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A Study on Crowd Funding Status in India: A Review of Literature

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Abstract

In today's world of creativity and innovation, the population is occupied with various business ideas. From promoter's sight, generation of business proposal is easier than arranging for the fund for its application. At present, the businessmen have many options from which they can arrange funds namely shares, banks, private lenders, venture capital institutions and other financial organizations. But still there are various frequent expenses which are not financed by these organizations. To deal with these initial capital and indirect expenses a new concept has aroused that is crowdfunding. Crowdfunding is widely used in developed countries like America whereas in India, the population is still less aware about it. The present research study is done with an intention to identify the development of crowdfunding in India. For this many research studies done in India and outside India have been referred.

Key Words: Finance, crowdfunding, crowdsourcing, investors

1. Review of Literature

Crowdfunding is one of the recent and renowned methods of financing the capital. In crowdfunding the fund is collected from the mass of the people for an explicit purpose. The whole process from campaigning of the idea to the collection of the fund is performed via internet through collaboration with social networking sites. The SEBI consultation paper (2014) explained crowdfunding as solicitation of funds (small amount) from multiple investors through a web-based platform or social networking site for a specific project, business venture or social cause. Crowdfunding facilitates fund raising for various creative projects like music, film, book publication or for some generous or public benefit cause or for some business venture.

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As per IOSCO staff working paper, 2014, crowd funding can be segregated into four categories, namely donation crowd funding, reward crowd funding, peer to peer lending and equity based crowd funding. Donation crowd funding and reward crowd funding are exist in the class of community crowd funding while peer to peer lending and equity crowd funding are also known as financial return crowd funding.

Donation crowd funding is also known as social lending. It indicates the way of fundraising for social, artistic, philanthropic and mainly for charitable purposes. Reward crowd funding refers to the process of solicitation of funds in which investors earn some existing or future tangible benefits as return on their investment. Peer to peer lending provides an online platform to the investors and issuers to satisfy their need through unsecured loans. In this method, the platform decides the interest rate of loan. In Equity based crowd funding the fund is raised through offering equity interests in the business to the investors online.

Crowdfunding has a very long history. According to Crowdsourcing.org 2015, in 2014 1,250 crowdfunding platforms raised total capital of $16.2 billion. At that time North America was considered as the largest market with rapid growth in Asia, particularly in peer to peer lending.

Kuppuswamy and Bayus (2013) explained crowdfunding as “an activity that has a rich history”. They concentrated on financing of Mozart and Beethoven concerts and new music compositions and the statue of liberty. Gerber et al. (2012) in their study proved that more than 50 crowdfunding platforms were functioning in US.

Kuppuswamy and Bayus (2013) and Mollick (2014) researched on four different models of crowdfunding namely equity-based (profit sharing), lending-based, reward-based (pre-ordered) and donation-based. Bellaflamme et al., (2014) in their research proved that reward-based and equity-based as the two leading forms of crowdfunding.

Schwienbacher and Larralde (2010) took the support of the study done by Lambert and Schweinbacher (2010). On the basis of the research, they grouped crowdfunding models on the basis of the rewards given to the participating crowd. These groups are classified as donations, passive investments by the crowd or active investments by the crowd.

As per Gerber’s et al. (2012), there were five objectives of creators behind raising fund from crowdfunding. These motivations are to raise funds in a democratic way, establishing relationships, expanding their capabilities. At last the authors concluded that in what manner the creators are motivated in raising fund through crowdfunding because in this they can spread their business ideas.In India very few published research work has been done on crowdfunding. In India, the concept of crowdfunding was started in the year 2009 basically for start ups and film industry. Various researchers namely Dr. Hetal Jhaveri and Prof. Anjali

Choksi (2014), Dr. Mallika Srivastava, Kayalvizhi J.M. and M. Sagar (2014) have researched selected Indian online crowdfunding platforms named as CFPs as their area of focus, fund raising strategies and revenue models. According to them crowdfunding platforms were available for both business activities and social causes like NGOs and creative ideas.

