

# A Study on the Cognizance about Crowd Funding among the Entrepreneurs and its Regulatory Framework In

Simran Singh\*  
Dr. Subramanian Sanmugham\*\*

## Abstract

*Crowdfunding is a collective effort by people who contribute collectively through the internet, for funding for a specific cause, project or a business venture in exchange of reward. It is similar to the traditional concept of donation or social cooperation but here the funding is done with an objective of getting some amount of return either monetary or non monetary on the investment made by the crowd. These days the crowdfunding is associated with internet and the use of social media for capital-raising. The aim of this study is to measure cognizance and regulatory framework in India. The result of the study reveals that cognizance of crowdfunding is low, very few entrepreneur know and understand about the crowdfunding as a source of fund raising. It finds that how many entrepreneurs know about the crowdfunding and its mechanism to collect the fund by the investors via internet.*

**Keywords:** Crowdfunding, Business, Entrepreneurs, Startups, Cognizance, Investor.

## Introduction

Crowdfunding is a method of raising funds from large investors. The crowd funder raised funds through different method which include online crowdfunding platforms, social network (face book, twitter) to fund for innovative projects. According to the SEBI (securities exchange board of India) consultation paper on crowdfunding in India – Crowdfunding is accumulation of funds (small amounts) from large investor through a web based platforms or social networking sites for a specific projects, business ventures or social cause. The first recorded successful instance of crowdfunding had occurred in 1997, when British rock band funded their reunion tour through online donation from fans. In the financial crisis of 2007/2008 new enterprises and entrepreneurs were finding difficult to raise money from the financial institutions and bank , in that situation the concept of crowdfunding came into the existence and caters the need of the newly enterprises and so on the crowdfunding became the popular concept to raising funds.

The underlying principal of crowdfunding is that you set a target sum to raise capital within a stimulated time period, then you place your project on either crowdfunding platforms or on social platform and encourage people to visit your page through an active and planned outreach program using social medias. The intention is to appeal to as many investors as possible so that they contribute funds to your project and share your project with the new network. The trend of developing the crowdfunding strategy in recent year has been increased rapidly, and it is being considered as one of the best method for funding a business and raising fund for the entrepreneurs and newly enterprises. From the investment prospective, there are different models of crowdfunding which provide idea for the investor. Those models are, donation based crowdfunding (collected funds are donation or gift without any tangible return to the fund providers), debt based crowdfunding (practice of raising capital from individual in return of interest) equity based (bonds are shares are sold in small bundle to large group) and reward based crowdfunding (“reward” or perks of different value are offered to supporters to purchase).

\*PhD Scholar, Department of Commerce and Business Studies, Central University Of South Bihar  
simran.singh9757@gmail.com

\*\*Associate Professor, Department of Commerce and Business Studies, Central University Of South Bihar

## Statement of Problem

The market has a cumbersome inflow of latest ideas, path breaking up-start and distinctive business model brought by the entrepreneurs. One of the major challenges is that these entrepreneurs facing the lack of ample fund to start the project of business. The traditional way of generating fund through bank loans, and nature capital and other means have proved to be harmful to these newly business model. So here the concept of crowdfunding is fulfilling the needs of the newly ideas of business model to young entrepreneurs through the crowdfunding via the online platform without the major difficulties. Hence it makes significant to study the cognizance of crowdfunding among entrepreneurs and further advancement that could be explained about crowdfunding to make it more obtainable among the entrepreneurs to build the cognizance about the crowdfunding.

## Research Objective

- To know the cognizance towards using crowdfunding among the prospective entrepreneurs within different age groups.
- To understand the regulatory framework in India.

