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Wave of Crowd Funding in Social Business in USA & UK and its Implication in India

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ABSTRACT

This paper deals with fund flow through crowd funding in developed nations like USA & UK and its implication in India. The Research also highlights the scope of crowd funding for Social businesses in India. Globally crowd funding industry witnessed immense growth with drastic expansion of 167 percent. Data was collected through most popular crowd funding websites in US, UK and India. In order to identify the right sample, the word Social business/social venture was searched in the campaign description. Companies identified through this process were further verified by studying their business models. The final study involved thirty eight social ventures involved in fund generation through crowd funding. The Point Biserial correlation and chi square test was used for authentication of the research. So, the findings of the present paper will be highly useful to the social ventures and policy makers in India.

Keywords: Crowd fund, Social business, SEBI, Policy framework, etc.

1. INTRODUCTION

The most crucial asset for achievement of any business endeavor is its financing. New firms face challenges in getting funds in the underlying time frame. (Shane and Cable, 2002). Crowd funding is an innovative process of one party getting its project financed with small contributions from several small parties in lieu of certain form of value for the other party. (patnia, 2013). As of late crowd funding has developed as a standout amongst the most innovative approaches to support the task. Crowd funding is not a new phenomenon in Indian context as since old times, it has been natural in the way of life of India; when

individuals pooled cash for religious and social welfare. For example the golden temple of Amritsar a divine place of worship for the Sikh community in India was constructed with major donations from the warrior king Ranjit Singh and other rich people from the Sikh community. In 1984 after the operation blue star, the golden temple was severely damaged and needed massive repairs, again the Sikh community decided to do it by pooling their own funds. In context of businesses long before crowd funding was introduced in the global business arena, Dhirubhai Ambani the founder of Reliance industries got his textile project crowd funded by several communities from state of Gujarat. The comparative idea of group financing has been renovated and relaunched to suit the requirements of modern times. The concept of a web based crowd funding is definitely a new step in Indian crowd funding space.

The global crowd funding industry witnessed immense growth in 2014, with drastic expansion of 167 percent; it has reached \$16.2 billion, up from \$6.1 billion in 2013. The industry has grown more than double once again and reached to \$34.4 billion, in 2015. It is of great value to note that this global rise is due to rise of crowd funding success particularly in Asia. The Asian crowd funding volumes grew by 320 percent, to \$3.4 billion raised from various projects. This puts Asia ahead of Europe with \$3.26 billion as the second-largest region by crowd funding volume (Massolution crowd funding report 2015). Investment in social businesses through crowd fund was increased more than double in year 2014 (Table 45.1). This predicts that social businesses have a new source of fund through crowd fund.

Table 45.1
Global Crowd funding by sector (\$bn)

Sectors	2013	2014
Business and Entrepreneurship	1.8	6.8
Social Causes	1.2	3.6
Film and Performing Arts	0.8	2.0
Property	0.7	1.0
Music and recording arts	0.4	0.8
Science and Technology	0.6	0.8
Art	0.2	0.6
Publishing	0.2	0.6
Total	6.1	16.2

Source: Mas solution crowd funding statistics (The Economist April 4, 2015)

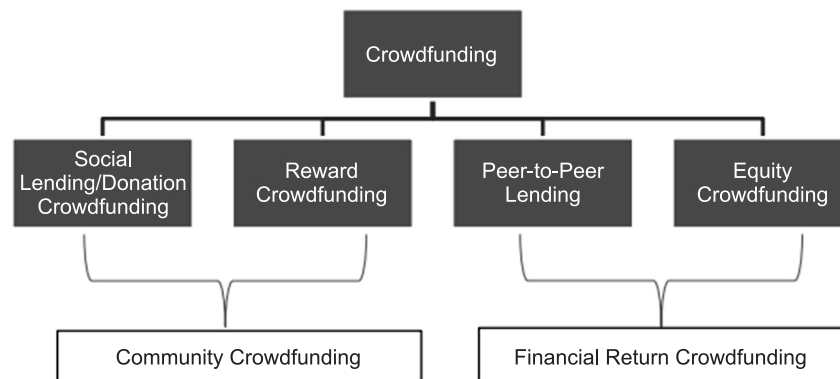


Figure 45.1: Types of Crowd Funding

Source: IOSCO Staff Working Paper - Crowd-funding: An Infant Industry Growing Fast, 2014

Donation based crowd funding and reward based crowd funding do not involve monetary gain while debt based crowd funding and equity based crowd funding promise profits to the investor. In reward based crowd funding certain token of appreciation are involved in order to boost the funds and investor relations. In debt based crowd funding the investor is promised a certain rate of interest on the amount pledged while in equity based crowd funding the investor becomes stakeholder and on launch of the enterprise, is entitled to dividends and returns.

