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Study on Hybrid Model of Crowd Funding: Source of Meeting Entrepreneurs Short and Long Term Needs

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Abstract: *Entrepreneurs in India have always been depended on unorganized sectors for their short and long term financial needs. However with development and reforms in financial sector there has been huge diversion from unorganized to organized sector. But, the compliance and documentation has always been deterrent to raise money in case of urgent business needs and this was more evident among small entrepreneurs.*

Thus, dependence on friends and family members has always been the main source of meeting the financial need. With increasing use of internet and social media the networking with kin and kith has become more virtual and financial need or support is no exclusion.

The study has taken responses from the micro, small and medium entrepreneurs on meeting their financial needs. Results are to assess that crowd funding can be more used to meet particular needs of entrepreneurs and how fundraisers can channelize and identify their exact target market needs.

Keywords: *Entrepreneurs, Financial Needs, Entrepreneurs, Crowd funding*

I. INTRODUCTION

A. Definition

Most of the studies define crowd funding as an alternative technique of raising funds by fundraisers, most commonly entrepreneurs. The word alternative is emphasized primarily because the method or technique is not conventional to the prevailing modes of financial intermediation viz. Banks, NBFCs, VC, Angel investors etc. Another characteristic of crowd funding which makes it peculiar and different is that it uses internet to raise funds from the crowd. Many researches which have been conducted on conceptual and theoretical framework have focused on the following characteristics of crowd funding:

- 1) Essentially raising funds through internet or online ecosystem
- 2) Types can be categorized into 4 i.e. Donations, Rewards, Lending and Equity based
- 3) Use of platforms (around more than 800 existing), Specialized blogs, Facebook, Twitter etc
- 4) Communication and Network are key to its success
- 5) Use of information asymmetry at your advantage
- 6) Leveraging “wisdom of the crowd”
- 7) Large and dispersed number of individuals or audience
- 8) Without standard financial intermediation
- 9) Subset of crowd sourcing
- 10) An open call
- 11) Raising funds for specific purpose viz. cultural, social or for profit. In certain cases it can be for personal purpose.

B. Hybrid Model of Crowd funding

Crowd funding is often related to campaigns run by start-ups and established entrepreneurs to raise money for innovative and creative business ideas and projects. More often it is related to start-ups. Many existing entrepreneurs rely on conventional modes of raising funds like Banks, NBFCs etc or recently increased dependency on Venture Capitalist, Angel Investor etc. Increasing use of internet and technology also has created avenues to raise money through Peer 2 Peer by existing entrepreneurs. Study tries to extend the role of crowd funding beyond start ups and project based financing to meet the financial need to existing business in terms of market penetration, product development, market development, diversification or running business smoothly. Study attempts to extend the role of crowd funding beyond what it is known for or to blend the role of crowd funding and peer 2 peer lending.

II. LITERATURE REVIEW

Armin Schwienbacher et.al. (2010) in their research titled Crowd funding of Small Entrepreneurial Ventures observes that crowd funding as an alternative way of financing projects, with a focus on small, entrepreneurial ventures. Study puts crowd funding into perspective of entrepreneurial finance and thereby describes factors affecting entrepreneurial preferences for crowd funding as source of finance. It also elaborates different business models used to raise money from the crowd, in particular with respect to the structure of the crowd funding process. Building on this discussion, study discusses extensively a case study, namely Media No Mad (a French startup). Finally study concludes with recommendations for entrepreneurs seeking to make use of crowd funding and with suggestions for researchers about yet unexplored avenues of research. The findings in research emphasis more on type of crowd sourcing and its description followed by the existing sources of finance and factors influencing the crowd funding. The gap in this research limits to only small entrepreneurial ventures.

