

## Crowd funding: The alternative financial tool for Surviving an economic downturn

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**Abstract:** *The emergence of Covid-19 has redefined the nature and need for an alternative financial tool for Surviving the economic downturn. The practices of adhering to sophisticated financial tools for overcoming the distress pave a path to the new dimension by inculcates both technical support and people's participation. The campaigns across necessities like food, medical needs, shelter, and also income protection insurance in case the people get infected by the virus were helped to gains momentum for crowdfunding since the instrument is associated with the internet and the use of social media for fundraising. This implied nature differentiates crowdfund as an alternative financial tool because crowdfunding enables the bypassing of the intermediaries of a traditional supply chain while making funding processes more transparent and democratic. The preliminary theme of fundraising has been for food, followed by funds for personal protective equipment for healthcare workers. Investors in crowdfunding frequently participate in the process of product creation, improvement, and diffusion, especially when they perceive that the business model is fair for them. During the downturn, Online funding campaigns have been helping stranded migrants and the daily wage laborers across the nation get access to essentials and community kitchens. Over and above the crowdfunding platforms are coming to the aid of transgender communities, circus artists, Uber drivers, Swiggy delivery personnel, rural artisans, dancers, and freelance workers.*

*Key words:* Crowdfunding, fundraising, online funding campaign, economic downturn.

### 1. Introduction

Crowdfunding is a collective effort by people who network and contribute collectively for a cause or business idea and seems very similar to the traditional concept of charity or social purpose corporations, whereas unlike funding has done here to earn some either monetary or intangible benefit. The crowdfunding is associated with the internet and the use of social media for fundraising.

There are online platforms called crowdfunding platforms (CFPs) which support business activities and social causes. The CFPs were selected to represent a diverse set of crowdfunding sectors and the availability of data. In its simple form, crowdfunding is an alternative way of finance and exchange where those seeking funding and those looking to invest or donate can be synchronized. It is also an alternative because investors in crowdfunding do not look in detail at collateral or business plans but at the ideas and core values of the firm. Crowdfunding offers tailored financing methods by using technically sound financial instruments, people's values, and opinions that fit

well the financing needs of start-ups. Investors in crowdfunding frequently participate in the process of product creation, improvement, and diffusion, especially when they perceive that the business model is fair for them.

### 2. Review of literature

The Economist (2017) studied that, while the development of P2P lending will have an impact on bank profits for competing services, ultimately, the main risk that crowdfunding poses to banks is that the mortgages or investment advice". Wardrop et al. (2017) The study indicated that with institutional investors starting to invest and diversify through those online platforms, corporates are beginning to experiment with various forms of crowdfunding and crowdsourcing, and banks themselves are getting involved with peer-to-peer or 'marketplace' lending; alternative finance is creating ripples and moving increasingly into the mainstream. Presently the market is focused on more sophisticated investors and this is likely to create volume growth. Funds are flowing from institutional investors into peer-to-peer consumer

loans, for example, leading to the creation of new investment-grade asset classes being packaged and financed in the traditional capital markets.

Hakenes and Schlegel (2018) show that the level of funding goals set in AON crowdfunding campaigns helps to attract a larger crowd. They consider equity- and loan-based crowdfunding where the crowd makes financial decisions. In the context of reward-based crowdfunding, by contrast, the crowd does not make investment decisions but rather consumption-based decisions. However, part of the intuition developed there is useful in our context. In Hakenes and Schlegel, the level of the funding goal serves as a tool to aggregate vague information that each investor has. By imposing an AON model, individual investors are more likely to invest, despite the availability of only vague information, since they know they will become a crowd funder to the project if many other crowd funders with similarly vague information also contribute. In the case of reward-based crowdfunding, the level of the funding goal serves a costly mechanism that ensures that the entrepreneur will limit the risk faced by the crowd only by starting the project with sufficient financial resources. This maximizes the chances that the entrepreneur will be able to deliver the promised reward to the crowd funders.

### 3. Statement of the Problem

Online platforms have emerged as an alternative source of financial support for the people in need in the wake of the Covid-19 pandemic. Typically, these platforms carry a fee for fundraising and are goal dependent on the core, but due to the lockdown, the platforms are waiving this requirement and disbursing funds within the given period. Even though non-profit organizations and charitable projects usually boast an existing network of supporters that they can activate for various purposes, including fundraising campaigns. But making the transition to online fund raising means a lot of extra work and needs accurate preparation.