Since Kickstarter one of the most popular crowd funding platforms got launched in 2009, it has hosted more than 265,000 funding campaigns; out of which 36 percent were successful. The 95,200 successful campaigns raised a total of \$1.76 billion with support of 9.7 million backers. The most successful business categories for kick starter projects were music and film/video, followed at a distance by art, publishing, games, design and theatre. A fee of 5 percent was charged by Kickstarter for every successful campaign. (Freedman & Nutting, 2015).

It is more difficult for Social business to secure funding as their mission of doing social well is often perceived as adoption of non-profit model, which leads to fatal low return promising image formation for these enterprises. The obstacles faced by Social business are directly related to its business model. As the charities offer tax deductions so, Social business don't seem attractive in comparison to charities while purely market based investors would reject a social business funding proposal on the whiff of potentially below market returns (Reiser & Dean, 2015). Crowd funding serves as an open platform for these enterprises by providing them an opportunity to present their plans and create buzz around the project. This way Social business who cannot secure funds from regular investment sources like a Venture capital or bank loan can also get enough capital to move forward.

In US and UK the crowd funding platform was highly successful for Social business to generate funds but Crowd funding is still in its nascent phase in Indian economy. Thus, it is highly interesting for social entrepreneurs to understand and apply the factors attributing to this success in US and UK. In other words investors from countries like US and UK willing to invest for Social business development in India.

In Indian context as of yet no definitive work has been put up. Previous researchers have worked on dynamics of crowd funding, campaigns suggesting factors like social network and project design play vital role. (Mollick, 2014).

This research contributes to the corpus of prior work on crowd funding from perspective of a Social business. Research highlights the impact of several factors like support of International backers, Gender relation and cause on successful crowd funding in US and UK. Factors like importance of innovation on success of Crowd funding was also analyzed. Research also explores the crowd fund scenario of social ventures working for developing or under developed countries being funded in US and UK. Following research questions were framed. Does the profile and origin of project creator also affect the crowd funding of these social ventures? Should India Social business look out for western funding? Finally research concluded by suggesting changes and ways to achieve crowd funding success for Social businesses in India.

2. LITERATURE REVIEW

The study reveals that feedback and attention received for the project was the motivation for social entrepreneur. Nonprofit ventures were more success rather profit oriented ventures for getting crowd

fund (Belleflame. P & Schiwenbacher, 2010). Non-profit organizations were more likely to reach their funding goal in comparison to profit oriented organizations (Pitschner & Finn, 2014). Projects with small and realistic goals were more successful than projects with bigger goals (Muller, Geyer, Soule, Daniels, & Cheng, 2013). As the value of pledge reaches the target, the number of pledges increases dramatically every week. The local investors did not follow this pattern; they tend to invest early before reaching the target value of \$10,000 (Agrawal, Catalini, & Goldfarb, 2011). Social media plays an important role in project success, Twitter being most important media. Updates and its active management play vital role throughout the campaign (Kocollari, Ivana, & Balboni, 2013). In the social business the project description, images, videos as well as the history of founders pledging previous projects influences the project funding success. Experience of social entrepreneur as project creator did not have much impact on the project success (Koch, 2015). Social information plays a key role in the success of a project (Kuppuswamy & Bayus, 2013). Pre ordering schemes were more likely when funding needs are low. Profit sharing schemes were more viable when financial needs are more (Belleflamme, Lambert, & Schwiwenbacher, 2013). Communication with potential funders during a campaign was more predictive of success than the representation of the project page (Bailey, Fu, Xu, Yang, & Rao, 2014).

3. RESEARCH METHODOLOGY

The objective of this research paper was to explore the success of crowd funding for Social businesses in US and UK. Research also highlighted the scope of crowd funding for Social businesses in India. This is an empirical research and descriptive in nature. Researchers were relying on data available for crowd funding in Social business in US and UK. Data was collected through most popular websites in US, UK and India. The website was Kickstarter.com (US based social business), Crowd funder.co.uk (UK based social business), Ketto.com. (US based social business) In order to determine the right sample, the word Social business in the campaign description was searched. Companies describing themselves as social businesses were further investigated by verifying the business model. In total forty organizations was part of initial sample out of which two were discarded due to inconsistencies in the business model, Hence, the study was carried on thirty eight social ventures.