Denis Frydrych et al (2014) in their research titled Exploring Entrepreneurial Legitimacy in Reward Based Crowd funding observe that venture financing through social networks has become a global phenomenon. The processes and drivers of crowd funding require careful study to identify similarities and distinctions from traditional venture finance. The demonstration of project legitimacy is especially interesting, because online crowd funding limits investors' access to the entrepreneur and organization. The data reveals numerous findings linking project characteristics to legitimacy and success. First, lower funding targets and shorter duration signal legitimacy by setting modest, achievable expectations. Rewards structures, like traditional equity investment terms, appear to generate a sense of legitimate investment returns. Finally, narrative legitimacy in the online crowd funding context may derive more from the online platform community than the visual pitch. The study reveals a more nuanced picture of legitimacy-formation during rewards-based crowd funding, with implications for theories of resource assembly and the practice of venture finance. This research concludes with contribution to crowdfunding literature referencing the results of an empirical study that is explorative and descriptive in nature and illustrates that cultural entrepreneurship activities play a significant role in creating online organizational legitimacy and links specific features to successful crowd funding efforts. The gap in this research is that it needs to focus more on qualitative features of crowd funding and on demonstration of project legitimacy.

Ethan Mollick (2014) in the research titled The Dynamics of Crowd funding: An Exploratory Study observes that crowd funding allows founders for-profit, artistic, and cultural ventures to fund their efforts by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries. Drawing on a dataset of over 48,500 projects with combined funding over \$237 M, this study offers a description of the underlying dynamics of success and failure among crowd funded ventures. It suggests that personal networks and underlying project quality are associated with the success of crowd funding efforts, and that geography is related to both the type of projects proposed and successful fundraising. Study found that the vast majority of founders seem to fulfill their obligations to funders, but that over 75% deliver products later than expected, with the degree of delay predicted by the level and amount of funding a project receives. The study aims to provide the widest possible perspective on crowd funding, the used data extracted from Kickstarter, the largest and dominant crowd funding site. Kickstarter uses a reward or patronage model, but it is also the inspiration for the recent legalization of equity crowd funding, with many of its features written into the JOBS Act (Franzen, 2012). Thus, Kickstarter is likely to serve as a broadly useful model for examining crowd funding efforts. The study represents initial evidence about what promises to be an important and fruitful phenomenon in the study of new ventures. The gap in this research proves that this research is focused only on develop initial evidence about the nature of crowdfunding and its role in entrepreneurship research.

Ines Alegre et al (2016) in their research titled Crowdfunding A Review and Research Agenda state that crowd funding is an alternative model for project financing, whereby a large and dispersed audience participates through relatively small financial contributions, in exchange for physical, financial or social rewards. It is usually done via Internet-based platforms that act as a bridge between the crowd and the projects. Study has performed a systematic review of the literature on crowd funding and has extracted (1) the key management theories that have been applied in the context of crowd funding and how these have been extended, and (2) the principal factors contributing to success for the different crowd funding models, where success entails both fundraising and timely repayment in the case of crowd funding, the goal is to attract the financial resources necessary for a particular project. The finding in this research shows in order to gather the appropriate array of relevant studies that address the research question searched for all crowd funding literature with no a priori expectations. Research meticulously defined the concept as an alternative model for project financing, whereby a large and dispersed audience participates through relatively small financial contributions, in a purposeful project, in exchange for physical, financial or social rewards. In the end, as the amount of crowd funding activity is increasing rapidly, it is up to academics to provide the solid knowledge base for the policymakers to step in. The

gap in this research in that this research is only undertaken to explore the empirical papers and categorized their findings in terms of success factors for attracting funding, repaying investors, crowd behavior and the marketplace.

Muhammad Hafizi Zamri et al (2018) in their research titled Crowd funding among Event Entrepreneurs: A Conceptual Paper observes that this paper aims to uncover the benefits of crowd funding among Event Entrepreneurs in Malaysia. The study reviews literature on the definition, discussion and its revolution related to capital -raising, networking, investment, and crowd funding among Event Entrepreneurs. The method used for this paper is based on literature reviews from journal articles, conference proceedings, newspaper, books and internet search related to this research area. The conceptual framework is recommended in the end of the paper as it allows reader to understand how the benefits will affect towards crowd funding among Event Entrepreneurs. The findings in this paper is based on a proposed conceptual framework including independent variables like Capital Raising, Network and Investment and a dependent variable as Crowd funding among event entrepreneurs. The research concludes, factors that contributed to the crowd funding should not be neglected. Capital raising, investment, and networking is the purposed variables that will influenced the crowd funding among entrepreneurs. Since this paper only focus on these three factors and it is suggested for further empirical and imperial study must be done to support the proposed conceptual framework. Plus, the scope of the study might be extended to the entrepreneurs in general and other types of businesses. The gap in this study is that this research is mainly focused on capital -raising, networking, investment, and crowd funding among Event Entrepreneurs.

