



RESEARCH ARTICLE

AN EMPIRICAL STUDY ON FUND RAISERS' PERSPECTIVE TOWARDS CROWD FUNDING MODELS

***Prof. Paramjeet Kaur and Dr. Shreya Virani**

Asst. Prof., Symbiosis Centre for Management Studies, Symbiosis International University, Pune, Survey No. 231,
Near Lunkad Gold Coast, Viman Nagar, Pune, Maharashtra 411014

ARTICLE INFO

Article History:

Received 25th January, 2017
Received in revised form
06th February, 2017
Accepted 22nd March, 2017
Published online 30th April, 2017

Key words:

Crowdfunding,
Startups,
Alternate finance,
Fund raisers.

ABSTRACT

Introduction: Crowdfunding is a way to raise finance from public / individuals to fund a project or venture. It is a form of gathering funds over the internet by (Campaign) advertising the purpose and need of the project or venture. People interested in the thought / idea tends to invest or send money (any amount) in the form of monetary donation or sometimes in exchange for a future product, service or reward. The term crowdfunding was first coined in a blog post by Michael Sullivan in 2006 and has its roots in charitable donations (Castelluccio, 2012). It was initially used to support projects as diverse as record albums, books, ecology trips, scientific research (Aitamurto, 2011, Gaggioli, 2013)

Research Method:

Sampling Method: The present research being an empirical in nature includes survey method and fact finding enquiries. The data collected would be processed with the help of statistical techniques such as frequency, standard deviation, cross tabulation, etc. to obtain the relevant results and fulfill the stated objectives.

Data Collection: Primary data is collected firsthand by a researcher through experiments, surveys, questionnaires, focus groups, interviews and taking measurements, while the secondary data is readily available and is available to the public through publications, journals, magazines and newspapers.

Data Analysis:

Findings of study

- Reward based crowdfunding model is much preferred by the fund raisers for their startups and business ventures.
- Majority of the fund raisers are satisfied with donation based crowdfunding model of crowdfunding.

Copyright©2017, Prof. Paramjeet Kaur and Dr. Shreya Virani. This is an open access article distributed under the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

Citation: Prof. Paramjeet Kaur and Dr. Shreya Virani, 2017. "An empirical study on fund raisers' perspective towards crowd funding models", *International Journal of Current Research*, 9, (04), 49712-49717.

INTRODUCTION

Crowdfunding is as simple as the name suggests "crowd" funds your business. Now, it sounds to be a very simple process of collecting funds from the crowd or people who like your business/idea, but there is a giant puzzle beneath has to be sorted out. Hence, crowd can either benefit or ruin depending on whether it is with you or against you! Crowdfunding is solicitation of funds (small amount) from numerous investors through a web-based platform or social networking site for a project, venture or any social cause. Hence, it is dependent 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. There are dedicated sites where the projects can be posted and these sites have the appropriate audiences, who then make

contributions. It may seem unrealistic in our scenario, but with the vast access to the internet and a large young population, this may be the way, things will move in future. The concept behind crowdfunding is to communicate the idea to the public wherein they are open to it in order to seek funds. The idea and use of crowdfunding is evolving and is being used in increasingly creative ways. Crowdfunding's basic features, however, focus on technology, capital funding, and the influence of the crowd, which enable many small efforts to accumulate into a significant financial outcome. It is an outreach into the community, through education, which leads to financial contributions to support research. Crowdfunding has been used to fund a wide range for-profit entrepreneurial ventures, artistic and creative projects; and not-for-profit or community-oriented social entrepreneurship projects. An inherent problem that entrepreneurs face at the very beginning of their entrepreneurial initiative is to attract outside capital, given the lack of collateral and sufficient cash flows and the presence of significant information asymmetry with investors (Cosh *et al.*, 2009). While different investors exist for larger

***Corresponding author: Prof. Paramjeet Kaur,**

Asst. Prof., Symbiosis Centre for Management Studies, Symbiosis International University, Pune, Survey No. 231, Near Lunkad Gold Coast, Viman Nagar, Pune, Maharashtra 411014

amounts of capital such as VC funds and banks, entrepreneurial initiatives that require much smaller amounts to start with need to rely on friends and family or own savings. They then also make extensive use of bootstrapping techniques to mitigate their financial constraints (Bhidé, 1992; Winborg and Landstrom, 2001; Ebben and Johnson, 2006), by boosting their short-term profits.