V. Chirputkar, Saurabh Saxena and Juhi Tarkas (2015) discussed the applicability of crowdfunding framework for micro-enterprises. Through their research, they proposed a model of crowdfunding along with its financial evaluation for micro enterprises.

Many research studies have done on models of crowdfunding but detail research on practical problems and challenges faced by crowd funding platforms are still lack in India. Mitra (2012) explored the concept of crowdfunding, its context and the principles of crowdfunding business in global market. He characterized crowdfunding as the raising of capital through crowd not from any certified financial individual or institutions like banks, venture capitalists or businesses. He concluded that crowdfunding is the fast developing market of financing in global world especially donation and reward-based models of financing. On the other hand, in Europe and Australia equity based funds is very prominent way of funding (Macht and Weatherston (2014).

Griffin (2012) proved that crowdfunding is the process of advertising the business idea by the entrepreneur through website website like Craiglist.com. In this advertisement, the entrepreneur makes aware the public about his business idea and request for fund to them. The business idea should elaborate business activities and objectives in detail and the entrepreneur's future plans for utilizing the funds that are sought to be raised.As per Bradford (2012), crowdfunding composed of a steps of the systematic process through which the creator of the idea make a funding request to the crowd by describing the business proposal to them. The entrepreneurs also mention the terms and conditions of return on the money contributed by the investors (Schweinbacher and Larrade, 2011). Burtch et. al., 2012 added that all crowdfunding transactions are facilitated through internet-based crowdfunding which also offer a convenient mode for all exchanges of funds.

Macht and Weatherston (2014) defined crowdfunding as a new fundraising tool for small business projects. This is profitable for fund-seeking companies by reducing the fundraising problems, providing entrepreneurs other value added benefits like publicity, contacts and increasing access to further fundraising. The most important thing is there is no loss of control and ownership.Crowdfunding can be described as the way to elevate the start-up capital for new business ideas or any cultural, social and for-profit purpose. In this the fund is arranged by drawing on relatively small contributions from relatively large number of people

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using the internet without standard financial intermediaries. According to Brem (2013), crowdfunding is the method of acquiring third-party financing from the general public by means of an online web-based intermediary platform.

Belleflamme and Lambert (2013) in their research described crowdfunding as the way through which an entrepreneur raises external financing from a large audience i.e. the crowd. In this each individual provides a very small amount of capital instead of seeking a small group of sophisticated investors.Belleflamme et al (2011) proved crowdfunding as the most innovated method of financing a venture or small business openly by a large group of individuals. This group invests small amounts instead of other external funding sources with large amounts. As the whole process of crowdfunding is done through an online platform, there is no need of any intermediary between the investors and the creators.

Crowdfunding has been defined as the path by which an entrepreneur or creator of the idea raises finance in the form of small contributions from a large number of individuals using mass communication through the internet (Mollick 2014; Schwienbacher and Larralde 2010 and Bradford 2012).

Schwienbacher and Larralde (2010) explained crowdfunding as an open call to the mass of population through the internet, for the requirement of financial resources whether in form of donation or in compensation of some reward or any voting rights in order to support initiatives for specific purposes.Many researchers were at view that crowdfunding is closely related with many of modern financial innovations like micro credit, crowd sourcing etc.

Mollick, (2014) stated that crowdfunding is a multi-disciplinary field, while Frydrych et al., (2014) and Bellaflamme et al. (2010), explained crowdfunding as the process where entrepreneurs request the crowd and obtain funds directly from ordinary investors and not from the professional investors. In return of the money invested, the investors receive monetary or non-monetary reward.As per Bellaflamme et al. (2014) and Ordanini et al. (2011) investors expect a certain pay-off in compensation for their monetary contributions as they are bearing a risk of their investment.

Morduch (1999) stated that crowdfunding is an updated version of traditional finance theories like micro-finance and crowd sourcing. But Poetz and Schreir, 2012 contradicted the above statement and identified crowdfunding as its own distinct category of fund raising assisted by various internet sites dedicated to the topic.