The study entitled as “Crowdfunding: The alternative financial tool for Surviving an economic downturn” will put some light on the concept of crowdfunding, its risk, and profitability. Here this study aims to find out crowdfund as an alternative financial tool for Surviving an economic downturn while comparing the risk and profitability

associated with the concept of crowdfunding from the perspective of both investor and the creator.

### 4. Objectives of this Study and Research Design

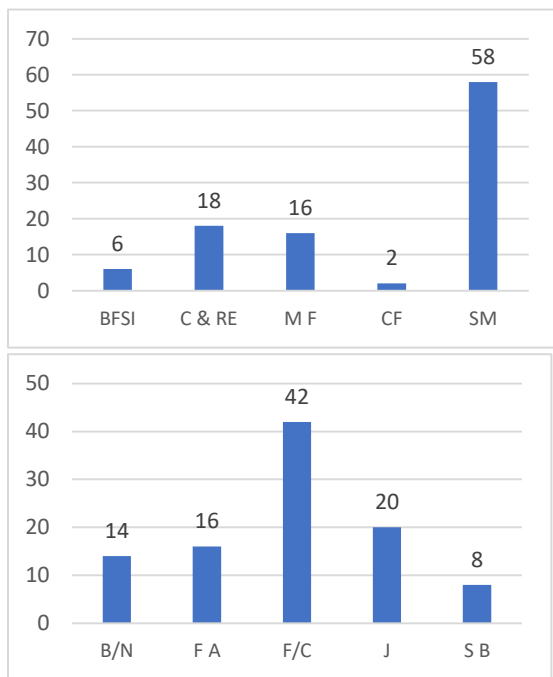
The purpose of this research is to study the role of crowdfunding as an alternative financial tool for Surviving an economic downturn. The present study is an empirical study based on data collected from 100 respondents in the state of Kerala through a structured questionnaire. The respondents were selected based on the convenience sampling technique and the data collected were critically analysed with the help of a statistical tool such as percentage analysis, weighted average method, ANOVA. and Chi-Square.

### 5. Result and discussions

The results obtained from the present study indicated that the role of crowdfunding as an alternative financial tool to face the downturn. Crowdfunding as an investment option has received the least preferred choice because of a lack of proper knowledge about the emerging investment options like crowdfunding, so it stays as a black mark for the online funding campaign (Fig.1). The source of information with regards to crowdfunding relay on friends/ colleagues via word of mouth promotion and which emphasize the need for focusing alternative source of information for budding investors (Fig.2). There are different types of crowdfunding as reward-based crowdfunding, equity-based crowdfunding, debt-based crowdfunding, litigation crowdfunding, and donation-based crowdfunding. The majority of the respondents selected equity crowdfunding. Because, unlike donation and rewards-based crowdfunding, involves the offer of securities which include the potential for a return on investment. (Fig.3). The interests of respondents in learning further about crowdfunding and its opportunities are high, which will bring much-needed attention to the concept of both P2P lending and crowdfunding as well. (Fig.4). While considering the awareness of risk and return associated with crowdfunding only a few were aware of the associated risks, this plots the need for awareness about the risk and return of both P2P lending and crowdfunding as well. (Fig.5). The study found that the expected outcome in the percentage of the total investment in crowdfunding is between 5-15%. So, it shows that the respondents didn't expect high returns from it. (Fig.6). The

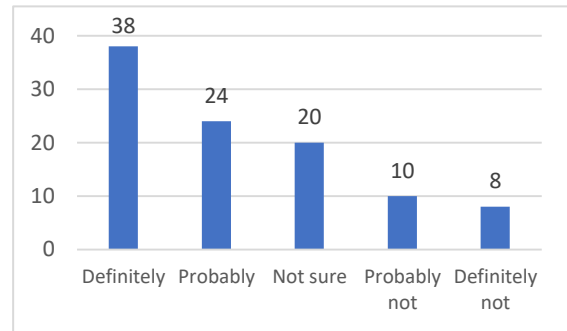
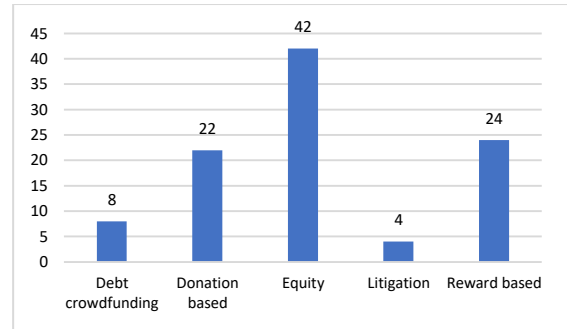
study reveals that higher returns and trustworthiness are the opportunity factors of crowdfunding. (Fig.7). Though default in payments is the major weakness of Crowdfunding. (Fig.8) the platform is a better option for financing and investing after the stock market and mutual funds. (Fig.9). No other investment form can provide the benefits of pre-sales, market research, word-of-mouth, and crowd-wisdom without additional costs. However, instead of raising the money from a small group of sophisticated investors, the idea of crowdfunding is to obtain funds from a wider audience (“the crowd”), where each individual provides small amounts of money. Hence Crowdfunding will be the next big thing going to happen in India. (Fig.10).