## Literature Review

Crowdfunding is a growing market which is being considered as an additional method of funding and used to acquire fund for project and business purposes (Pazowski, 2014). (Larralde and Schwienbacher, 2010) define crowdfunding as an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes, Thus the crowd generates financial support for already proposed initiatives. 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 concept of crowdsourcing and crowdfunding is not new in India, in the 19th century (1976), Shyam benegal had collected total of 10 lakh rupees to make the film MANTHAN. Manthan was the award winning movie based on the true story of struggling entrepreneurs. However the new coined term

“crowdfunding” has emerged in the western countries and catering the needs of the fund to the project based on the new idea. According to valuates reports (June 2020), the global crowdfunding market was valued at 10.2 billion USD in 2018 and is expected to reach 28.8 billion USD by the end of 2025, growing at the CAGR 16% between 2018 and 2015. With the recent outbreak of COVID-19 the market is witnessing valuable growth especially in donation crowdfunding to support and help to the margined people. For instance in April 2020, facebook launched “facebook fundraiser” a platform where people can raise fund for the charity to help people. The recent method of fund raising has brought numerous changes and they have important role in shaping the experience of the crowdfunder (madraz, 2014). The fund raiser should build confidence in the investor to win their trust and clear the technicalities on the online platforms having good quality social network and connectivity can help in achieving success of crowdfunding. The legal support, workshop, proper training and educating the entrepreneurs are the major factors to promote the crowd fundings. Hence it is required to fill this gap for the development of the crowdfunding. To understand the mechanism of crowdfunding it is important to understand that who the players are involved in crowdfunding. Different players influence in different ways by creating an eco system that compose the process and function are enabled. The right way of understanding ecosystem is to find out the stakeholders involved and their respective influence on the process. Mainly three parties’ are involved in the crowdfunding processes namely investors, crowdfunding platforms and capital raisers (Ahammed, 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 the regulation and control over crowdfunding which will lead to rising in economic standards (Tyagi, 2016). The purpose of creating regulation is to bring in accountability in the process of Crowdfunding. Crowdfunding helped in scientific transparency and public involvement. Crowdfunding draws inspiration from concepts like micro-finance (Morduch, 1999) and crowdsourcing (Poetz and Schreier, 2012), but represents its own unique category of fundraising, facilitated by a growing number of internet sites devoted to the topic.

## Research Methodology

This study is an exploratory in nature that aims to develop initial evidence on cognizance and attitude towards crowdfunding in the India. This study has been conducted through online survey method in the last month of 2020 using snowball sampling method. A total of 150 respondents participated in the survey. In survey the respondents had been asked the question about crowdfunding, the first question was about the personal

details (sex, age and qualification) and the second question about the idea or understanding about the crowdfunding on likert scale, This means that respondents who have no knowledge about crowdfunding will be screened-off and respondents who have knowledge about crowdfunding will answer the further question. The next question was about to mention the name of any crowdfunding platforms and in final question the respondents had been asked about to express the expert knowledge of crowdfunding.

## Data-Analysis.

Table 1: Demographic Information

Respondents profile	Frequency	Percentage
<b>Gender</b>		
Male	90	60.00
Female	60	40.00
<b>Age</b>		
Below 26	110	73.33
27-32	028	18.67
33-38	010	06.67
39-44	002	01.33
<b>Qualification</b>		
Before graduation	007	04.67
Graduate	064	42.67
Master and Professional holder	079	52.67