The definition of success varies from site to site and country to country. For a project to be successful on Kickstarter, it has to reach the targeted number of pledges, they work on all or none model. So, if the project does not reach the targeted value, no funds will be released and pledgers have no obligation to pay. Success percentage was calculated.

$$\text{Success \%} = \text{Achieved amount} / \text{Targeted amount} \times 100$$

The Point Biserial correlation and chi square test was used for authentication of the research.

Further for this study, it was decided that any project getting more than 60 percent of the targeted funds was considered to be successful.

4. RESULTS AND FINDINGS

Social businesses across India, US and UK work for several number of causes. Success rate of one cause varies from another cause. The data (Table 45.2) reveals that causes like employment, women empowerment were the most trending. The projects based on employment creation were most successful. Youth empowerment

and women empowerment also hold importance as they were getting funded successfully. The data (Table 45.2) described the mean success percent for employment (129.9) and its standard deviation (200.64), this depicts that projects with the cause of generating employment were doing good on an average but as the mean value was affected by extreme values, that shows many of the projects have success rates values varying farther away from the mean value.

Table 45.2
Descriptive analysis

<i>Causes</i>	<i>N</i>	<i>Mean (Percentage of Target achieved)</i>	<i>Std. Deviation</i>
Women empowerment	10	105.75	115.12
Food	6	57.20	56.73
Community welfare	1	32.46	
Youth empowerment	2	108.56	5.84
Employment	11	129.90	200.64
Environment	1	104.62	
Education	1	72.92	
Art	1	44.91	
Fair Trade	3	93.37	25.12
Energy	2	18.21	25.76
	38		

The data (Table 45.3) noticed that causes like art, fair-trade and community welfare were absent in the list of Indian crowd funding scenario. This result can be attributed to the economic and social characteristics of India where poverty, women exploitation, sanitation, energy etc. were the main causes which need attention. While the developed countries were more focused on relative absence of facilities, the developing countries are working for alleviation of absolute absence of resources.

Table 45.3
Country wise cause orientation

<i>Country of funding</i>	<i>Causes</i>										
	<i>Women empowerment</i>	<i>Food</i>	<i>Community welfare</i>	<i>Youth empowerment</i>	<i>Employment</i>	<i>Environment</i>	<i>Education</i>	<i>Art</i>	<i>Fair Trade</i>	<i>Energy</i>	<i>Total</i>
USA	2	5	1	2	5	0	1	0	0	0	16
INDIA	8	1	0	0	1	0	0	0	0	2	12
UK	0	0	0	0	5	1	0	1	3	0	10
Total	10	6	1	2	11	1	1	1	3	2	38

The Point Biserial correlation (Table 45.5) was used to describe whether there was any relation between success rate (achievement) and gender of the project creator. The correlation coefficient .344 confirmed that there existed positive correlation between success rate and gender of the project creator. The data in (Table 45.4) also revealed that female project creators get better results than their male counterparts. It seems a common trend across all three countries. It also explains dominance and success of causes like woman empowerment in the crowd funding space.

Table 45.4:
Gender of Project creators and achieved target (percent) country-wise

Country of funding	Gender of Project creator	Percent of Target achieved						Total
		0-20	21-40	41-60	61-80	81-100	100 +	
USA	Male	1	1		2	0	1	5
	Female	4	0		0	1	6	11
INDIA	Male	5	1		0		0	6
	Female	2	0		1		4	7
UK	Male	1		1	1	1	2	6
	Female	0		0	1	0	3	4
Total	Male	7	2	1	3	1	3	17
	Female	6	0	0	2	1	13	22

Table 45.5
Correlation between gender of project creator and target achieved

	Gender of project creator	Target achieved in percent
Gender of project creator	1	.344
		0.032
Target achieved in percent	.344	1
	0.032	
N	39	

*Correlation is significant at the 0.05 level, Pearson Correlation Sig. (2-tailed).

It was analyzed through data (Table 45.6) that western countries had significant presence of international backers while Indian crowd funding campaigns relied on only Indian funding. It was also noticed (Table 45.7) that presence of International backers in case of developed countries like US led to higher percentage of target achievement. Through this observation it can be analyzed that if India also gets international funding and support, the crowd funding success rates can improve significantly.

Table 45.6
Country wise Presence of international backers

Country of Funding	Presence of international backers		Total
	Yes	No	
US	8	8	16
India	1	12	13
UK	6	4	10
Total	15	24	39

Data examined (Table 45.8) that a significant number of crowd funding projects in western countries were funded for other developing countries, in several cases the beneficiary countries were different from the crowd funding country. It was higher for United States where more than 40 percent of crowd funding campaigns were for global support. While in India the entire funding was only done for use in the home country. This seems to support the above argument of targeting international backers for financial crowd funding support.