**Fig. 1** Mode of preferred investments  
**Fig. 2** Information about crowdfunding

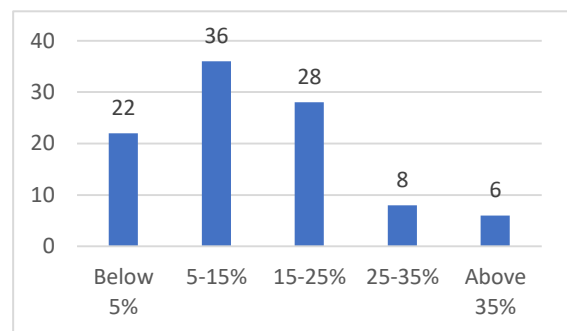
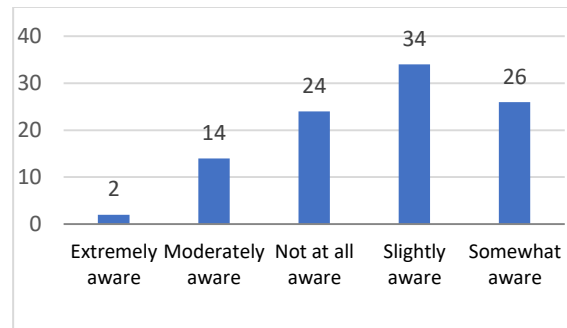


**Fig. 3** Preference on type of crowdfunding  
**Fig. 4** Crowdfunding and its opportunities

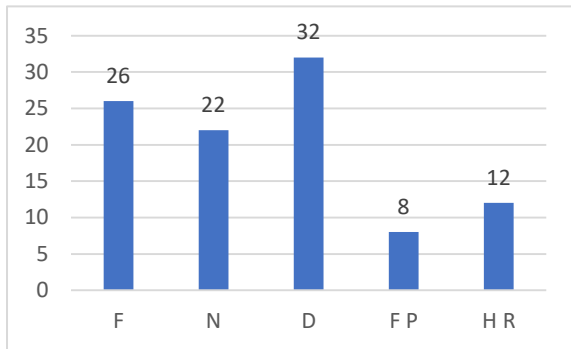
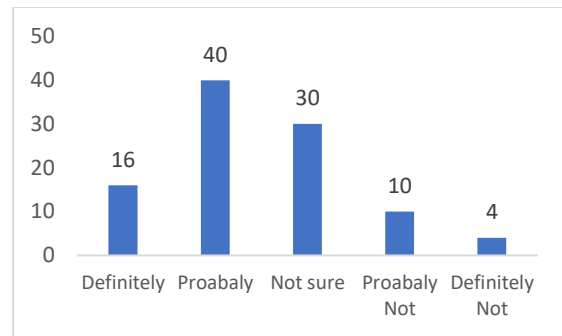
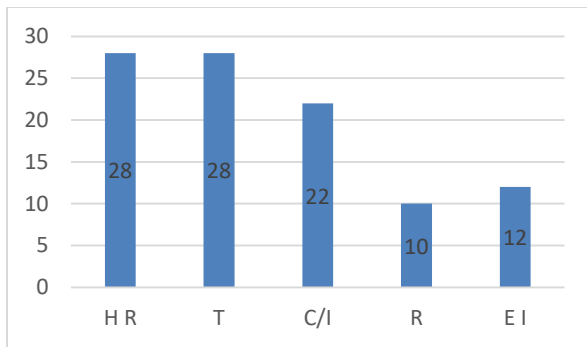
<sup>1</sup> **BFSI**- Banking, financial services and insurance, 2. **C&RE**- Commodity & Real estate, 3. **M F** - Mutual funds, 4. **CF**-Crowdfunding, 5. **SM**- Stock market, 6. **B/N**- Blog/Newspaper, 7. **FA**- Financial Adviser, 8.F/C- Friends/ colleagues, 9. **J** - Journals, 10. **SB** – Stock brokers.



