

Awareness towards Crowdfunding among Young, Budding and Prospective Entrepreneurs in Bangalore

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ABSTRACT: Crowdfunding is a simple concept wherein small ticket amount is collected from the investors to start a business or a project. It is being viewed as a developing concept from past few years in India. This study aims at understanding the awareness level and adoption of crowdfunding as a source of finance by the young, budding and prospective entrepreneurs in Bangalore. It also covers the regulatory approach of crowdfunding in Indian scenario. The study includes both primary and secondary data. The primary data was collected using convenience sampling via an online survey while the secondary data through various websites and news articles.

Key Words: Crowdfunding, Start-up, Regulations

INTRODUCTION

Crowdfunding is a recent strategy of raising capital from the general public. The entrepreneur can raise this capital through his/ her family, friends, relatives and neighbours through direct campaigning or even through social networking sites like Facebook, Twitter, LinkedIn (Mollick, 2014) Crowdfunding is gradually developing in India for profit making entrepreneurial ventures such as artistic and creative projects, to meet out medical expenses, travel expenses or community oriented social entrepreneurship projects where funding is particularly required. But, Crowdfunding is indeed not a very novel concept (Mollick, 2014).

It has been in existence since 1700s and is known to have been practised when people faced a shortage of funds to meet the prerequisites. Back in those days, they borrowed funds to meet their expenses from their companions, relatives and neighbours. In the modern time, the inception of crowdfunding brought a notable instance of online crowdfunding through its inception in the music industry during 1997 when the fans underwrote a whole US tour for the British rock band 'Marillion'. 'Marillion' raised US dollar 60,000 through a donation by means of a fun based internet campaign. Subsequently, they used this strategy to fund studio albums (Hetal Javeri, 2014). Crowdfunding is known as a brilliant source for raising money as it connects and channelizes investors, small businesses and start-ups. Crowdfunding has been considered as one of the best methods for funding a business and raising proportional funds for the same. From the investors' perspective, it is seen that there are different types of crowdfunding which provide consideration to its investors. To name a few, equity based crowdfunding, debt based crowdfunding, donation based and reward based crowdfunding are few prominent kinds (Mitra, 2012)

LITERATURE REVIEW

Crowdfunding is eventually a growing market which is considered to be an additional method of funding and used to acquire capital for project and business purposes (Piotr Pazowski, 2014) Crowdfunding is globally growing as an alternative source of financing. Various crowdfunding platforms are used in different projects (Annie Stephen, 2017). Evolution and the growth of crowdfunding spread rapidly in the digital society (Lucy Bennett, 2014) The factors that affect the success campaigns are geographical location, breadth of network, project updates and media exposure. (Jordyn Hrenyk, 2016) Due to the lack of safety, security and awareness of crowdfunding the benefits will not be realised (Sarkar, 2014) 95% of enterprise in the world is MSME, due to lack of financial assistance is threatening, but crowdfunding is supportive in developing the businesses. (Ahmed, 2017) The need for investor's protection is required to facilitate crowdfunding as a cost-effective for enterprises. (Tripathy, 2016) There is a need for rigid laws in regulating crowdfunding (Akshay.V, 2017) SEBI must bring in regulation and control over crowdfunding which will lead to rising in economic standards (Tyagi, 2016) Crowdfunding helped in scientific transparency and public involvement and also connects scientists and non-scientists (Rachel E. Wheat, 2013)

The modern financing methods have brought various changes and have a significant role in shaping the behaviour of the crowd funder (Madarasz, 2014) There is a very narrow way opportunity for crowdfunding investment and the legal issues is an aid as well as obstruct for equity-based crowdfunding (Brem, 2013)

The fundraiser should build confidence in the investors to win their trust and clear the glitch in the online platforms (Aditi Bhargava, 2017) Having a good quality social network and connectivity can help in achieving success of a campaign (Harmeet Kaura, 2017) The legal support, workshops, training, and educating the web entrepreneurs are the various factors to promote crowdfunding (Sima Jegeleviciute, 2015)

