EVALUATING THE ROLE OF CROWDFUNDING AS AN ALTERNATE FINANCE OPPORTUNITY: A FUND RAISER’S PERSPECTIVE

Dr. Shreya Virani, Assistant Professor, Symbiosis Centre for Management Studies, Symbiosis International University, Pune, India.

Prof. Paramjeet Kaur, Assistant Professor, Symbiosis Centre for Management Studies, Symbiosis International University, Pune, India.

ABSTRACT

Crowdfunding has emerged as a particularly prominent source of alternative finance for new ventures (Belleflamme et al. 2014; Collins & Pierrakis, 2012; Schreiber & Pinelli, 2013). This new opportunity to fund one’s dream project with a click of a button is rapidly being looked upon as a solemn way of raising funds for startups and new businesses. Crowdfunding uses web technologies, web portals and existing online payment systems to facilitate transactions between entrepreneurs or project starters (people who request funds) and fund providers (people who give money). To raise funds, one can create an online profile to explain the purpose project and fund-raising goals. This idea can be shared with public at large, including peers, relatives, friends of friends etc. There are minimum three parties involved in the crowdfunding activity namely Project Campaigner or Entrepreneur, Platform provider and Crowd or Investor. The present empirical research is an attempt to contribute insights on the emerging phenomenon of crowdfunding from fund raiser’s perspective.

Keywords: Crowdfunding, startups, Alternate finance, fund raisers.
Introduction:
The term crowdfunding, first coined in a blog post by Michael Sullivan in 2006, has its roots in charitable donations (Castelluccio, 2012), but it is now used to support projects as diverse as record albums, books, ecology trips, scientific research (Aitamurto, 2011, Gaggioli, 2013). The concept and use of crowdfunding is evolving and is being used in increasingly creative ways. Crowdfunding’s core elements, however, focus on technology, capital funding, and the power of the crowd, which enable many small efforts to amass into a significant financial outcome. The crowdfunding process relies heavily on technology, both in terms of the websites on which it takes place and the technologies that provide social media connections that enable awareness about a project to spread. Crowdfunding’s impact, represented by some statistics from Kickstarter.org, the world’s largest crowdfunding site, gives some perspective. At the beginning of 2014, Kickstarter.com’s website reported that pledged funds had topped $1 Billion USD from over 5.7 million backers (1.7 million repeat backers) who have made over 14 million pledges. In 2012, 15 projects reached donations above $1 million dollars; however, by March 2014, this number had grown to 58 projects topping $1 million. Massolution, a crowdsourcing and crowdfunding research center estimates that the crowdfunding market as a whole grew to $5.1B in 2013 and expectations are that the market will continue its rapid growth (Massolution, 2013). Crowdfunding has emerged as a particularly prominent source of alternative finance for new ventures (Belleflamme et al. 2014; Collins & Pierrakis, 2012; Schreiber & Pinelli, 2013), it comprises a large number of individuals who typically provide small amounts of finance to businesses via online platforms. There are various forms of crowdfunding: rewards-based, donation-based, lending-based and equity crowdfunding (Collins & Pierrakis, 2012; Hemer, 2011; Mollick, 2014)

In recent years companies have begun using their customer’s knowledge for company purposes (K. V. Rieder, 2008). Crowdfunding now offers consumers the chance to adopt the role of investors. (Ordanini et al. 2011). Those who are willing to invest are largely those who believe in the success of the company and its products and services. The actors associated with crowdfunding fall into three main roles: (i) the borrower or project initiator who presents her credit request or idea/project to be funded; (ii) individuals or groups (i.e., the crowd) who support the funding request; and (iii) a moderating organization (i.e., the platform) that brings the parties together to launch the idea or support the borrowing request.

Indian Scenario of Crowdfunding:
After the financial crisis of 2008, small businessmen and entrepreneurs found it difficult to raise funds. Crowdfunding emerged as a good option for sourcing capital globally. Some of the successful projects crowd funded on various online platforms in India can be cited as below:

Goonga Pehelwan: A film on about a deaf wrestler on his quest to reach the Rio Olympics 2016. It has raised 3 lakhs through 140 people, more than the target of 2.5 lakhs.

IIT Bombay's - Electric Racing Car: To build an environment friendly electric race car with Zero Tailpipe emissions and compete at Formula Student 2013 at Silverstone, UK and make India proud. It raised Rs. 54,000 through 30 people. Online crowdfunding platform providers have launched many projects like the Pebble Smartwatch, Oculus Rift virtual reality headset, gaming products etc. Even though there are a lot of entrepreneurs and platform providers, still India is not a healthy market ecosystem for crowdfunding. The Securities and Exchange Board of India (SEBI) released a consultation paper in 2014 proposed some guidelines for crowdfunding in India. This paper also addresses some of the issues concerning the regulation of crowdfunding in India. But still there is no proper regulation for equity crowdfunding in India.