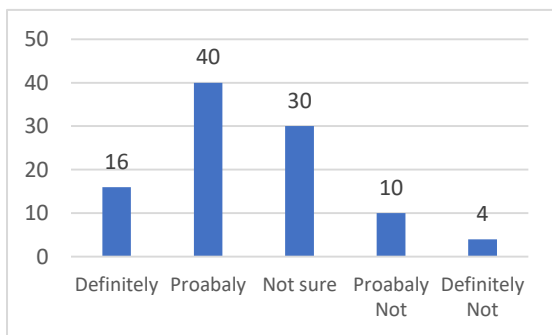
**Fig. 5** Awareness about risk and return  
**Fig. 6** Expected return from crowdfunding



**Fig. 7** Opportunity factors for crowdfunding  
**Fig. 8** Bottlenecks associated with crowdfunding



**Fig 9** Financing and investing option  
**Fig 10** crowdfunding will be the next big



<sup>1</sup>. **HR**-higher returns, 2. **T**- Trustworthiness, 3. **C/I**- Curiosity/ Interest, 4.**R**-Reputation, 5.**E I**- Ease of interest returns, 6. **F**- Fear of not getting money back, 7. **N**- No promptness in payments, 8.**D**- Default in payments, 9. **FP**- Fake platforms, 10. **HR**-High risk

Table no.1: Risk elements of crowdfunding

Content	Extreme risk	High Risk	Moderate risk	Low risk	No risk	Total	Total/100
The fundraiser may prove to be fraudulent	$45*5=225$	$15*4=60$	$45*3=135$	$21*2=42$	$24*1=24$	486	4.86
The platform may prove to be fraudulent	$87*5=435$	$21*4=84$	$27*3=81$	$12*2=24$	$3*1=3$	627	6.27
Poor information about the investment	$45*5=225$	$27*4=108$	$42*3=126$	$18*2=36$	$18*1=18$	513	5.13
Poor returns or losses on the investment	$24*5=120$	$45*4=180$	$30*3=90$	$33*2=66$	$18*1=18$	474	4.74

Weighted average=  $(4.86+6.27+5.13+4.74) / 4=5.25$

The fundraiser may prove to be fraudulent; the platform may prove to be fraudulent, poor information about the ongoing performance of the

investment, poor returns or losses on the investment are the major risks to be associated while considering equity crowdfunding.

### 5.1 Analysis of awareness and investing in crowdfunding

**H0:** There is no significance difference between means of awareness and investing in equity crowdfunding

**H1:** There is significance difference between means of awareness and investing in equity crowdfunding.

Anova: Single Factor

#### SUMMARY

Groups	Count	Sum	Average	Variance
Column 1	2	21	10.5	4.5
Column 2	2	6	3	2
Column 3	2	53	26.5	4.5
Column 4	2	59	29.5	12.5
Column 5	2	11	5.5	0.5

#### ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1194	4	298.5	62.1875	0.000188	5.192168

Within Groups	24	5	4.8
Total	1218	9	

Table No.2: Awareness and investing in crowdfund

**Interpretation**

Since value is greater than 0.05,  $H_0$  is accepted i.e. there is no significant difference between means of awareness and investing in crowdfunding.

**5.2 Chi-Square Test**

**Aim:** To find out whether there is a relationship between, Gender and having interest in investment.

**Null hypothesis  $H_0$ :** There is no significant relationship between Gender and having interest in investment.

**Alternative hypothesis  $H_1$ :** There is a significant relationship between Gender and having interest in investment.

We've set up a 2 x 2 contingency table,

Table 3.01: Gender wise classification of the respondents

Table 3.02: Interest of respondents towards investments

**Column and Row Totals****Table 3**

Interest in investments	Female	Male	Grand Total
No	3	6	9
yes	21	70	91
<b>Grand Total</b>	<b>24</b>	<b>76</b>	<b>100</b>

Significance Level taken is 0.05,

The contingency table below provides the following information: the observed cell totals, (the expected cell totals) and [the chi-square statistic for each cell].

**Result****Table 4**

Options	Female	Male	Row Totals
yes	21 (21.84) [0.03]	70 (69.16) [0.01]	91
No	(2.16) [0.33]	6 (6.84) [0.10]	9
<b>Column Totals</b>	<b>24</b>	<b>76</b>	<b>100 (Grand Total)</b>

**The chi-square statistic is 0.4723. The p-value is .491915. The result is not significant**

**at  $p < .05$ .**

**Result:** We can see that there is a significant relationship between the Gender and having interest in investment

### 5.2.1 Chi-Square Test

**Aim:** To find out whether there is a relationship between, interest in investment and Investing in crowdfunding.

**Null hypothesis  $H_0$ :** There is no significant relationship between interest in investment and Investing in crowdfunding.