Table 2: Crosstabulation of Age and Idea about crowdfunding

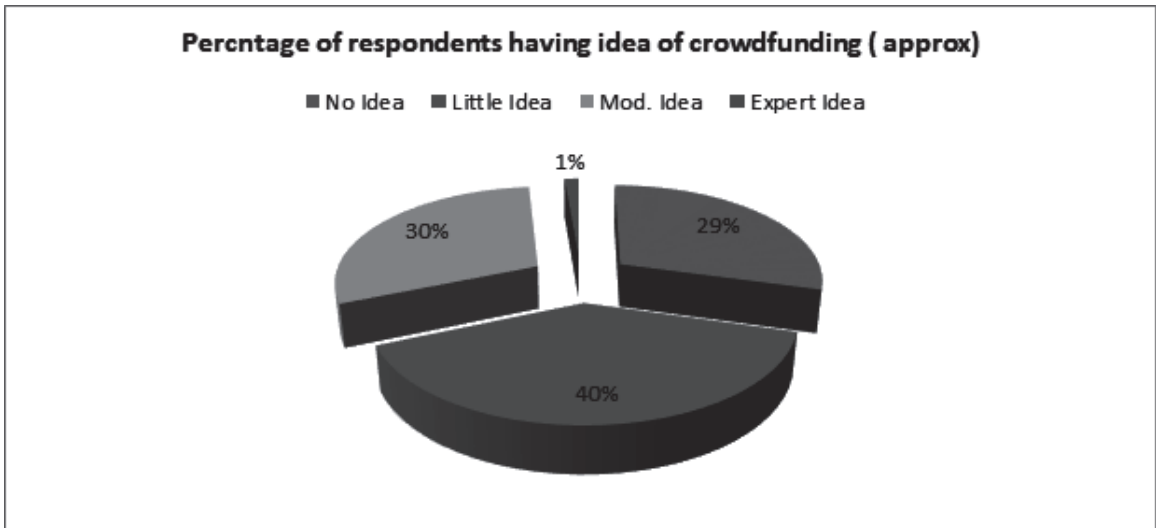
Age	No idea	Little idea	Moderate idea	Expertise idea	Total
Below 26	41	44	25	00	110
% with age	37.3%	40%	22.7%	00%	100%
% with idea	91.1%	74.6%	56.8%	00%	73.3%
27-32	02	11	13	2	28
% with age	7.1%	39.3%	46.4%	7.1%	100%
% with idea	4.4%	18.6%	29.5%	100%	18.7%
33-38	02	03	05	00	10
% with age	20%	30%	50%	00%	100%
% with idea	4.4%	5.1%	11.4%	00%	6.7%
39-44	00	01	01	00	02
% with age	00%	50%	50%	00%	100%
% with idea	00%	1.7%	2.3%	00%	1.3%
Total	45	59	44	02	150
% with age	30%	39.3%	29.3%	1.3%	100%
% with idea	100%	100%	100%	100%	100%

In the above table 2 , it has been that out of 150 sample size, the maximum respondents belongs to the age of below 26 who have very little knowledge about the crowdfunding and 45 respondents have no idea about the crowdfundings. Only 2 respondents found to have the well knowledge about crowdfunding from age 27 to 32.

### Findings and Discussion

This result indicates a significant need for crowdfunding platform to educate the market about crowdfunding, so it

is sensible for platforms to conduct informational campaign to boost cognizance level and increase participation. After all crowdfunding is similar to activities like donation and chanda that Indians are already aware about. Along with it the SEBI and the crowdfunding platforms also have the equal responsibility to explaining the risk involved in crowdfunding and how to mitigate them. By doing so the platform may help to the potential fund seeker about the credibility of the crowdfunding platforms and its process.



The survey results affirm that the prospective entrepreneurs do have little knowledge or idea about crowdfunding. Out of 150, respondents 90 are male and 60 are female. Among these respondents, a majority of 44(29.33%) have an idea about crowdfunding as well as 45(30%) have no idea about crowdfunding. In the following area, respondents were asked about their knowledge to use crowdfunding to host their project. Out of 150 respondents, a majority of 44(29.33%) 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.

### Regulatory Framework

Crowdfunding is developing in India but there are no proper rules and laws to govern it. It is not completely regulated and controlled neither by the SEBI nor by the capital market regulators. Regulations are the most important factor from the investors prospective for the safety and security point of view but undue regulation in crowdfunding could turn into the obstruction for small businesses and start-up in capital rising. The SEBI is working on the regulatory framework since the 2014. In 2014 SEBI issued a consultation paper and stated clearly that Donation and Reward based crowdfunding model of crowdfunding is completely legal and the debt & equity

based model are not legal. According to the SCRA Act, 1956 and companies Act, 2013 only the recognized and registered platforms can trade in the debt and equity fund, SEBI herewith give discretion to all the platforms dealing in such an unregulated platforms are violating the existing laws. Therefore SEBI newly formed framework struggles to find the proper balance between protection of investors and promotion of entrepreneurship. There is a need of equitable crowdfunding regulation in India that minimizes the cost of fund and maximizes liquidity while ascertaining sufficient investor protection and minimizes risk of investment.