From the scientific point of view a very petite is understood about crowdfunding and it is necessary to fill this gap in a practical manner for the development of new financing method (Alexandra Moritz) Crowdfunding helps in overcoming the drawbacks of traditional fundraising system and the amount raised through individually and by crowdfunding has a huge dissimilarity (Henry Sauermann, 2018)

STATEMENT OF THE PROBLEM

The market has a heavy inflow of newer ideas, path breaking innovations and exceptional business models, brought by the young entrepreneurs. One of the biggest challenges that these young, independent entrepreneurs face is the dearth of enough funding and capital to kick-start the projects. The conventional means of generating capital through bank loans, venture capitalist and so on have been proven to be detrimental to these smaller, newly developing and thriving businesses. Here, the concept of Crowdfunding caters to such businesses and catalyses the fundraising process from the public through an online platform without any practical difficulties. Thus, it makes it important to study the trends and further advancements that could be made regarding crowdfunding, to make it more accessible amongst young entrepreneurs in Bangalore to create an awareness regarding the same.

RESEARCH OBJECTIVES

1. To know the awareness and willingness to use Crowdfunding among the young, budding and prospective entrepreneurs from Bangalore.
2. To study the regulatory approach of Crowdfunding in India.

RESEARCH METHODOLOGY

1. Sampling Techniques

In this study, a convenient sampling technique is used to collect the data.

2. Sampling Size

150 respondents were surveyed among young entrepreneurs in Bangalore.

3. Data collection method

The study is primarily focused on primary data by issuing a questionnaire to the respondents, and the secondary data was acquired by means of news articles and websites.

4. Study area

The research study was made in Bangalore.

5. Study period

The period of the study was from June 2018 to September 2018.

DATA ANALYSIS AND INTERPRETATION

Table 1: Demographic Table

| Socioeconomic profile | Frequency | Percentage |
|-----------------------|-----------|------------|
| Gender | | |
| Male | 74 | 49.33 |
| Female | 76 | 50.67 |
| Age | | |
| 20-25 | 110 | 73.33 |
| 26-30 | 28 | 18.67 |
| 31-35 | 10 | 6.67 |
| 36-40 | 2 | 1.33 |
| Status | | |
| Student | 90 | 60 |
| Employed for wages | 39 | 26 |

| | | |
|-------------------------|----|-------|
| Self-employed | 21 | 14 |
| Annual income | | |
| Below 1 lakh | 73 | 48.67 |
| 1-2 lakh | 31 | 20.67 |
| 2-3 lakh | 18 | 12 |
| 3-4 lakh | 14 | 9.33 |
| 4-5 lakh | 8 | 5.33 |
| Above 5 lakh | 6 | 4 |
| Qualification | | |
| < than high school | 1 | 0.67 |
| High school degree | 3 | 2 |
| Some college, no degree | 3 | 2 |
| Bachelors degree | 64 | 42.67 |
| Masters degree | 63 | 42 |
| Professional degree | 15 | 10 |
| Doctorate | 1 | 0.67 |

Table 2: Crosstabulation of Age and Idea about crowdfunding

| | | Idea | | | | Total |
|-----------|--------------|--------|------------------|--------------------|------------------|--------|
| | | No | Little knowledge | Moderate knowledge | Expert knowledge | |
| Age 20-25 | Count | 41 | 44 | 25 | 0 | 110 |
| | %within Age | 37.3% | 40.0% | 22.7% | 0.0% | 100.0% |
| | %within Idea | 91.1% | 74.6% | 56.8% | 0.0% | 73.3% |
| 26-30 | Count | 2 | 11 | 13 | 2 | 28 |
| | %within Age | 7.1% | 39.3% | 46.4% | 7.1% | 100.0% |
| | %within Idea | 4.4% | 18.6% | 29.5% | 100.0% | 18.7% |
| 31-35 | Count | 2 | 3 | 5 | 0 | 10 |
| | %within Age | 20.0% | 30.0% | 50.0% | 0.0% | 100.0% |
| | %within Idea | 4.4% | 5.1% | 11.4% | 0.0% | 6.7% |
| 36-40 | Count | 0 | 1 | 1 | 0 | 2 |
| | %within Age | 0.0% | 50.0% | 50.0% | 0.0% | 100.0% |
| | %within Idea | 0.0% | 1.7% | 2.3% | 0.0% | 1.3% |
| Total | Count | 45 | 59 | 44 | 2 | 150 |
| | %within Age | 30.0% | 39.3% | 29.3% | 1.3% | 100.0% |
| | %within Idea | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

From the above table 2 it is observed that out of 150 respondents, the majority belongs to the age of 20 to 25 having little knowledge about the concept of Crowdfunding. Besides, a total of 41 respondents have no idea about crowdfunding.