**Alternative hypothesis  $H_1$ :** There is a significant relationship between interest in investment and Investing in crowdfunding.

We've set up a 2 x 4 contingency table,

Table 3.02: Interest of respondents towards investments

Table 3.19: Likelihood of investing in crowdfunding

#### Column and Row Totals

**Table 5**

Row Labels	Definitely	Not sure	Probably	Probably not	Grand Total
No	1	6	1	1	9
yes	13	18	57	3	91
<b>Grand Total</b>	<b>14</b>	<b>24</b>	<b>58</b>	<b>4</b>	<b>100</b>

Significance Level taken is 0.05,

**Results Table 6**

Row Labels	Definitely	Not sure	Probably	Probably not	Row Total
No	1 (1.26) [0.05]	6 (2.16) [6.83]	1 (5.22) [3.41]	(0.36 [1.14]	9
Yes	13 (12.74) [0.01]	18 (21.84) [0.68]	57 (52.78 [0.34]	3 (3.64) [0.11]	91
<b>Column Totals</b>	14	24	58	4	<b>100</b>

The contingency table below provides the following information: the observed cell totals, (the expected cell totals) and [the chi-square statistic for each cell].

**The chi-square statistic is 12.5601. The p-value is .005691. The result is significant**

**at  $p < .05$**

**Result:** We can see that there no significant relationship between the interest in investment and Investing in crowdfunding.

## 6. Findings and directions for future research

- A crowdfunding platform's success depends on two factors – investors and ventures. Bringing as many campaigns to the fundraising platform would carry the public's eyes to the avenue.
- Information about a new fundraising platform has not been established under the changing circumstances as many of the participants were not aware of the concept of crowdfunding by considering that the investors need to inform about the objectives and return associated with it before setting up the platform.
- Nearly half of respondents expect a return of 15-25 percent, so meeting their criteria at the initial stage would be a factor of performance.
- Offer equity crowdfunding more importance as it is the respondents' most common form of preferred fundraising platform.
- Owing to a lack of a centralized institution to regulate the online fundraising campaign is considerably a constrain for growth and development.
- Give more importance to reward-based crowdfunding as it is the most preferred type of crowdfunding by the respondents.

The present study reveals that awareness of crowdfunding as a fundraising platform has yet to meet the stipulated objectives. This study's results and recommendations would be useful for raising public understanding of crowdfunding. This research, in particular, will go a long way towards improving education. Crowdfunding may contribute to a greater understanding of the idea, risk, and return associated with crowdfunding. The study sheds light on many positive and negative aspects, such as because the ideology is new, people might be afraid of investing, but considering profitability, it also has a higher reach.

## 7. Conclusion

The purpose of this study was to identify the ability of crowdfunding as an alternative financial tool to face the downturn during the uncertainties. The

study put lights on many intriguing aspects, such as the idea is fresh, and investors may be afraid to invest irrespective of grater scope for it by considering the profitability. A considerable amount of discussions is essential for including crowdfunding into the existing portfolio of fundraising mechanisms for organizations, both for individual organizations and the development sector as a whole. Crowdfunding is now part and parcel of the willingness of many organizations and individuals to make the world a better place and empower people to change their lives around the world since it is addressing funding obstacles to small grassroots initiatives that do not have access to banks and major donors. But pioneers of crowdfunding discovered quite early that the concept is not at all about the money and that you can sometimes make much more than you ever intended, or asked for as Scott Steinberg put it in his Crowdfunding Bible.

Apart from offering financial resources it also enhances their manpower as the crowd that funds them put their institutional structures on a wider footing as well. Unwittingly, the supporters became an additional marketing team by supporting their contacts and networks for the initiative they sponsored. Once an institution has acquired some crowdfunding expertise, it can even more comfortably branch out into crowdsourcing initiatives through incorporating external tools and ideas such as Volunteering to help project work. Platforms like Volunteer Forever enter the picture here, as they encourage them to help volunteers financially to go and work abroad. On the one hand, non-profit organizations and charitable projects usually boast an existing network of supporters that they can activate for various purposes, including fundraising campaigns. But making the transition to online crowdfunding requires extra work and needs accurate preparation.

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