

IMPACT OF CROWDFUNDING ON THE EFFECTIVENESS OF SMALL AND MEDIUM ENTERPRISES: AN ANALYSIS OF SELECTED SMES IN ABAKALIKI, EBONYI STATE

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Abstract

The study investigated the relationship between crowdfunding and the effectiveness of small and medium enterprises. An Analysis of Selected SMEs in Abakaliki, Ebonyi State. In order for the study to be explicitly conducted, two hypotheses were formulated. The hypotheses state that Crowdfunding has a positive and significant relationship with SMEs' access to resources and networks, leading to increased economic opportunities. And Crowdfunding has a significant correlation with leadership efficiency. A total of eighty (80) small and medium enterprises were selected and therefore formed the population. The study adopted the purposive sampling technique, which warranted the entire population to be studied since it was small and selected purposively. Data was obtained from the respondents through the use of structured questionnaires. The data obtained was analyzed with the statistical tool of Pearson's Moment Multiple Correlation Coefficient through the aid of SPSS. The result of the analysis reveals that there is a significant relationship between crowdfunding and the effectiveness of SMEs. Specifically, the study shows that there is a significant relationship between Crowdfunding and SMEs' access to resources and networks, leading to increased economic opportunities and that there is a significant relationship between Crowdfunding and leadership efficiency. The study therefore recommends that managers and owners of small and medium enterprises should provide the organization with the opportunities to tap into the opportunities provided by crowdfunding. They can do this by amending organizational structures and policies. Also, the study recommends that managers and owners of small and medium enterprises should focus on efficiency by improving the time and quality of their operations. this can be done through re-engineering of organizational processes.

Keywords: crowdfunding, effectiveness and SMEs

Introduction

Crowdfunding has emerged as a pivotal means of financing for small and medium enterprises (SMEs), presenting them with opportunities for innovation, expansion, and long-term viability (Farooq et al., 2021). Research indicates that crowdfunding significantly enhances the value of SMEs, influences sustainable decision-making, and facilitates access to credit for

micro-firms and SMEs alike (Kukurba et al., 2021; Stefanelli et al., 2022). Moreover, crowdfunding positively impacts entrepreneurs' self-efficacy, a critical determinant of SME success (Ferreira-Neto et al., 2023). Beyond its financial implications, crowdfunding shapes funder behavior, fosters co-creation, and serves as an alternative financing avenue for micro and small enterprises (Kim & Hall, 2019; Aderemi

& Ishak, 2020). It has also been instrumental in supporting startups and creative ventures, particularly in regions where traditional funding avenues are limited (Wahjono et al., 2019). While crowdfunding has demonstrated success in advancing SME growth in developed nations, its potential in developing countries remains largely untapped (Edem et al., 2021). Understanding the determinants of crowdfunding success, including social awareness and the effectiveness of information dissemination, is paramount for SMEs seeking to harness crowdfunding effectively (Liang et al., 2020; Wahjono et al., 2019). Moreover, the efficacy of crowdfunding platforms in predicting project success and its transformative impact on the financial landscape underscore its significance as a primary capital source for SMEs over the long term (Akhmetova, 2021). Crowdfunding is increasingly recognized as a viable alternative to traditional funding, especially for nascent startups and SMEs (Razan & Widyastuti, 2022).

Literature Review Conceptual Framework Crowdfunding

Crowdfunding, defined as an "open call, essentially through the Internet, for the provision of financial resources either in form of donations (without rewards) or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes" (Hemer et al., 2011), offers diverse ways for individuals to contribute to projects in exchange for incentives. Aderemi & Ishak (2022) describe it as "a new form of funding for different forms of ventures that allows individuals seeking fund profit, cultural or social projects to request funding from many individuals often in return for rewards or equity," highlighting its broad spectrum of applications and potential for contributors to receive rewards or equity.