None of the respondent was found to have an expert knowledge about crowdfunding, except from the age group 26 to 30. 2 respondents were found to have an expert knowledge about crowdfunding.

Table 3: Chi-Square Test

| | Value | Df | Asymptotic Significance (2-sided) |
|------------------------------|---------------------|----|-----------------------------------|
| Pearson Chi-Square | 22.928 ^a | 9 | .006 |
| Likelihood Ratio | 23.038 | 9 | .006 |
| Linear-by-Linear Association | 12.131 | 1 | .000 |
| N of Valid Cases | 150 | | |

The table 3 represents the output of the chi-square test between age and the idea about crowdfunding. To find the significance level between these two, firstly we need to state the hypothesis.

H0: There is no significant relationship between age and idea about crowdfunding among young, budding and prospective entrepreneurs.

H1: There is a significant relationship between age and awareness about crowdfunding among young, budding and prospective entrepreneurs.

From the above output, we can infer that Chi-square with 9 as the degree of freedom the significance value (0.006) is less than (0.05). Hence, we are rejecting the null hypothesis. And thus, we conclude that there is a relationship between age and idea about crowdfunding.

Table 4: Crosstabulation of Status and Willingness to use Crowdfunding

| | | | Willingness | | | | | Total |
|--------------------|---------------------|--|----------------|--------|---------|----------|-------------------|--------|
| | | | Strongly agree | Agree | Neutral | Disagree | Strongly disagree | |
| Status Student | Count | | 3 | 42 | 41 | 2 | 2 | 90 |
| | %within Status | | 3.3% | 46.7% | 45.6% | 2.2% | 2.2% | 100.0% |
| | %within Willingness | | 50.0% | 60.0% | 68.3% | 20.0% | 50.0% | 60.0% |
| Employed for wages | Count | | 2 | 22 | 10 | 3 | 2 | 39 |
| | %within Status | | 5.1% | 56.4% | 25.6% | 7.7% | 5.1% | 100.0% |
| | %within Willingness | | 33.3% | 31.4% | 16.7% | 30.0% | 50.0% | 26.0% |
| Self-employed | Count | | 1 | 6 | 9 | 5 | 0 | 21 |
| | %within Status | | 4.8% | 28.6% | 42.9% | 23.8% | 0.0% | 100.0% |
| | %within Willingness | | 16.7% | 8.6% | 15.0% | 50.0% | 0.0% | 14.0% |
| Total | Count | | 6 | 70 | 60 | 10 | 4 | 150 |
| | %within Status | | 4.0% | 46.7% | 40.0% | 6.7% | 2.7% | 100.0% |
| | %within Willingness | | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

From the above table 4 it is observed that out of 150 respondents, the majority of the response was obtained from students, 42 out of 90 agreed to use crowdfunding and 41 responded to be neutral. 22 respondents who were employed for wages agreed for the same.

Wherein the respondents who were self-employed, 9 were neutral and there were none who strongly disagreed to use crowdfunding.

Table 5: Chi-Square Tests

| | Value | Df | Asymptotic Significance (2-sided) |
|------------------------------|---------------------|----|-----------------------------------|
| Pearson Chi-Square | 18.767 ^a | 8 | .016 |
| Likelihood Ratio | 16.797 | 8 | .032 |
| Linear-by-Linear Association | 1.854 | 1 | .173 |
| N of Valid Cases | 150 | | |

The table 5 represents the output of the chi-square test between status and willingness to use crowdfunding. To find the significance level between these two variables, we first need to state the hypothesis.

H0: There is no significant relationship between age and willingness to use crowdfunding among young and prospective entrepreneurs.

H1: There is a significant relationship between age and willingness to use crowdfunding among young and prospective entrepreneurs.

