessment and management of risk/reward calculation

DISCUSSION AND CONCLUSION

Traditionally in literatures, crowdfunding represents a novel way for founders to raise capital for a wide variety of projects. In the progression of its rapid rise, the dynamics (from content, context, success or failure perspectives) of crowdfunding have still been an unearthed issue. This paper in a modest way offers a descriptive analysis of recent crowdfunding literature following a systematic literature review methodology [25]. The paper proposed a model underpinned by two well-grounded theories: stakeholder theory and systems theory, which can be instrumental for the Muslim countries representing mainly in developing world. While the review of the literatures represents only first asking shifting focus from three models, reward, lending and equity-based, to donation-based phenomenon, they have number of limitations. The concept of crowdfunding in literature still in nascent. Even if crowdfunding continues to make up a small proportion of new venture funding, the discussions of this study suggest several issues should be of interest to Islamic social entrepreneurship scholars.

First, the relevance and quality of signals such as important information disclosure to the donors and philanthropists should be available. That quality signals are so salient, even among the dispersed groups of amateurs who act as funders, suggests that it may be fruitful for scholars examining more traditional forms of entrepreneurial finance such local investors for early response [19], cultural product of geography [23], and importance of information disclosure [22].

Second, crowdfunding potentially changes the nature of geography and form of attachment in new venture. It also reduces the importance of traditional physical boundary and give lesson for new way through virtual world, mostly depend on trust, technology, and excellence. Crowdfunding has emerged as a new vehicle of transformation that the traditional online communities might be on transition to entrepreneurship innovation [50, 51]. Future research can shed light on how online communities coordinate, fund, and interact with crowdfunding efforts to generate new products and services through their entrepreneurial drives for the society and mankind.

Finally, for entrepreneurs who seek crowdfunding, there are some lessons for them. First, project quality is important; information availability through internet, Social network ties and knowledge also very important in crowdfunding [12]. Additionally, intermediaries and policy makers (ICT based Islamic Sharia based organizations/Platform) should consider ways to help founders create realistic plans and goals, off course within the purview of Islamic rules, with their sincerity, integrity, helping in rigorous selection of projects, imparting training and evaluation into the process for value addition, in order to ensure that crowdfunding maintains its low rate of fraud and high rate of growth.

Future research agenda

For future research, the impact of geography and empirical instrumentality of the model should be attempted which is also limitation of the paper. The impact of geography on socioeconomic development from an entrepreneurial perspective is deep rooted into the own geographic trajectory of development. This issue is well demonstrated in a good number of recent research findings [12]. For example; the success of traditionally-funded entrepreneurial ventures is often highly constrained by geography [52, 53]. Therefore, firstly, in a future attempt, the impact of geography can be plugged-in the proposed model as a mediating variable. Secondly, the instrumentality of this proposed model (donation-based perspectives) should be empirically tested in Muslim developing countries as seminal work.

Implications of the research

Crowdfunding represents a potentially disruptive change in the way that new ventures are funded. So, additional research is also required until it comes to its maturity to catch up with practice and policy, both of which are embracing crowdfunding. This paper represents initial literature-based evidence with a view to developing a model for Islamic financing from the entrepreneurial context shedding light on donation based crowdfunding which is lacking so far. The study of new venturing through crowdfunding mechanism for Islamic banks with non-profit/no-reward motive with a shifting focus from traditional to alternative financing will be an important and fruitful phenomenon for the Muslim society for poverty alleviation, propagation of Islamic economies, and dissolving massive unemployment.

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