Conventional methods of raising funds through issuing of shares to the public and debt finance are not easily available to small enterprises and budding entrepreneurs. A lot of start-ups and small ventures may not be able to meet the eligibility requirements set by the Securities and Exchange Board of India (SEBI) for raising funds through an Initial Public Offer (IPO). Also, the financial meltdown in the financial sector has shown that there would be a liquidity crunch when banks are in distress; hence, there is a need to have an alternate source of funding/ financing.

Types of Crowdfunding

Public can invest funds in four types or models based on the returns given by fund raisers -

1. Reward Based

Under this type of model, the supporters or investors of a project get tangible items or service in return of their investment into the venture. This could either be a T-shirt, a product manufactured by the company in which you have invested say a phone, It is not essential that the reward distributed would be something that the company, in which you are investing in, manufactures, creates or deals in.

2. Equity Based

Under this type of model of crowdfunding where contributors take a share of equity in the project or start up i.e. fund providers become the shareholders in the project. It is not legal in India yet. It is the process whereby people (i.e. the 'crowd') invest in an early-stage unlisted company in exchange for shares of that company. A shareholder has partial ownership of a company and is entitled to receive profit if the company does well. In case, if the company fails, investors can lose some, or all, of their investment.

3. Debt based

In this type, fund raisers or platform providers collect money from different investors and the same is treated as a loan or debt. The money invested receives a fixed interest and the company is liable to repay the amount invested after a fixed period. Milaap, a crowdfunding platform is an example of such crowd sourcing in India.

4. Donation based

In this type of crowdfunding usually, but not always, the funds are raised for charitable projects and humanitarian causes. It offers an opportunity to an individual to share money for causes and projects that they feel strongly about, thus giving them a chance to create an impact. A large number of contributors are asked to donate a small amount. In return, the contributors may receive a token gift.

What is a Start-up?

A known definition of "startup" is "business that is typically technology oriented and has high growth potential" given by US small business organization. For the present research, startups have been defined as an entrepreneurial venture that aims to meet a marketplace need by developing or offering an innovative product, process or service. It usually comprises of a small business or partnership or an organization with an idea or business model. In India, our Prime Minister, Shri Narendra Modi has recently announced the "Start-up India" initiative. This initiative aims at fostering entrepreneurship and promoting innovation by creating an ecosystem that is conducive for growth of Start-ups. The objective is that India must become a nation of job creators instead of being a nation of job seekers.

The aim of this research is to study why startups are preferring crowdfunding as a financing option to raise finance for their ventures and also to know the fund raiser's perspective on different crowdfunding models which they have opted for.

Review of literature

Research done by academicians on crowdfunding in particular is still in its early stages although it has gained more attention over the last few years. It was also elicited by the success of popular crowdfunding platforms and a tendency to limited access of traditional sources of funding for entrepreneurs. Agrawal *et al.* (2011) focus on crowdfunding more specifically. They examine the geographic origin of consumers who invest on the SellaBand platform and observe that "the average distance between artist-entrepreneurs and investors is about 3000 miles, suggesting a reduced role for spatial proximity." However, they establish that distance still plays a role insofar as "local investors invest relatively early, and they appear less responsive to decisions by other investors." Ordanini Andrea, Lucia Miceli, Marta Pizzetti & A. Parasurman (2011). The authors have considered three crowdfunding cases viz. Sellaband in music business, Trampoline in financial services and Kapipal in non-profit service. The research basically focuses on two questions - (i) how and why do consumers turn into crowdfunding participant? (ii) how and why do service provider set up crowdfunding initiative? Lambert and Schwienbacher (2010) Crowdfunders have very little chances to intervene and protect their small 13 investments. Therefore trust building is an essential ingredient for any successful crowdfunding initiative. 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. Craig Mod (2010) explains that people with low budgets but keen interest to see the project happen may contribute highly or modestly interested but wealthy people may join the low tier instead of not participating at all.