According to Howe (2008); Kleeman, Vob and Rieder (2008), the model of crowdfunding is grown from the concept of crowdsourcing. Crowdsourcing means using the crowd to get ideas, feedback and solutions in order to develop corporate activities. Schwienbacher and

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Larralde, (2010) described crowdfunding as a part of crowdsourcing. They defined crowdsourcing as the process of outsourcing internal business activities to the outside crowd.Schwienbacher and Larralde (2010) in their research proved that crowdfunding is a novel approach of getting fund for a new business set-ups that helps individual promoters of for-profit, cultural, or social projects to request funding from several individuals, often in return for future products or equity. The projects include all type of ventures from small artistic projects to entrepreneurs pursuing for millions of dollars in seed capital as an alternative to common venture capital investment. Epsositi (2012) had given an example of large-scale action by the US Congress to stimulate crowdfunding, as a source of capital for new ventures, and stated that crowdfunding offers a potential alternative to the conventional models by which early-stage start-ups receive funding, including venture capital.

Agrawal, Catalini and Goldfarb (2010) in their research concluded that crowdfunding helps in overcoming the constraint of arranging fund by creating a market for the most relevant asset available to aspiring new artists for their ideas, vision, and future intellectual property in that way facilitating financing from distant strangers. In this way, the crowdfunding also helps in reducing risk and market failure.

Meyskens and Bird, (2015) observed the function of crowdfunding in social projects funding and expalined crowdfunding types, platforms and social value creation. They concluded with the statement that crowdfunding not only helps entrepreneurs in fundraising but also helps them in social and economic value creation. Golic (2014) proved crowdfunding as an alternative option of arranging fund for Small and Medium Enterprises (SME). Mollick et. al. (2016) stated that crowdfunding not only open the doors of opportunities for new projects and innovative ventures but it is also a new investment way for investors. In crowdfunding there is no need of middlemen and therefore the cost of financing is also get decreased.

Siering (2016) analyzed some fraudulent and non-fraudulent ventures published at crowdfunding platforms and recommended fraud detection mechanism for increased trust towards user platforms. This mechanism could be used to identify fraudulent behavior and to add value for the platform's participants. QuingGuo (2010) in his study analyzed the application of crowdfunding. For this he studied two prime institutions of crowdfunding namely Kickstarter and IndieGoGo. According to him, these two websites experienced an increasing growth for the reason that they were promoting the idea of raising money through crowdfunding in the US market.

Agrawal and Avi (2011) in their research studied the crowdfunding on the basis of geographic limitations. According to them, there is no geographic limitation for

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crowdfunding as fund is raised online through internet but the local investors are provoked easier to invest in the project initiated by the person of their territory as comparison to other investors. Thus it was concluded that the geographic limit of crowd funding is based on the personal connection of an investor with the idea convener. Ethan Mollic (2013) analyzed the factors that affect the success and failure of crowd funded ventures. The author proved that the quality of the project and personal connections are the main forces that can drive the success of crowd funded project.

2. CONCLUSION

The study scanned the concept of crowdfunding as per the various researchers of India and outside India. The analysis disclosed that every researcher had something different aspect than the other researcher. As per the SEBI consultation paper (2014), crowdfunding is the requesting of fund for specific objective whether for social or business objective while Macht and Weatherston stated that it is only for business objectives and few researchers were proved that crowdfunding is arranging fund through third parties. But one thing is universal in all the studies is that they all were agree with the fact that crowdfunding is not possible without the help of internet.

The other piece of information that we come to know after doing the present study is that crowdfunding is correlated with other financial innovations and crowdsourcing is one of them. Crowdsourcing is the method of obtaining services, ideas or content by requesting for contributions from a large an online community, rather than from traditional employees or suppliers. And in crowdfunding only fund is arranged from public. The difference in the growth and types of crowdfunding is also found in Indian and foreign perspective.

In last, we can conclude that there is no geographic difference in crowdfunding. The only difference is in the divergence in the awareness and perception of the Indian and foreign investors about crowdfunding.

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