Conceptual framework: Start – Ups:
The Indian action plan defines startups as “Startup means an entity, incorporated or registered in India not prior to five years, with annual turnover not exceeding INR 25 crore in any preceding financial year, working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property if such entity is not formed by splitting up, or reconstruction, or a business already in existence”.

A start up means creating a new business, which stands alone and is not tied with other organization except in the normal course of trading. It does not mean that the idea is necessarily new; it is only the vehicle which is set up to exploit it.
Literature Review:

Mollick (2014) examines the geography of crowdfunding using data from Kickstarter to examine the determinants of success in crowdfunding ventures. Mollick uncovers “a strong geographic component to the nature of projects, with founders proposing projects that reflect the underlying cultural products of their geographic area.”

Sebastian Dehling (2013) reports on crowdfunding as a multifaceted concept and diverse nature of crowdfunding. This thesis answers a research question about the underlying concepts of crowdfunding and how do they influence the selection mechanisms that the entrepreneur is asked to identify the right crowd. The complex composition of the additional utility that the crowd funder can gain and the motivation of the entrepreneur are influencing the rational model based on efficiency.

Ahlers et al. (2012) stress in turn the importance of information going from the entrepreneur to the crowd. Using Australian data, they analyze equity crowdfunding (i.e., crowdfunding involving equity issuance), presenting evidence that successful crowdfunding initiatives rely on credible signals, quality of the start-up, and sound information disclosure to the crowd.

Gerber et al. (2012) goes even further saying, “Crowdfunding has the potential to fundamentally impact how we function economically and socially by facilitating the realization of new and innovative products and services.” Therefore, it will be useful to integrate crowdfunding and its two dominating models into the existing literature to define its role in theory and discuss its resulting practical implications.

Adams and Ramos (2010) in their paper found that crowdfunding platforms are the result of a social movement and the emergence of Web 2.0 technologies are enabling new forms of social networking. People’s motivation differs from those of traditional investors.

From the above literature review, it can be seen that, the existing literature talks about the determinants of success of crowdfunding, multifaceted concept of crowdfunding, the importance of information going from the entrepreneurs to the crowd and also the impact of crowdfunding on economic and social front. There is no literature found which evaluates the role of crowdfunding as an alternate finance opportunity from the fund raiser’s perspective. This research gap has helped the researchers to frame the objectives of the present study.

Objectives of the study:

1. To study the various factors considered by fund raisers while seeking funding from crowdfunding.
2. To know the different crowdfunding platforms used for raising funds and also to find out satisfaction level.

Research Method:

Data collection:

Primary and secondary sources:

In this research work we have adopted survey technique which comes under primary data along with many research articles and research papers available from different research journals as secondary data. Questionnaire method is intended to secure information from a sample of respondents or informants who are representatives of a large group. The information is recorded on a form known as a questionnaire or a schedule or a blank form of paper. This method is also known as “Questionnaire Technique.” The present research comprises of three different Questionnaires for three different populations.

Population:

The research on online crowdfunding is very vast and cannot be limited or framed into distance and space. Therefore it is incumbent on the researcher to clearly define the target population. There are no strict rules to follow, and the researcher must rely on logic and judgment. The population is defined in keeping with the objectives of the study.

Sampling Technique:

In this research study researcher is using simple random sampling technique. In this method each item of the data (population) has the same probability of being selected in the sample.

Sample Size - 100

Sample unit

Fund raisers - The respondents who have raised funds through various crowdfunding platforms to assist their startups across India.
Hypothesis formulation:

The present study has been carried out in order to test the following hypothesis -

$H_0$ – There is no effectiveness of Crowdfunding as an alternate viable medium of financing

$H_1$ - There is an effectiveness of Crowdfunding as an alternate viable medium of financing

Data Analysis and Interpretation:

The research uses Likert scale technique to find frequency, arithmetic mean (simply the mean or average) and standard deviation (quantify the amount of variation or dispersion of a set of data values) to test the data in terms of spread. Also, tables, graphs and charts are used to present the analysis.

Fig 1.1 – Different Crowdfunding Platforms used for seeking funds

From the above figure, it can be seen that 20% respondents have raised funds through Wishberry, followed by Ketto 13%. The respondents who preferred other forms of crowdfunding platforms are 19% whereas for Indiegogo, Dreamwallets and Milaap the respondents have reported their response 9%, 6% and 5% respectively.

Fig. 1.2: Different Platforms used for Crowdfunding and Overall satisfaction Level
From the above figure it is evident that all 20 respondents who have used Wishberry, as a crowdfunding platform for raising funds are satisfied.