Schwienbacher and Larralde (2010) states crowdfunding projects can range greatly in both goal and magnitude, from small artistic projects to entrepreneurs seeking hundreds of thousands of dollars in seed capital as an alternative to traditional venture capital investment. Leach and Melicher (2009) Entrepreneurial finance draws its principles from entrepreneurship and finance it is "...the application and adaptation of financial tools, techniques, and principles to the

planning, funding, operations, and valuation of an entrepreneurial venture“, and crowdfunding is one tool in the early stage of an entrepreneurial venture. This stage refers to ventures with little operating history that are in their development- startup- or survival life cycle stages. Cosh *et al.* (2009) analyzed a broad range of alternative methods for startup financing and finally suggested that social networking methods like crowdfunding could provide a solution for seed capital. Rao and Giorgi (2006) argued that, “collective vehicles through which people mobilize supporters for collective actions are also essential for social movements”.

Objectives

1. To study the various sources of awareness about crowdfunding.
2. To know the different crowdfunding models those are preferred by fund raisers.
3. To study the satisfaction of the fund raisers' associated with the crowdfunding models.

Research Framework

Data collection

Primary and Secondary sources

In this empirical research, primary data has been collected through well structured questionnaire containing open ended and close ended questions specific to the study. Secondary data has been extracted through certain published and unpublished sources namely research journals, newspapers, magazines, books and internet websites.

Population

Online crowdfunding being a vast area of research cannot be restricted or bounded 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 keeping in view objectives of the study.

Sampling technique

This research study is based on 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/ entrepreneurs/ new business or venture starters who have raised funds through various crowdfunding platforms to assist their business/ ventures/ startups across India.

Hypothesis formulation

- H0** – There exists no satisfaction among the fund raisers' with respect to crowdfunding models preferred.
- H1**- There exists satisfaction among the fund raisers' with respect to crowdfunding models preferred.

Data Analysis and Interpretation

From the figure 1.1, it can be interpreted that 54 respondents out of 100 i.e. 54% (who raised funds for their ventures/start-ups) got the awareness about crowdfunding through social media, followed by 18% respondents who got aware about crowdfunding through word of mouth and 12% fund raisers got to know about crowdfunding through their friends/relatives.

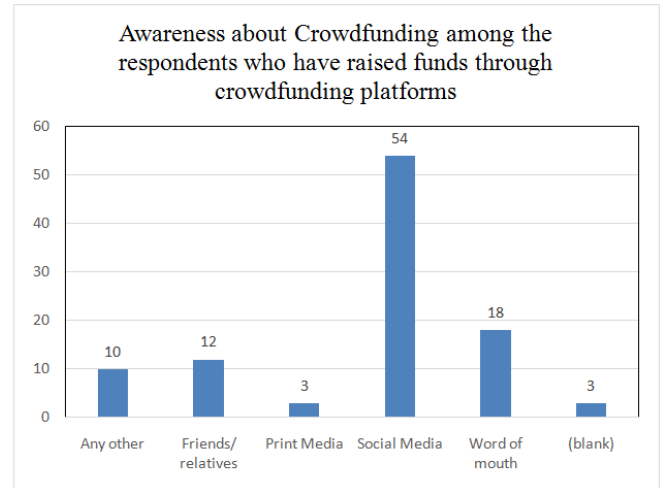


Fig. 1.1. Awareness about crowdfunding among the respondents who raised funds for their ventures/ start-ups through various crowdfunding platforms

