

Beyond Funding: How Social Capital Shapes Trust, Collaboration, and Crowdfunding Success in Bahrain's Digital Ecosystem

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Mohammed Yousif Abo Keir 

College of Administrative Sciences, Applied Science University, Manama, Bahrain

mohammed.yousif@asu.edu.bh

Abstract

This research aims to explore the crowdfunding landscape of Bahrain and assess the impact of social capital on campaign success. Specifically, the study aims to analyse the interaction of the relational, structural, and cognitive aspects of social capital on crowdfunding results. 500+ responses were collected through the distribution of a cross-sectional, structured questionnaire in the form of a survey. The target population was campaign creators and public backers, as well as stakeholders in the Bahrain digital finance ecosystem. The survey included social capital, digital platform and campaign attributes, as well as funding results. The proposed relationships were examined through multiple regression analyses and structural equation modelling in Stata 16. Social capital influenced crowdfunding success in Bahrain, and relational capital, which included trust, reputation, and ties, had the strongest positive effect. Structural capital, which was related to the size and density of the campaigner's networks, had a positive influence on campaign results. Cognitive capital had a more complex effect, which was influenced by the cultural and regulatory framework of the GCC. Results also indicated that campaign transparency and platform design had a positive, synergistic effect on social capital and funding success. The findings are mostly applicable to Bahrain. Research on the other Gulf Cooperation Council (GCC) member countries or the rest of the Middle East is strongly encouraged. The findings should be of interest to policymakers, platform operators, and campaigners who use social capital to raise funds. We suggest that regulators develop frameworks for building trust and networks within crowdfunding systems

Keywords: Crowdfunding, Social capital, Bahrain, GCC, Islamic finance, SMEs, Emerging economies, Digital ecosystem.

1. Introduction

As a new way of obtaining funds, crowdfunding has gained popularity as a global alternative to traditional financing against the background of the rapid development of the Internet. It allows individuals to contribute money to finance entrepreneurial ventures, small-scale trade activities, social initiatives, and creative projects. Contrary to traditional financial systems, crowdfunding relies on networked communities to provide funding, enabling project promoters to avoid intermediaries like banks and venture capitalists (Mollick, 2014; Belleflamme et al., 2014). „Social capital“ refers to the resources that individuals create through their social networks. Researching social capital is important for studying the crowdfunding phenomenon (Colombo et al., 2015; Zheng et al., 2014).

Having examined many crowdfunding projects in developed countries, mainly the USA and those of the European Union, researchers studying the phenomenon in developing countries, especially the Middle East and the Gulf Cooperation Council (GCC) countries, have a lot of work to do. The GCC has developing markets with systems based on the Islamic model of financing, with strong family-based networks, a high level of intra-community trust, and a developing financial technology system (Abdeldayem and Aldulaimi, 2023a; Kismawadi, 2024). The Kingdom of Bahrain has a developed financial market, a modern regulatory framework, and is home to Fintech Bay. Thus, it creates ideal conditions for studying the interaction of crowdfunding and social capital.

This study is motivated by two connected shortcomings of the existing literature. First, the application of social capital theory to crowdfunding in developed contexts has been documented, but the extent to which Islamic and Gulf Cooperation Council (GCC) cultures may also appreciate social capital has not been explored. Second, there is scant empirical research on how processes mediated by the three dimensions of social capital — relational, structural and cognitive affect crowdfunding, especially in developing economies. With these shortcomings in mind, the present study proposes the following question:

RQ1. What is the role of social capital in explaining the success of crowdfunding in Bahrain, and how do the relational, structural and cognitive facets of social capital influence crowdfunding outcomes in Bahrain?

With the aim of responding to the above question, the research analyses data collected from 580 participants, including providers and users of crowdfunding, as well as financial professionals operating in the Bahrain crowdfunding ecosystem. This research employs multiple regression analysis and structural equation modelling to shed light on the social capital and crowdfunding relationship and to provide guidance to policymakers and practitioners.

The rest of this paper is structured as follows: A review of existing knowledge on crowdfunding is followed in section 2 by a review of social capital. A description of the research approach and methods follows in section 3. Section 4 contains research findings and their associated discussion. In section 5, the findings are summarized and suggestions for how this research may be continued are provided.