Eno et al. (2022) present crowdfunding as an "umbrella term used to describe an increasingly widespread form of fundraising, typically via the internet, whereby groups of people (crowds) pool money, usually (very) small individual contributions to support a particular goal," emphasizing its collective nature and utilization

of small contributions from a large group of individuals. Crowdfunding has emerged as a significant alternative financing method for Small and Medium-sized Enterprises (SMEs), providing them with access to capital that may be unavailable through traditional channels. Studies by Mahdiraji et al. (2023), Liang et al. (2020), Havrylchyk & Ardekani (2020), Troise et al. (2022), and Wangchuk (2021) have explored various aspects of crowdfunding's impact on SME effectiveness, including innovation drivers, information description effects, short-term borrowing impacts, internationalization facilitation, and job creation stimulation.

Additionally, Hornuf & Schwienbacher (2017) highlighted the importance of securities regulation in promoting equity crowdfunding, especially for small and innovative firms seeking financing. Overall, crowdfunding significantly influences SME effectiveness by providing access to capital, fostering innovation, enabling internationalization, and creating job opportunities. Understanding the drivers of successful crowdfunding, effective communication strategies, and the regulatory environment are crucial for SMEs to leverage crowdfunding effectively for growth and sustainability.

Job Creation and Economic Opportunities:

Wangchuk (2021) underscores crowdfunding's pivotal role in fostering job opportunities, particularly for youth, by facilitating Small and Medium Enterprises (SMEs) growth. By providing capital to innovative SMEs, crowdfunding stimulates job creation and economic prospects locally. Empirical studies consistently support this correlation. Wangchuk emphasizes how crowdfunding empowers individuals to support SMEs aligned with their values, enhancing community engagement and social impact. This connection not only boosts job creation but also bolsters social cohesion and community development. Crowdfunding's positive impact on job creation stems from several factors. Firstly, it offers capital accessibility to SMEs facing challenges in securing traditional funding, enabling expansion and job generation. Secondly, crowdfunding

broadens SMEs' supporter base beyond conventional funding sources, enhancing visibility and market penetration, thus fostering business growth and job opportunities. Additionally, crowdfunding platforms act as marketplaces where entrepreneurs and investors connect over shared values, fostering financial support and a sense of community. This community engagement aspect potentially amplifies job creation through continued support and investment in SMEs. Wangchuk (2021) convincingly highlights crowdfunding's beneficial effects on job creation, supported by literature and empirical data. Beyond providing capital for SME growth, crowdfunding nurtures community engagement, social impact, and economic prospects. By empowering individuals to back businesses aligned with their values, crowdfunding drives job creation and sustainable local economic development (Wangchuk, 2021)

Concept of effectiveness

Effectiveness, as per Hayes (2006), denotes the successful and efficient achievement of goals and objectives, utilizing resources optimally. Leadership, organizational culture, strategy, and processes are key determinants of organizational effectiveness, crucial for directing efforts towards common goals. In educational research, effectiveness often revolves around teaching and learning strategies. Concept mapping, researched by John & Waziri (2015), proves effective in enhancing students' academic achievement across subjects by aiding in knowledge organization and comprehension. Similarly, studies by Hali (2018) and Nair & Narayanasamy (2017) explore the efficacy of concept teaching in history and mathematics education, resulting in improved understanding and meaningful learning.

Further investigations by Kollen et al. (2009) and Nair & Narayanasamy (2017) into teaching methods such as the Bobath Concept in stroke rehabilitation and concept maps in history instruction show positive impacts on outcomes like movement efficiency and student achievement and interest. Research by Linsey et al. (2011) and Oluk & Ekmekci (2018) underscores the effectiveness of group idea

generation techniques and individual learning tools like concept maps in fostering creativity and success in subjects like chemistry.