From the above figure it can be interpreted that out of the 100 respondents (those who raised funds for their start-ups / ventures) 45 respondents i.e. 45% used reward based crowdfunding model for raising funds, 18% respondents took the help of donation based crowdfunding model, 17% respondents raised funds through peer to peer lending, 4% respondents used donation based and peer to peer lending both for raising funds, 4% fund raisers have taken the help of reward based and donation based model both for raising funds for financing their start-ups/ventures. 3% respondents have raised the funds through multiple crowdfunding models such as reward based, donation based and peer to peer lending followed by the 2% respondents who have opted both reward based and peer to peer lending for raising funds.

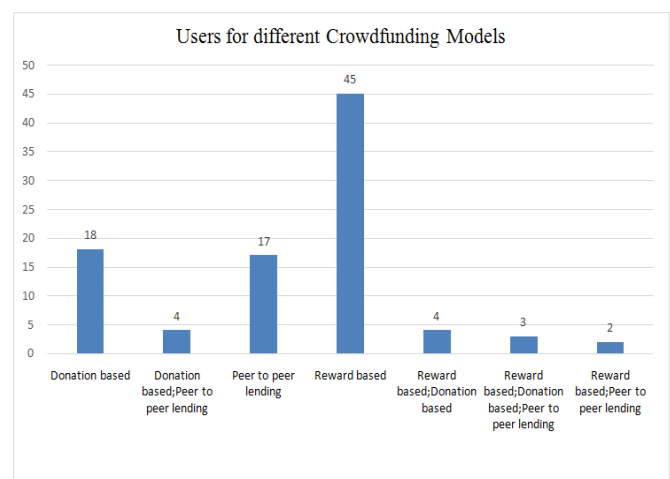


Fig. 1.1. Users of different crowdfunding Models

Table 1.1. Satisfied respondent's count and crowdfunding model

Association of Satisfaction level with Crowdfunding Model used				
Satisfaction level	Donation Based	Reward Based	Peer to peer Lending	Row Total
Satisfied	12	33	11	56
Not Satisfied	06	12	06	24
Column Total	18	45	17	80

Because two variables have been cross classified, percentage could be computed either column wise based on column totals or row wise based on row totals.

Table 1.2. Satisfaction Level and Crowdfunding Platform in percentage

Crowdfunding Models	Reward Based	Donation Based	Peer to peer lending
Satisfied	66.6 %	73.3%	65.0%
Not Satisfied	33.3%	26.6%	35.0%
Total	100%	100%	100%

From the above table, it is exhibited that the majority of the respondents i.e. 66.6% express their satisfaction towards reward based model, 73.3% are satisfied with donation based model while 65% have shown their satisfaction towards peer to peer lending.

Hence, null hypothesis i.e. H_0 – *There exists no satisfaction among the fund raisers' with respect to crowdfunding models preferred* is rejected whereas, H_1 – *There exists satisfaction among the fund raisers' with respect to crowdfunding models preferred* can be accepted.

Significance of the study

Crowdfunding has the prospective to transform the way the companies collect funds, build corpus and manage relationships with their investors and customers. Moreover, in today's economic climate, it is becoming increasingly important for companies to find new ways of adding value to their profit generation and customer relation. Hence, there is a need to focus on new ways to improve the reach of Crowdfunding and increase investor base.

Findings

The present study included 100 entrepreneurs, project starters who have raised funds through crowdfunding in India. The findings of the study are stated below –

1. It has been observed that majority of the respondents i.e. 54% got the awareness about crowdfunding through social media, and 12% fund raisers got to know about crowdfunding through their friends/relatives.
2. 45 respondents out of the 100 i.e. 45% used reward based crowdfunding model for raising funds whereas 3% respondents have raised the funds through multiple crowdfunding models such as reward based, donation based and peer to peer lending followed by the 2% respondents who have opted reward based and peer to peer lending both for raising funds.
3. It is been found that the majority of the respondents i.e. 73.3% respondents are satisfied with donation based model while 65% respondents have shown their satisfaction towards peer to peer lending.