Table 1.1 – Reasons for using Crowdfunding Model and Overall Satisfaction Level

<table>
<thead>
<tr>
<th>Reasons preferred to raise funds through Crowdfunding</th>
<th>Overall satisfaction level</th>
<th>Frequency Counts</th>
</tr>
</thead>
<tbody>
<tr>
<td>A low risk model for funding</td>
<td>Satisfied</td>
<td>11</td>
</tr>
<tr>
<td>Economic Choice</td>
<td>Satisfied</td>
<td>21</td>
</tr>
<tr>
<td>Positive Experience of the model</td>
<td>Satisfied</td>
<td>15</td>
</tr>
<tr>
<td>The only possible choice</td>
<td>Satisfied</td>
<td>7</td>
</tr>
</tbody>
</table>

Fig 1.3 – Bar Diagram displays the categorical view of different reasons for using crowdfunding model and Overall Satisfaction Level

It has been observed that most of the users 33 out of 100 i.e. 33% preferred crowdfunding over the other finance opportunities in order to start their start-up or venture because they think it’s an economic choice; further it can be seen that out of 33 respondents 21 respondents are satisfied for having preferred it for the same reason. 20% respondents opted for crowdfunding due to their positive experience about the model. 23% respondents preferred crowdfunding as they think it’s a low risk model and out of 23, 11 respondents are satisfied with their choice of having preferred it as a low risk model. 14% respondents made the choice of crowdfunding as they think it was the only possible choice for them. Out of 14% respondents 7% have expressed their satisfaction for the same.

Table 1.2 – Overall Satisfaction Level of using Crowdfunding Platform for raising fund from the view point of Fund Raiser using Likert Scale Technique

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Satisfaction Level</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>4</td>
<td>5</td>
<td>5%</td>
</tr>
<tr>
<td>2</td>
<td>5</td>
<td>17</td>
<td>17%</td>
</tr>
<tr>
<td>3</td>
<td>6</td>
<td>16</td>
<td>16%</td>
</tr>
<tr>
<td>4</td>
<td>7</td>
<td>17</td>
<td>17%</td>
</tr>
<tr>
<td>5</td>
<td>8</td>
<td>15</td>
<td>15%</td>
</tr>
<tr>
<td>6</td>
<td>9</td>
<td>11</td>
<td>11%</td>
</tr>
<tr>
<td>7</td>
<td>10</td>
<td>7</td>
<td>7%</td>
</tr>
<tr>
<td>8</td>
<td>12</td>
<td>1</td>
<td>1%</td>
</tr>
</tbody>
</table>
The result shows that maximum respondents are satisfied with the Crowdfunding Technique to develop any new business. Likert scale ranges from level 4 to 12. The arithmetic mean and standard deviation for the level of satisfaction among all the respondents who raise funds through crowdfunding is given below:

**Table 6.8 – Arithmetic Mean and Standard Deviation for satisfaction level**

<table>
<thead>
<tr>
<th>Arithmetic Mean</th>
<th>06.19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Deviation</td>
<td>02.74</td>
</tr>
</tbody>
</table>

A standard deviation of 2.74 with a mean of 6.19, as calculated above indicates that the data points are little distributed. Coefficient of variation (CV) is a uniform method of determining the relevance of the standard deviation and what it indicates about the responses of sample. The closer the CV is to 0, the greater the uniformity of data. The closer the CV is to 1, the greater the variability of the data. CV = S/ M. And for above AM and SD, we get CV of 2.74 / 6.19 = 0.442 (indicating that the data does not have uniformity with respect to the mean and is spread over a vast area)

**Hypothesis Testing:**

*H₀* – There is no effectiveness of Crowdfunding as an alternate viable medium of financing

*H₁* - There is an effectiveness of Crowdfunding as an alternate viable medium of financing

From the above analysis it can be interpreted that crowdfunding has been accepted but not to a great extent as the CV is 0.44. But still we can accept alternate hypothesis (H₁) as it is effective to some extent and reject null hypothesis (H₀)

**Major Findings:**

The number of respondents for the present research study included 100 entrepreneurs, project starters who have been provided funds through crowdfunding in India. Primary data was collected from all respondents through structured questionnaire and the results were analyzed. The findings are stated below –

1. **20% of the total respondents have raised funds through Wishberry, and then followed by Ketto is 13%.** All the respondents who have raised funds through Wishberry have expressed their satisfaction for the same.

2. **Most of the users i.e. 33% preferred crowdfunding over the other alternate finance opportunities in order to start their start-up or venture because they think it’s an economic choice; further it can be seen that out of 33 respondents 21 respondents are satisfied for having preferred it for the same reason.** 20% respondents opted for crowdfunding due to their positive experience about the model and 15 respondents have a positive experience about the crowdfunding.

3. **After analysis of data, it has been observed that maximum respondents are satisfied with the crowdfunding technique to start any new business.** Further, it can be interpreted that crowdfunding has been accepted but not to a great extent as the CV is 0.44. Hence, it can be concluded that crowdfunding is emerging as an alternate finance opportunity for the startups.
Conclusion:

The present study was an attempt to evaluate the role of crowdfunding from the perspective of fund raisers’. For this the respondents were asked the questions to share their views and experience about raising funds through crowdfunding. It can be concluded that the respondents prefer crowdfunding over conventional methods of financing as they express their satisfaction and positive experiences about the same. Hence, it won’t be erroneous if we accept that the crowdfunding has been emerging as one of the viable option for raising finance.

References:

[15] https://www.igniteintent.in
[16] https://www.kickstarter.com/help/stats

****