

## Chapter 2

# Basic Types of Project Initiators: Contributor Relations in Platform– Based Online Crowdfunding

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### ABSTRACT

*Crowdfunding has helped many businesses and projects to take off easily and is replacing the traditional methods of fundraising since more platforms are being created. Evaluation of the risk for both the borrower and the donor is important before investing or borrowing to ensure that the project is a success. Crowdfunding is changing the way that projects and startups get funded. Most of crowdfunding money is raised on reward-based platforms, although equity crowdfunding is growing quickly. It can be expected that crowdfunding will become more popular, with many crowdfunding new opportunities available, which will make not easy for potential investors to choose what to support. In this chapter, we introduce the reader to the basic types of project initiators-contributor relations in online crowdfunding. We review the current literature identifying the research questions relevant for our purpose. We subsequently conduct a research method of systematic review to identify the relevant papers that address those research questions.*

### INTRODUCTION

People have many business ideas and innovations that are usually delayed or crippled due to lack of funds. There are many ways of raising money towards a given venture in order to kick-start a project. If an individual does not have the necessary funds, one of the alternative ways to raise funds is through fund-raising platforms. The money raised through a fundraising may it be through donation or on debt and it should only be used to successfully start the targeted project. The money raised can be through donations, mainly reward-based, equity-based or credit-based, all of which have to give some form of compensation to the contributor (Outlaw, 2013, p. 5).

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It is very difficult to maintain an adequate long and short term financial plan when there is a shortage of funds for any particular business or a new venture. Furthermore, the working capital management will need to have adequate funds in order to cover the short term expenses. It is also possible that the creditors can demand payment at any time for the goods delivered to the business by them and for that is necessary to maintain the working capital or adequacy of the funds. Fundraising can also help the business to maintain the effectiveness of the business on a long term basis and the example could be related to the purchase of a new machine (Steinberg et. al., 2012, p. 35)

A new startup needs some amount of funds in order to get the business started. In order to transform the entrepreneurial project into a reality, then it is necessary to have adequate cash to execute all such plans. Moreover, the fundraising will help the entrepreneur to develop the business model for the growth of the project and a successful business marketing plan (Damus, 2014, p. 32)

The technological advancement and the use of the Internet have raised a new platform for fundraising known as crowdfunding. Crowdfunding involves three parties: the project initiator or owner who needs funding, the contributor who is willing to give their money and the moderating organization that facilitates the engagement between the contributor and the initiator (Young, 2013, p. 33). Moderation can also be done through technology by the project initiator himself, using Web 2.0 and outside of platforms (see for example Gerber & Hui, 2013 for a definition including such practices). The platform involves entrepreneurs or potential business owners asking for funding for their projects from the “crowd” or users from all over the world who may be interested in supporting their cause or business. Crowdfunding allow individuals the possibility to develop into their business ideas, even if it is only with a small amount of money. Governments encourage crowdfunding due to its positive impact on the economy as a whole, as it creates new jobs and fosters the economic growth of countries.

This chapter seeks to introduce the reader to the basic types of project initiators-contributor relations in online crowdfunding. For this, we have reviewed the current literature identifying the research questions relevant for our purpose. We subsequently conduct a research method of systematic review to identify the relevant papers that address our research questions.

## **BACKGROUND**

Although the name of crowdfunding and its use of the Internet are new concepts to the market and the population, it is usually mentioned that the construction of the Statue of Liberty’s Pedestal took up the same idea. John Pulitzer, who was then a publisher, used his newspaper to rally up people donate money for the construction of the Pedestal, a project that later raised 100.000 dollars in six months. Pulitzer raised a fund and promised to print the identity of each donor, regardless of the amount of the donation. In August 1885, Pulitzer was finally able to announce that he had raised the final \$100.000 for the statue’s pedestal. The next year the Statue of Liberty, which had arrived from France packed in crates, was erected on top. (See Young, 2013 for more details). Crowdfunding is becoming hugely popular in many parts of the world and the Internet platforms that are being used for contributions are on the rise.

In 2013, Crowdfunding raised over 5.1 billion dollars to help people in various projects all over the world and the figure is projected to increase in the future with the new platforms becoming more popular (See Crowdfunding Industry Report from Research firm Massolution). The new law of the Jumpstart Our Business Startups (JOBS) by President Obama in 2012 introduced a regulatory framework. Most of it still has to be translated into active regulatory elements to this date, protecting donors to crowdfunding

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