Conclusion

The study was basically aimed to acquaint with the various sources of awareness of crowdfunding among the fund raisers'. Also, it studies the models preferred by fund raisers' to raise the finance for their startups/ ventures. While studying this, it has been noted that though crowdfunding is at its nascent stage it is being preferred as an alternate finance opportunity to finance the projects/ businesses. Further, the researcher has also studied the satisfaction level with respect to the various crowdfunding models used. It can be concluded that the majority of the respondents are satisfied with their models which further underlines the great potential and prospects of crowdfunding as an emerging source of finance.

REFERENCES

- Adams, C., Ramos, Isabel, 2010. The Past, Present and Future of Social Networking and Outsourcing: Impact on Theory and Practice. UK Academy for Information Systems Conference Proceedings 2010. Paper 3. <http://aisel.aisnet.org/ukais2010/3>
- Agrawal, A., C. Catalini, and A. Goldfarb. 2011. *Offline Relationships, Distance, and the Internet: The Geography of Crowdfunding*. Cambridge, MA: National Bureau of Economic Research.
- Agrawal, A., Catalini, C., Goldfarb, A. 2011. The geography of crowdfunding. NBER Working Paper, No. 16820.
- Ahlers, G.K.C., Cumming, D., Gunther, C., Schweizer, D., 2012. Signaling in equity crowdfunding. Working Paper.
- Belleflamme, P., Lambert, T., Schwienbacher, A. 2012. Crowdfunding: Tapping the Right Crowd. SSRN Working Paper
- Bhidé, Amar. 1992. "Bootstrap Finance: The Art of Start-Ups." *Harvard Business Review*, 70:66, 109-117.
- Cosh, A., Cumming, D. and Hughes, A. 2009. Outside Entrepreneurial Capital. *The Economic Journal*, 119 (1970), 1494–1533.
- Cosh, Andy, Douglas Cumming and Alan Hughes, 2009. "Outside Entrepreneurial Capital." *Economic Journal*, 119, 1494-1533.
- Ebben, Jay and Alec Johnson, 2006. "Bootstrapping in Small Firms: An Empirical Analysis of Change over Time." *Journal of Business Venturing*, 21, 851-865.
- Gerber, E., Hui, J. and Kuo, P. 2012. Crowdfunding: Why People are Motivated to Post and Fund Projects on Crowdfunding Platforms. http://www.juliehui.org/wpcontent/uploads/2013/04/CSCW_Crowdfunding_Final.pdf
- Gerber, E., Hui, J. and Kuo, P. 2012. Crowdfunding: Why People are Motivated to Post and Fund Projects on Crowdfunding Platforms. http://www.juliehui.org/wpcontent/uploads/2013/04/CSCW_Crowdfunding_Final.pdf
- Hemer, J. 2011. A snapshot on crowdfunding (No. R2/2011). Working papers firms and region. Karlsruhe, Germany: Fraunhofer ISI
- Hui, J., Gerber, E. and Greenberg, M. 2012. Easy Money? The Demands of CrowdfundingWork. http://egerber.mech.northwestern.edu/wpcontent/uploads/2012/11/Easy-Money_The-Demands-of-CrowdfundingWork-_2012.pdf
- Lambert, T. and Schwienbacher, A. 2010. An empirical analysis of crowdfunding, p.6
- Landler, M.. 2012. Obama Signs Bill to Promote Start-Up Investments. The New York Times.<http://www.nytimes>.

com/2012/04/06/us/politics/obama-signs-bill-to-easeinvesting-in-start-ups.html?_r=0

Leach, J. C. and Melicher, R.W. 2009. Entrepreneurial Finance, 4th Edition, South Western.

Mod, C. 2010. Kickstartup: Successful fundraising with Kickstarter.com & (re)making Art Space Tokyo. <http://craigmod.com/journal/kickstartup/>

Mollick, E. 2014. The dynamics of crowdfunding: An Exploratory Study. *J. Bus. Venture* 29, 1–16.