From the above output, we can infer that chi-square with 8 as the degree of freedom the significance value (0.016) is less than (0.05). Hence, we are rejecting the null hypothesis. And thus, we conclude that there is a relationship between status and willingness to use crowdfunding.

Crowdfunding regulation in Indian scenario

Crowdfunding is a digital platform wherein a small amount of money is raised from a number of investors to commence a project or a campaign. Crowdfunding got its importance in India in the recent past. Crowdfunding is nothing new to the Indian market; it has been followed by Indian from centuries in the form of 'Chanda'. However, today the same concept has been newfangled to the concept of online crowdfunding.

Crowdfunding is growing at a faster pace and there is no law to govern it. It is neither controlled by stock exchanges nor by capital market regulators to seek investments. Regulations are vital from the investor's point of view, but undue regulations in crowdfunding could turn into a constraint for small start-ups in fundraising.

The securities board of India (SEBI) has been working on regulating crowdfunding since 2014. SEBI published a consultation paper regarding the regulatory framework in the same year. The paper mainly focused on providing adequate regulations without much high regulatory burden and compliance cost. As per the consultation paper, it is clear that raising money through online is not equivalent to the listing of stocks in the securities market. However, this consultation paper had a lot of drawbacks when opened for open remarks and a few issues were featured which keep on remaining as it stands. The paper proposes a conventional crowdfunding model which will suppress or restrain the innovative ideas of the entrepreneurs if implemented

By 2016, Equity-based crowdfunding was seen growing rapidly in The US. But in India no actions to regulate the model has been proposed, besides peer-to-peer a type of crowdfunding was given a regulatory framework by RBI (Reserve Bank of India).

With improper control, most crowdfunding organizations in India confine themselves to find patrons for innovative projects. SEBI has interrogated various crowdfunding platforms about their legality of equity crowdfunding in start-up businesses. Various digital equity crowdfunding platforms like Grex, Equity Crest, Tracxn and Termsheet have been termed as unauthorised and illegal.

SEBIs Caution to Investors

SEBI is expediting electronic platform for fundraising purposes which are similar to stock exchange platforms. The platforms are neither controlled nor regulated by any authorities in India and registered investors investing in such platform are likely to violate the provisions of Securities Contract Regulation Act, 1956 (SCRA) and The Companies Act, 2013. Only the recognised and registered platforms can issue and trade equity and other securities as per the provisions of SCRA. SEBI herewith gives discretion to all the dealers dealing in such an unregulated platform is a violation of existing securities law.

There are several types of crowdfunding and not all come under SEBIs compass. Currently, SEBI is planning to segregate the crowdfunding based on its objectives and confine the ones that can be regulated. SEBI likes to place regulations without excessive burden on these platforms. The purpose of creating regulation is to bring in accountability in the process of Crowdfunding. SEBI's framework would require all the crowdfunding platforms to register themselves with SEBI and satisfy their consent. And also, these online forums will be asked to collect the KYC details of their registered customers and proper disclosure and reports will have to be submitted to the market regulators. The start-ups using crowdfunding as a source of finance or raise capital will be exempted from these regulations.

Conclusion

Crowdfunding is one of the efficient methods, which acts as a platform to raise funds for one's new venture. In the past, findings from the research surveys, the people weren't aware of the term crowdfunding but as the time flew people are adapting crowdfunding as a new way to raise capital.

The survey results affirm that the young, budding and prospective entrepreneurs do have little knowledge or idea about crowdfunding. Out of 150, respondent 90 were students, 39 were employed for wages and 21 were self-employed. Among these respondents, a majority of 44 of students have an idea about crowdfunding as well as 41 of students have no idea about crowdfunding.

In the following area, respondents were asked about their willingness to use crowdfunding to host their project. Out of 150 respondents, a majority of 42 students were willing to use crowdfunding. This reveals that as time passes the crowdfunding is gaining its importance and the people are more open to try the latest financing methods.

It is very clear that crowdfunding is growing at a fast pace and looked upon as a serious method of raising funds for start-ups and new business. The US and other economies have implemented laws for crowdfunding. India has not yet implemented any law for crowdfunding but soon appropriate laws will be brought in to support this in an immense way.

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