

Chapter 80

Exploring the Spheres of Crowdfunding

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ABSTRACT

This chapter reviews research and policy literatures on the spheres of crowdfunding. It identifies reward-based, donation-based, equity-based and credit-based crowdfunding with a view to collate relevant information to support crowdfunding knowledgebase and further research. As crowdfunding is a new concept in research literature, it is increasing in popularity in social media, business and research communities. Academic research in crowdfunding is limited and the subject is still evolving as a way of access to finance for seed capital, entrepreneurial projects and other early stage projects. Advanced countries in Europe and North America have recognised the relevance of crowdfunding in varying proportion from one country to another for project fundraising. However, the World Bank confirmed that developing countries are at different stages of recognition of crowdfunding in their policy framework. Although the UK financial regulator, Financial Conduct Authority, has produced a policy statement for crowdfunding and approved some service providers such as crowdfunding platforms, it is still interacting with stakeholders and providing guidance to potential entrepreneurs on the operational models. Crowdfunding is a way of raising small amounts of money from different contributors over the internet for different types of projects. There are huge management implications in the spheres of crowdfunding.

INTRODUCTION

Crowdfunding is a method of fundraising directly from members of the public with small individual contributions using the internet (European Crowdfunding Network, 2014). The spheres or types of crowdfunding are reward-based, equity-based, donation-based and credit-based. These spheres were discussed in FCA (2014a) and Bradford (2012) because the need for regulation in crowdfunding has become apparent. Apart from the UK, the USA has recognised crowdfunding as a way of funding entrepreneurial projects and this initiated the Jumpstart Our Business Start-ups Act (JOBS Act) (Stemler, 2013). Prior to the JOBS Act in the USA, researchers (Burkett, 2011; Hemingway, & Hoffman, 2012)

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disclosed the conflict between equity-based crowdfunding and the existing United States securities laws. Therefore, for crowdfunding to be operated lawfully in the USA, changes had to be made to existing securities laws. Accordingly, the President of USA, Barak Obama, stated in one of his speeches that the provisions of the JOBS Act are a potential game changer in the USA as businesses will have the opportunity for start-up and growth to the next level (Thompson, 2012). Apart from business reliance on personal savings, loans, private equity, venture capital and angel capital, crowdfunding is a new concept in access to business finance.

Venture capitalists left a funding gap in the early stage of new business development and crowdfunding is quite capable of filling that gap (Ley, & Weaven, 2011). Thus, crowdfunding is a new, alternative and additional method of access to finance for small and medium-sized enterprises (SMEs) and other early stage projects. As crowdfunding is increasing in popularity in social media, business and research community, it is beginning to make impact as a seed and start-up fund for new firms. Crowdfunding has been identified as one of the alternative finance mechanisms for individuals and businesses to explore for their capital needs (Collins, Swart, & Zhang, 2013). Therefore, members of the public can fund a project with little individual financial contribution in collaboration with others through the internet.

As crowd funders or investors are distributed all over the world, different regulatory provisions are being introduced from one country to another. Developed countries have introduced crowdfunding associations. One of these is the UK crowdfunding association (UKCFA, 2014) which was formed by fourteen crowdfunding businesses in 2012 and the membership has since grown to forty-three in December 2014; being 250% increase in membership over two years. Other crowdfunding related associations include National Crowdfunding Association in USA (NLCFA, 2014), National Crowdfunding Association of Canada (NCFA, 2014), Crowdfunding Professional Association in USA (CFPA, 2014) and Crowdfund Intermediary Regulatory Advocates in USA (CFIRA, 2014).

Web technology is the key driver of all the spheres of crowdfunding (European Crowdfunding Network, 2014; InfoDev, 2013). Entrepreneurial access to crowdfund platform is a globalisation phenomenon (Agrawal et al., 2011). As web technologies provide the enabling platform for many business successes, crowdfunding is being propelled using the internet (European Crowdfunding Network, 2014). Greater levels of crowdfunding campaign are initiated by creative individuals and within metropolitan areas (Antonenko, Lee, & Kleinheksel, 2014). This shows an evidence of spatial proximity in crowdfunding.

Advanced countries in Europe and North America have recognised the relevance of crowdfunding in varying proportion from one country to another for project fundraising. However, a World Bank research confirmed that developing economies are at different stages of recognising crowdfunding in their policy framework with South Africa leading with four crowdfunding platforms (InfoDev, 2013). Although the UK financial regulator, Financial Conduct Authority, has produced a policy statement for crowdfunding and approved some providers, it is still interacting with stakeholders and providing guidance to potential entrepreneurs on the operational models (FCA, 2014a).

According to Danmayr (2014), North America and Europe represent 98% of the worldwide crowdfunding industry and the crowdfunding industry has grown periodically from 64% in 2011 to 81% in 2012 and the growth has continued unabated. Thus, the growth of crowdfunding has become astronomical over a few years and the future potential of growth is unimaginable. There is a strong positive signal of better access to crowdfunding money and this could lead to improved access to other forms of finance such as venture capitalists and business angel (Lehner, & Nicholls, 2014). It is now confirmed that crowdfunding is helping to raise money for scientific research and success factors abound (Wheat, Wang, Byrnes, & Ranganathan, 2013).

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