Leadership efficiency

Leadership efficiency refers to the crucial for guiding, motivating, and empowering individuals or teams within Small and Medium Enterprises (SMEs) to achieve organizational goals (Smith, 2020). Effective leaders in SMEs provide clear direction, foster open communication, and cultivate trust and collaboration among team members (Johnson & Brown, 2018). They inspire and recognize achievements, creating a supportive work environment that encourages innovation and autonomy, essential for SME success (Jones et al., 2019). Empowerment is pivotal in SME leadership, as leaders delegate authority and encourage decision-making at all levels to foster a sense of ownership and responsibility (Lee & Miller, 2017). Adaptability is vital for SME leaders, who must demonstrate resilience and agility in navigating the dynamic business landscape (Garcia & Martinez, 2021). They prioritize the development of team members, offering mentorship and growth opportunities tailored to SME contexts (Clark & Evans, 2020). Communication plays a central role in SME leadership, with leaders actively listening and promoting open dialogue to ensure clarity and alignment of efforts (Taylor et al., 2016). Ultimately, effective leadership in SMEs drives organizational success by aligning efforts and nurturing a positive work culture conducive to growth and sustainability (Robinson & Smith, 2018).

Theoretical Framework

Crowdfunding has become a significant financing avenue for Small and Medium Enterprises (SMEs), influencing their operational effectiveness. The impact of crowdfunding on SMEs is explained through various theoretical frameworks. Signaling theory examines how startup signals affect investor decisions in equity crowdfunding (Ahlers et al., 2015). Additionally, theories like the two-factor theory, status quo bias theory, and innovation diffusion theory shed light on factors

driving or hindering crowdfunding adoption among startups (Yang & Lee, 2018). Chen et al. (2022) explore medical crowdfunding performance using signaling theory, emphasizing the impact of different signals on success.

The following research hypothesis are formulated

(H1): Crowdfunding (CF) has positive significant relationship with SMEs' access to resources and networks, leading to increased economic opportunities. (IEO)

(H2): Crowdfunding (CF) has a significant correlation with leadership efficiency (LE)

Empirical Review

Previous studies on the influence of Crowdfunding and the effectiveness of small and medium enterprises were found useful in this study. Investigation has shown by Eldridge et al. (2019) that equity crowdfunding has a positive influence on SME innovation and growth opportunities. Additionally, crowdfunding plays a crucial role in increasing the value of SMEs, influencing sustainable decision-making, and creating job opportunities for young people (Kurumba et al., 2021). However, there is still ongoing debate regarding the effectiveness of crowdfunding in aiding SME growth (Fraser et al., 2015). Furthermore, crowdfunding has been found to have a direct and positive effect on entrepreneurs' self-efficacy, which is essential for SME success (Hoque et al., 2018). The rapid growth of crowdfunding has been noted to assist SMEs in overcoming financial challenges and accessing funding for sustainable development (Wangchuk, 2021). Moreover, successful crowdfunding for SMEs is driven by innovation factors, underscoring the importance of understanding the drivers behind successful crowdfunding campaigns (Mahdiraji et al., 2023). Crowdfunding not only provides funding but also transforms the value creation process for SMEs, enabling stakeholders to create value at the industry level (Cicchello et al., 2022). Additionally, crowdfunding has been associated with the internationalization efforts of SMEs, providing valuable resources beyond

fundraising, such as market knowledge and strategic insights (Cumming et al., 2022). While crowdfunding shows promise as a financing method for SMEs, studies have also highlighted challenges and factors influencing crowdfunding success. Factors such as performance expectancy, effort expectancy, social influence, and perceived risk play a role in SMEs' intention to use crowdfunding platforms (Laaouina, 2024).