Ordanini, Andrea, *et al.* Crowdfunding: transforming customers into investors through innovative service platforms, <http://www.emeraldinsight.com/journals.htm?articleid=1944376>

Rao, H. and Giorgi, S. 2006. Code Breaking: How Entrepreneurs Exploit Cultural Logics to Generate Institutional Change. *Research in Organizational Behavior*, 27(06), 269–304.

Winborg, Joakim and Hans Landstrom. 2001. “Financial Bootstrapping in Small Businesses: Examining Small Business Managers’ Resource Acquisition Behaviors.” *Journal of Business Venturing*, 16, 235-254.

Websites and links

<http://www.indianstartups.com/p/CrowdFunding>

<http://indiacorplaw.blogspot.in/2016/03/equity-based-crowdfunding-as-early.html>

<http://economictimes.indiatimes.com/small-biz/money/tight-government-regulation-paucity-of-innovation-limiting-crowdfunding-startups-in-india/articleshow/52197344.cms>

<http://techstory.in/crowdfunding-websites-india/>

ANNEXURE

Questionnaire for the respondents who raised funds for their ventures/start-ups through crowdfunding

Name: _____
 City/ Town: _____
 State: _____
 Contact details: _____
 Email Id: _____

- 1.What was / is your campaign's funding target amount?
 a)<Rs. 50,000
 b)Rs. 51,000 - Rs. 2,99,000
 c)Rs. 3,00,000 - Rs. 4,99,000
 d)>Rs. 5,00,000
- 2.How did you come to know about crowdfunding?
 a)Social Media
 b)Print Media
 c)Friends/ relatives
 d)Word of mouth
 e)Any other
- 3.Reason considered while seeking funding from crowdfunding channels?
 a)An economic choice
 b)The only possible choice
 c)Positive experiences of the model
 d)A low risk model for fund raising
 e)Any other
4. Your project falls into which of the following categories?

- a)Artistic
- b)Innovative
- c)Social / philanthropic
- d)Ecological / green technology
- e)Entrepreneurial
- f)Other

- 5.Which of the following crowdfunding model did you use or intend to use?
 a)Reward based
 b)Donation based
 c)Peer to peer lending
- 6.Which of the following financing sources had been tried by you before launching your campaign through crowdfunding?
 a)Bank loan
 b)Venture Capital
 c)Business Angels
 d)Friends & Family
- 7.Which of the following platforms you have used to raise funding for your project?
 a)Ketto
 b)Wishberry
 c)Catapoolt
 d)Milaap
 e)Ignite Intent
 f)The HotStart
 g)Bit Giving
 h)Indiegogo
 i)Dreamwallets
 j)Any other

- 8.Is there any upfront listing fee?
 a)Yes
 b)No

- 9.How much do you have to pay as the site fee for the selected crowdfunding?
 a)1 - 5 percent
 b)6 - 10 percent
 c)11 - 20 percent
 d)Above 20 percent

- 10.Which of the following social networking sites were preferred by you for raising funds through crowdfunding?
 a)Facebook
 b)Twitter
 c)Linkedin
 d)Any other

11.As per your experience of raising funds through crowdfunding select the appropriate option –

	Completely	Partially	Not exactly
Fulfillment of Objectives			

12.As per your experience of raising funds through crowdfunding select the appropriate option –

	Lengthy	Moderate	Very less time
Time involved in raising the funds			

13.As per your experience of raising funds through crowdfunding select the appropriate option –

	Very good	Good	Average
Response from the public			

14. As per your experience of raising funds through crowdfunding select the appropriate option –

	High	Medium	Low
Challenges Involved			

16. How was your overall experience with crowdfunding?
a) Satisfied
b) Unsatisfied

15. What are your views on whether SEBI should recognize crowdfunding as a legal source of finance in India?