2. Literature Review

2.1 Crowdfunding: Definitions, Models and Growth

Crowdfunding denotes raising funds for a project or venture by gathering small contributions from a large pool of people, usually through platforms on the internet (Belleflamme et al., 2014). In literature, there are four models of crowdfunding: reward-based, equity-based, lending-based (peer-to-peer lending), and donation-based models (Mollick, 2014, Schwartz, 2013). Each model has its own unique risks, regulatory framework, and community-building characteristics.

At the global level, crowdfunding has transformed from a niche activity to a multi-billion-dollar industry. The success of platforms like Kickstarter, Indiegogo, and GoFundMe has proven that financing through the community can be done at a large scale. In the GCC, the Islamic

crowdfunding platforms have created a Sharia-compliant model that combines the financing principles of Islamic finance with the crowdfunding model (Abdeldayem, Aldulaimi, 2023a). In addition, Bahrain's Central Bank and Economic Development Board are promoting these platforms to enhance financial inclusion and develop SMEs.

2.2 Social Capital Theory

Putnam (2000), Coleman (1988), and Nahapiet and Ghoshal (1998) are among the scholars who developed social capital theory. It claims that social connections among people create resources for community action, the exchange of ideas, and trade. Nahapiet and Ghoshal (1998) describe social capital with a three-part model:

- Structural capital indicates the total number of social connections and their patterns. A campaigner with a large and dense network will have better chances of successfully advertising their campaign and getting more offers.
- Relational capital is the extent to which social connections are of good quality and what is perceived as good quality. In a crowdfunding campaign, the campaigner is perceived as trustworthy, the campaign is more likely to get offers.
- Cognitive capital is the extent of shared objectives, stories, and understanding among social connection network members. In the case of the Gulf Cooperation Council campaigners, a large amount of cognitive capital will likely be campaigners shared Islamic beliefs and orientation.

Research shows that social capital helps crowdfunding. For example, Colombo et al. (2015) find that internal social capital, which is defined as the number of the campaigner's friends and supporters on the crowdfunding site, positively influences the initial funding. Zheng et al. (2014) finds a positive relationship between campaign funding and external social capital that is a result of social media; however, they are primarily Western studies and, thus, are not suitable for developing nations.

2.3 Crowdfunding in the GCC and Bahrain

Although there are many opportunities, the GCC crowdfunding market is still emerging. In Bahrain, the UAE, and Saudi Arabia, the Regulatory sandboxes have enabled platforms to experiment with innovative models within the boundaries of law at the Supervisory level (Abdeldayem and Al Dulaimi, 2022). Bahrain's Fintech Bay initiative places the Kingdom in the lead of innovative financial services in the region.

According to Abdeldayem and Aldulaimi (2023b), the GCC's cultural singularities endow crowdfunding with a special character. For example, the informal influence of personal and family networks, known as 'wasta,' is like certain aspects of relational capital. In addition, the collective nature of the GCC countries places greater weight on funding endorsements that are made as a community. The structures of crowdfunding through Islamic finance are aligned with social impact goals as well as the financial return motive of the investors

3. Data and Methodology

3.1 Research Design

The design of this study is cross-sectional and quantitative. A comprehensive review of the available literature on crowdfunding and social capital, as well as a pilot study with a sample of 30 members of Bahrain's Financial Services Industry, helped to develop and validate a research instrument in the form of a structured questionnaire. The finalized version was posted in electronic form to a target sample with firsthand knowledge of crowdfunding platforms between February and July 2023

3.2 Sample

The final sample consisted of 580 respondents, including 34.1% campaign creators, 41.6% backers, 8.3% platform operators, and 16% financial professionals. The sample's demographics are shown in Table 1.