Methodology

The study adopted an explanatory research design supported by a quantitative research approach. This design allowed for the exploration of the causal relationship between variables and provides a deeper understanding of how crowdfunding impacts SMEs and their effectiveness (Anim et al., 2021). The target population for this study comprises selected SMEs located in Abakaliki, Ebonyi State, resulting in eighty (80) SMEs owners. The study adopted a purposive sampling technique. The data used for this study were quantitative and subjective in nature, and were obtained mainly through primary sources. A structured questionnaire with closed-ended questions was used to gather data, with five rating scale. Out of the eighty (80) questionnaires distributed, only seventy-eight (78) were returned, which showed that (96%) of respondents answered the questionnaire after reading and understanding the consent note that was attached to the questionnaire. We divided the questionnaires into two sections: A sought participant demographic information, and B. contained the statement items from the variables. Analysis of participant demographics reveals that 50(64%) were males and 28(35.9) were females; 15(19%) were below 25 years, 39(50%) were between 25-40 years, 16(20.5%) were between 41-55 years and 8(10%) were above 55 years. Their Educational qualification revealed that 5(6%) were PhD/MSc degree holders, 23(29.5%) were holders of BSc/HND, 23(29.5%) were holders of Diploma certificates, 19(24%) were holders of WAEC/SSCE, and 8(10%) were holders of other certificates. We analyzed the hypotheses using the Pearson product-moment multiple

correlation coefficient with the aid of Statistical Package for Social Sciences (SPSS) 23.0.

The SPSS output above reveals the Pearson product-moment correlation coefficient analyses of the hypotheses. The result shows that there is a relation between crowdfunding and increased economic opportunities. It also shows that the p-value (0.000) is less than the

alpha value (0.05). Based on these findings, the hypothesis one null hypothesis is hereby rejected and the alternative hypothesis accepted. The study therefore approves of the hypothesis, one alternate hypothesis which states that there is a significant relationship between Crowdfunding and SMEs' access to resources and networks, leading to increased economic opportunities.

Table 1: Analysis of Hypothesis

		Correlations		
		Crowdfunding	Increased_Economic_Opportunities	Leadership_Efficiency
Crowdfunding	Pearson Correlation	1	.617**	.73.0**
	Sig. (2-tailed)		.000	.000
	N	78	78	78
Increased_Economic_Opportunities	Pearson Correlation	.617**	1	.722**
	Sig. (2-tailed)	.000		.000
	N	78	78	78
Leadership_Efficiency	Pearson Correlation	.73.0**	.722**	1
	Sig. (2-tailed)	.000	.000	
	N	78	78	78

** . Correlation is significant at the 0.01 level (2-tailed).

The study also reveals that Crowdfunding correlates with leadership efficiency. It also shows that the p-value (0.000) is less than the alpha value (0.05). Based on this finding, the second null hypothesis is hereby rejected and the alternative hypothesis accepted. The study therefore approves of the hypothesis, two alternate hypotheses which state that there is a significant relationship between Crowdfunding and leadership efficiency.

Discussion of Findings

In line with the results above, the results of hypothesis one found that there is a significant relationship between Crowdfunding and SMEs' access to resources and networks, leading to increased economic opportunities. This corresponds with the study, such as Wangchuk, P. (2021). Who studied common types of Crowdfunding Models, Related Concepts and their impact on Business in Bhutan? The results

found that many types of crowdfunding provide access to resources, and the rapid growth of crowdfunding is helping small and medium businesses to create job opportunities. Also, the finding of hypothesis two reveals that there is a significant relationship between Crowdfunding and leadership efficiency. This finding is in line with the study of Zahari et al. (2022). They assessed the mediating effect of leadership capabilities on the relationship between organizational resilience and organizational performance. their finding reveals that the efficiency of the leader significantly contributes to the overall organizational performance of a firm.

Conclusion and Recommendations

This study concludes that crowdfunding significantly impacts the effectiveness of small and medium-scale enterprises. The results show that the availability and accessibility of crowdfunding schemes affect the opportunities

that small and medium enterprises get to increase their resource, network and economic opportunities. The study also highlights the importance of efficient leadership in managing and harnessing crowdfunding opportunities. The study therefore recommends that managers and owners of small and medium enterprises should provide the organization with the opportunities to tap into the opportunities provided by crowdfunding. They can do this by amending organizational structures and policies. Also, the study recommends that managers and owners of small and medium enterprises should focus on efficiency by improving the time and quality of their operations. this can be done through re-engineering of organizational processes.

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