Ricarda B Bouncken et al (2015) in their research titled as Crowd funding; The Current State of Research observes that crowd funding represents an alternative way of funding compared to traditional borrowing. This research focuses on key aspects of scientific research on crowd funding focal areas like the economic basis of crowd funding (two-sided-market), crowd funding models, direct vs. indirect crowd funding as well as the different actors involved in the crowd funding process are presented. As a result, scientific contributions are continuously challenged by new developments. Currently, crowd funding is primarily regarded from a positive perspective as an alternative opportunity to receive funding. Limits and challenges of the approach received less scientific attention in the past and should be illuminated in the future. The gap in this study proves that the research is emphasized more on the definition of crowd funding.

Saul Estrin et al (2018) in their research titled The Evolution and Adoption of Equity Crowd funding: Entrepreneur and Investor Entry Into A New Market observes that Equity crowd funding (ECF) offers entrepreneurs an online social media marketplace where they can access numerous potential investors who, in exchange for an ownership stake, may supply them with finance. This paper describes the evolution of this market in the UK. Using an inductive qualitative longitudinal research design, analyzed the emerging views of entrepreneurs and investors towards ECF. The interviewees covered large and small-scale investors, as well as market participants who have chosen not to invest or raise funds via ECF. This research finds that the large financial flows to entrepreneurs in the UK via the ECF platforms, nearly half a billion GBP since 2011, have probably been largely incremental to traditional sources of early stage entrepreneurial finance. Moreover, this research indicates that for the most part, investors appear to understand and appropriately evaluate the risks that they are bearing; ECF investments are perceived as a high risk, high return component within individuals' portfolios. Investors also use their communication with peers and entrepreneurs via the ECF platform as a learning tool. On the entrepreneurs' side, ECF allows them to test their products, to develop their brand, to build a loyal customer base and to turn customers into investors. This research concludes that policymakers, with the support of a locally appropriate regulatory framework, could support equity crowd funding as one of the market choices available for entrepreneurs looking to start or grow their ventures. The outset of this paper that entrepreneurial ventures are an important source of innovation, economic growth and job creation and that many countries are probably underachieving relative to this potential, perhaps because of deficiencies in the supply of finance. The gap in this research shows that this study is limited only to the evolution of the UK market.

III. RESEARCH METHODOLOGY

The study being exploratory in nature as the concept of Crowd funding is at very nascent stage and the studies previously done are more on the basis of conceptual or developing theoretical framework and many cover case study. Further the study also attempts to extend the role of crowd funding beyond what it is more popularly known for. It tries to blend the role of crowd funding with P2P Lending.

The Descriptive analysis is based on the data collected from the entrepreneurs through a structured questionnaire and also some unstructured responses to get insights of the respondents. Data is collected through primary source and secondary data is used to understand the previous studies and also to understand the mechanism of crowd funding (as to how it works).The objective of the study is to understand the awareness of crowd funding and to assess the most preferred tenure, type, purpose and mode of it.

A. Analysis

Table No 1: Awareness of Crowd funding

| | |
|------------------------------|-----------|
| Awareness of Crowd funding | 73 (38%) |
| Unawareness of Crowd funding | 119 (62%) |
| Total | 191(100%) |

Source: Prepared

Table No 1 shows that the awareness of Crowd funding is very less. Of the total respondents reached only around 38% of them were aware about crowd funding. Respondents who were aware of crowd funding were asked the remaining questions. Total respondents approached were 191 entrepreneurs involved in manufacturing, trading and other services. Entrepreneurs included small and medium keeping in mind the financial needs which can be met through crowd funding.