Table 1. Sample demographic profile

Item	Category	N	%
Gender	Male	368	63.4
	Female	212	36.6
Role	Campaign Creator	198	34.1
	Backer/Investor	241	41.6
	Platform Operator	48	8.3
	Financial Practitioner	93	16.0
Education	Bachelor's Degree	261	45.0
	Master's Degree	198	34.1
	Doctorate or Higher	81	14.0
	Professional Certifications	40	6.9
Platform Experience	None / Less than 1 year	104	17.9
	1–3 years	282	48.6
	3+ years	194	33.5

Source(s): Authors' own work

3.3 Measures

The survey consisted of four sections: demographic and background information, social capital measures, campaign characteristics, and crowdfunding outcomes. Social capital was operationalised using 18 items adapted from Nahapiet and Ghoshal (1998) and Putnam (2000), covering relational capital (six items: trust, credibility, reciprocity), structural capital (six items: network size, network density, connectivity) and cognitive capital (six items: shared vision, shared language, common values). All items were measured on a five-point Likert scale ranging

from 1 (strongly disagree) to 5 (strongly agree).

Crowdfunding success was measured using three outcome indicators: (1) funding ratio (amount raised as a percentage of the campaign goal); (2) number of backers; and (3) campaign creator's self-reported satisfaction with the funding outcome. Control variables included campaign duration, campaign category (technology, social, creative arts, business), platform type (reward-based, equity-based, donation-based, Islamic/profit-sharing) and prior crowdfunding experience.

3.4 Analytical Approach

Hypotheses were tested using a hierarchical multiple regression analysis. Preliminary analyses included Pearson correlation, reliability testing (Cronbach's alpha) and confirmatory factor analysis to validate the measurement model. Stata 16 was used for all analyses. Variance inflation factors (VIF) were assessed to detect multicollinearity, and residual diagnostics were conducted to verify the regression assumptions of normality, homoscedasticity and linearity.

4. Empirical Findings and Analysis.

4.1 Reliability and Validity

Cronbach's alpha values for all social capital subscales exceeded the recommended threshold of 0.70: relational capital ($\alpha = 0.847$), structural capital ($\alpha = 0.812$) and cognitive capital ($\alpha = 0.789$). Confirmatory factor analysis confirmed a three-factor structure with acceptable model fit (CFI = 0.94, RMSEA = 0.061, SRMR = 0.058), supporting the discriminant and convergent validity of the social capital scales.

4.2 Descriptive Statistics and Correlation

Table 2 presents the descriptive statistics and Pearson correlation matrix for the study variables. Relational capital exhibited the highest mean score ($M = 3.82$, $SD = 0.71$), followed by structural capital ($M = 3.54$, $SD = 0.68$) and cognitive capital ($M = 3.29$, $SD = 0.76$). All three social capital dimensions were positively and significantly correlated with the funding ratio ($r = 0.61$, 0.54 and 0.43 respectively, all $p < 0.001$), providing preliminary support for the hypotheses.

Table 2. Descriptive statistics and correlation matrix

Variable	M	SD	1	2	3	4	5	6
1. Relational Capital	3.82	0.71	–					
2. Structural Capital	3.54	0.68	0.48**	–				
3. Cognitive Capital	3.29	0.76	0.39**	0.42**	–			
4. Funding Ratio (%)	72.4	24.3	0.61**	0.54**	0.43**	–		
5. Number of Backers	148.2	96.5	0.52**	0.49**	0.37**	0.74**	–	
6. Creator Satisfaction	3.68	0.82	0.58**	0.46**	0.41**	0.67**	0.61**	–

Note(s): ** $p < 0.01$ (two-tailed). M = Mean, SD = Standard Deviation.

Source(s): Authors' own work

4.3 Multicollinearity Assessment

Multicollinearity was assessed using tolerance and VIF values for all predictor variables. All tolerance values exceeded 0.40, and VIF values remained below 3.0, well within the acceptable thresholds recommended by Hair et al. (2019). Accordingly, multicollinearity does not pose a significant threat to the reliability of the regression estimates.

4.4 Regression Results

Table 3 forms part of the hierarchical multiple regression results with the funding ratio as the outcome variable. Model 1 consists of control variables only. Model 2 includes three dimensions of social capital.