### Significanc of Study

The present study will contribute in the understanding of crowdfunding and its future scope for the young entrepreneurs. It will also throw light on the youth having business model in different age groups and seeking to raise capital for the converting their model of business into the real business. Furthermore, proper support stem initiative can be undertaken to help students and stakeholders at various level of their academic as well as economic endeavor. In the future, it would also be worthwhile to extend the investigation from potential to current entrepreneur, either in the business or social sector. Future research can also assess the extent to which social and economical entrepreneur have the same knowledge and perceive the same way about the benefit and barrier of crowdfunding.

### Future Rsearch

Findings of this study propose a no. of scope to study in future. First, to collect more data and do the depth study on the factor influencing the cognizance level. Second, how to learn the skill that leads to more interest and attitude towards the crowdfunding to afford the new business ideas? Third, consider the strategies adopted by the experienced of crowdfunding and further to examine the recommendation and regulation by the regulatory agencies.

### Conclusion

This study concludes that crowdfunding is one of the potential ways to raise capital for the new business

ventures. In the past studies the researchers found that the people are not more awarded about the crowdfunding. According to this study it shows that people are showing interest in gaining knowledge about the way of raising fund and crwodfunding is one of them. The data reveals that out of 150 respondents, 44 are showing interest towards the crowdfunding as they have the moderate idea about the crowdfunding, 2 are the expert of the crowdfunding, 59 have the little understanding about it and they are interested to know more about it and the remaining 45 have no idea about the crowdfunding. While looking forward, crowdfunding has a bright future as internet penetration and e-commerce success will pave the way for crowdfunding. Finally, it is significant to know how the present regulation of SEBI can encourage the growth of crowdfunding in India and there is scope to bring the complete regulatory framework to control the crowdfunding market for the safety of fund seeker and investor.

### References

- *Ahammed, M. (2017). Sharia Compliant Crowdfunding: An Alternative Optimal Platform for Funding MSMES. Kaav International Journal of Economics, Commerce & Business Management.*
- *Akshay.V, K. A. (2017). Crowdfunding in Indian Context. Journal on Contemporary Issue of Law.*
- *Andrew Green, R. T. (2015). The benefits of crowdfunding for early-stage entrepreneurs: Between finance gap and, White Rose Research.*
- *Harmeet Kaura, J. G. (2017). Effect of Social Media Connectivity on Success of Crowdfunding Campaigns.*
- *Henry Sauermann, C. F. (2018). Crowdfunding Scientific Research. National bureau of economic research.*
- *Hetal Jhaveri, A. N. (2014). Crowdfunding at India: A Study of Indian Online Crowdfunding. Research gate.*
- *Joseph, Jaslin (2019). Awareness towards Crowdfunding; - International Journal of Research and Analytical Reviews.*
- *Tyagi, A. V. (2016). An Overview of Crowdfunding in the Indian Setting. Imperial Journal of Interdisciplinary Research.*
- *Tripathy, A. (2016). Crowdfunding in India – a trend gone wrong? E-Newsline.*

- kotwani, shalu. (2019), A study on crowdfunding status in india, UNYAN: international Bulletin of management and conomics.
- <https://www.researchgate.net/publication/303860133>
- <https://www.researchgate.net/publication/272984988>
- [https://www.sebi.gov.in/sebi\\_data/attachdocs/1403005615257.pdf](https://www.sebi.gov.in/sebi_data/attachdocs/1403005615257.pdf)
- <https://www.researchgate.net/publication/284182013>