Table No 2: Tenure preferred for Crowd funding

| Tenure | Responses |
|-------------------|-----------|
| Up to 1 year | 18 (25%) |
| 1 to 3 years | 12 (16%) |
| 3 to 5 years | 27 (37%) |
| 5 to 7 years | 08 (11%) |
| 7 years and above | 08 (11%) |
| Total | 73 (100%) |

Source: Prepared

As shown in the table no 1 of the total 73 respondents who were aware of crowd funding which constitutes 100% of the relevant responses, table no 2 shows that around more than 30% preferred tenure of funding up to 3 years and 37% preferred tenure of 3 to 5 years. This also means that more than 78% of the entrepreneurs prefer medium term financing through crowd funding i.e. up to the period of 5 years. Around 22% prefer the longer tenure of 5 years and more there is hardly any difference between 5 to 7 years and 7 years and above. The reason for less preference for long period is less and can be mapped along with the less preference for funds as equity which is shown in the table no. 4. It can be analyzed that crowd funding is more preferred for meeting short and medium term finance needs of entrepreneurs. Understanding term of funding or financing is important as fundraisers expectations.

Table No 3: Preferred type of Crowd funding

| Type | Responses |
|----------|-----------|
| Donation | Nil (00%) |
| Rewards | 06 (08%) |
| Debt | 55 (75%) |
| Equity | 12 (17%) |
| Total | 73 (100%) |

Source: Prepared

Table No 3 depicts that Debt crowd funding is most preferred as compare to other types of crowd funding. The reason for zero response in case of donation is because all the respondents are commercial entrepreneurs and not the social entrepreneurs.

Table No 4: Crowd funding most preferred to meet the types of Needs

| Type of Need | Responses |
|---|-----------|
| As Equity Capital | 06 (08%) |
| Acquisition of assets (New/Replacement) | 02 (03%) |
| Expansion (New Products/ New Markets) | 08 (11%) |
| Working Capital Needs | 36 (49%) |
| Repayment of existing loans/ debts | 21 (29%) |
| Total | 73 (100%) |

Source: Prepared

As shown in the Table No 4 the reason crowd funding is most preferred is to meet working capital needs, followed by repayment of existing loans or debts. Acquisition of assets is least preferred. It also implies that crowd funding is more preferred to meet liquidity need of the business.

Table No 5: Modes preferred

| Modes | Responses |
|---------------------|-----------|
| Dedicated Platforms | 52 (71%) |
| Specialized Blogs | 03 (04%) |
| Facebook | 11 (15%) |
| Twitter | 04 (06%) |
| Others | 03 (04%) |
| Total | 73 (100%) |

Source: Prepared

As shown in the Table No. 5 it is evident that the crowd funding platforms are preferred by entrepreneurs as compared to social media platforms. The reason can be due to less awareness of the business on social media platforms or due to professionalism of the dedicated platforms.

IV. FINDINGS & CONCLUSIONS

From the above analysis it is quite evident that the awareness of crowd funding is less amongst the entrepreneurs which creates the huge scope for both the fundraisers and the dedicated platforms. Further, study suggests that the measures can be taken to create awareness amongst the business community about the alternate source of financing. In times to come these platforms will play important role as we are moving towards Industry 4.0. Financial regulators should also try to give boost and encourage crowd funding as it also helps to build entrepreneurial ecosystem. The study also brings out that the tenure for which entrepreneurs prefer from crowd funding is for the medium tenure i.e. up to 5 years. It is worth noting that this is most preferred tenure for the other sources of funding. The reason for this tenure being most preferred is that the preferred purpose is to meet the working capital needs and repayment of loans or debts. Another reason for this tenure to more popular is that businesses small and medium mostly achieve their breakeven within this period. The working capital requirement is common need which is met by short and medium term loans; another reason for more preference for working capital need is currently the economy is having liquidity crises. Finally the dedicated platforms are more preferred as dependency on social media is more personal and entrepreneurs may or may not have huge network. Further, professionalism of this platform to understand needs of entrepreneurs can go long way in making it more popular.

Research deliverables can be for the crowd funding platforms so to understand the need of small and medium entrepreneurs. It can be also used to create the awareness of crowd funding. Financial regulators can also use it to bring it into mainstream. Social media platforms can also create dedicated platforms for crowd funding. Finally entrepreneurs can use it to meet their short and long term financial needs which is the ultimate objective of the study.

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