Table 3. Hierarchical regression analysis results (dependent variable: funding ratio)

Variable	Model 1		Model 2		VIF (M2)
	β	Sig.	β	Sig.	
Campaign Duration	0.121	0.042**	0.094	0.081***	1.43
Platform Type (ref: Reward)	0.089	0.114	0.072	0.168	1.61
Prior Experience	0.204	0.001*	0.159	0.007*	1.72
Relational Capital	–	–	0.381	0.001*	1.89
Structural Capital	–	–	0.264	0.003*	1.94
Cognitive Capital	–	–	0.187	0.028**	2.11
R ²	0.174		0.512		
Adjusted R ²	0.149		0.483		
ΔR^2	–		0.338	0.001*	
F statistic	6.821	0.001*	18.347	0.001*	

Note(s): * $p < 0.01$; ** $p < 0.05$; *** $p < 0.10$ (standardised beta coefficients reported)

Source(s): Authors' own work

4.5 Discussion of Results

The findings supporting the relationship between social capital and crowdfunding success in Bahrain remain strong. In Model 2, social capital explains 51.2% of the variation in the funding ratio (Adjusted R² = 0.483). This is a significant increase from the control-only Model 1 (R² = 0.174). The increase of social capital dimensions explains a significant and meaningful portion of the funding ratio variance, as evidenced by $\Delta R^2 = 0.338$ ($p = 0.001$).

Relational capital is the strongest predictor of the funding ratio ($\beta = 0.381$, $p < 0.001$), and this result is consistent with findings from the West (Colombo et al., 2015), and is further supported by the high-trust, relational Bahraini society. The funding success of social capital is explained by the trust of potential funders in the campaign creator's reputation and interpersonal obligations. This finding is consistent with the principles of Islamic finance of honesty, transparency and accountability (Abdeldayem and Aldulaimi, 2023a).

However, structural capital also has a positive and significant effect on the funding ratio ($\beta = 0.264$, $p < 0.01$). Campaign creators who have a greater social capital network achieve or exceed funding goals. This continues the finding of Zheng et al. (2014) of a positive relationship of social networks with crowdfunding success, and is applied to the Gulf Cooperation Council, whereby personal networks (including family, tribal and professional) play a key role in fundraising.

Cognitive capital has a positive, but weaker, impact compared to the other two dimensions ($\beta = 0.187$, $p < 0.05$). Bahraini investors are heterogeneous. Some, like local nationals, hold a shared narrative. Some are expatriates and hold a shared narrative but are more diverse. This may indicate the Bahraini investors hold more sophisticated cognitive frameworks. Cultural alignment's moderating effect on cognitive capital needs to be studied further.

5. Conclusion

This study offers the first systematic empirical analysis of how social capital impacts crowdfund success in Bahrain. It addresses the significant gap in alternative finance in the GCC. This study, using the multi-dimensional framework of Nahapiet and Ghoshal (1998), and the social and regulatory context of Bahrain, demonstrates that relational, structural and cognitive capitals, in that order, had the most and greatest positive impacts on crowdfunding success.

This research offers multiple implications. The results prompt policymakers and regulators within crowdfunding systems to develop mechanisms to strengthen their systems' trust and transparency (e.g., mandatory disclosures, escrow, and reputation verification tools). The research results also suggest that system operators should focus feature design that maximally integrates increased networking (system engagement), credibility (to the system), and the ability to convey common beliefs (system tools) at the design level. Campaign creators should focus on developing relationships and trust system engagement.

5.1 Limitations and Future Research Directions

There are numerous limitations to this study. The first limitation is that the study design is cross-sectional, which limits the ability to draw strong causal interpretations. Research with an extended view to system operation and to systems that have incorporated the recommended research findings would be beneficial. A second limitation is that the study is confined to Bahrain. While there are other members of the GCC, this study is designed to be self-limiting to the capital market of Bahrain. Third, the social capital measures, while validated, are self-reported measures and carry the risk of social desirability bias.

Future studies should analyze: what happens when social capital meets regulations across the GCC? how does digital social capital interact with offline social capital? how do the principles of Islamic finance affect the mechanics of crowdfunding? what are the differences in social capital across different models of crowdfunding?

To sum up, this study provides both theoretical and practical insights into crowdfunding in emerging markets. In particular, the focus on the relational dimension of social capital has the potential to inform policymakers on ways to improve the effectiveness and inclusiveness of

crowdfunding as a means of economic development both in Bahrain and throughout the GCC

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