Table 45.7
Country wise presence of International backers and percentage of Target achieved

<i>Country of funding</i>	<i>% of target achieved</i>	<i>Presence of international backers</i>	
		<i>Yes</i>	<i>No</i>
USA	0-20	1	4
	21-40	0	1
	61-80	1	1
	81-100	1	0
	100 +	5	2
INDIA	0-20	1	6
	21-40	0	1
	61-80	0	1
	100 +	0	4
UK	0-20	0	1
	41-60	1	0
	61-80	1	1
	81-100	0	1
	100 +	4	1
Total	0-20	2	11
	21-40	0	2
	41-60	1	0
	61-80	2	3
	81-100	1	1
	100 +	9	7

Table 45.8
Country wise representations of same crowd funding country and Beneficiary country

<i>Same Crowd funding and Beneficiary country</i>	<i>Country of funding</i>			<i>Total</i>
	<i>USA</i>	<i>INDIA</i>	<i>UK</i>	
Yes	9	13	8	30
No	7	0	2	9
Total	16	13	10	39

Data (Table 45.9) disclosed that in US and UK have adopted reward based crowd funding while in India crowd funding majorly relied on donation based. In India, there were no defined guide lines for crowd fund. Indian government is on its way to formulate rules and regulations for crowd funding in India.

Table 45.9
Country wise type of crowd fund

<i>Crowd Fund Type</i>	<i>Country of funding</i>			<i>Total</i>
	<i>USA</i>	<i>INDIA</i>	<i>UK</i>	
Reward based	15	3	10	28
Equity based	0	1	0	1
Donation based	1	9	0	10
Total	16	13	10	39

The data reveals that innovation in project idea was an effect on success of project funding. The results of chi square value in (Table 45.10) of 3.092 and significance level of .079, described that innovation has significant effect on success rate of funding.

Table 45.10
Chi square test for Innovation and success
Chi-Square Test Results

	<i>Value</i>	<i>df</i>	<i>Asymp. Sig. (2-sided)</i>	<i>Exact Sig. (2-sided)</i>
Pearson Chi-Square	3.092 ^a	1	0.079	Exact Sig. (1-sided)
Continuity Correction ^b	1.627	1	0.202	
Likelihood Ratio	3.185	1	0.074	
Fisher's Exact Test				0.147
Linear-by-Linear Association	3.013	1	0.083	0.102
N of Valid Cases	39			

^a2 cells (50.0%) have expected count less than 5. The minimum expected count is 2.18.

^bComputed only for a 2x2 table

Table 45.11
Country wise presence of profile of project creator

<i>Profile of project creator Presence</i>	<i>Country of funding</i>			<i>Total</i>
	<i>USA</i>	<i>INDIA</i>	<i>UK</i>	
Yes	0	10	0	10
No	16	3	10	29
Total	16	13	10	39

After closely examining the campaign description of various projects, it was found that the Indian crowd funding projects also add description of the project creator. The description involved their educational details and previous work experiences. The research considered it to be a trust generating activity. It can be attributed to the fact that Indian govt. has no definitive policy as of yet for crowd funding, while US and UK have a broad framework for crowd funding that protects the interest of the pledgers and keeps a tab on the funding agencies and projects. This will create an environment of assurance and trust guaranteeing more funding.

5. DISCUSSION

With international support and promotions, India social businesses too can look forward to crowd funding as a very promising mode of fund generation. Certain factors for improvement and growth of crowd funding in India emerged through the research work:

1. International Support
2. Creation of well-defined reward model
3. Need for policy framework
4. Creation of trust

Campaigns designed to cater the international audience for attracting crowd fund should be designed such a way to connect international social causes. US and UK pledgers were willing to pay for projects in developing countries and international support does fetch higher crowd funding returns. Success rate of getting crowd fund in female social entrepreneurs were more than their male counterparts. There was a general trust issue for crowd funding campaigns hence, for creation of trust; details about the project creator are incorporated in the campaign details.

Bakey's Edible Cutlery

Bakey's the edible cutlery an Indian Social Business launched their campaign on kickstarter.com on 18th March 2016. The campaign talks about the environmental and social impact that can be created through use of edible cutlery with potential to prevent plastic waste. The campaign success can be realised by the fact that with support of 9293 pledgers they raised \$278,874 while they had pledged for \$20,000 goal. The largest number of backers was from United States, Canada, UK and European countries. This highlights the international reach of the Crowd funding projects.

The project description was elaborate and explicit. The description was also enhanced by the addition of a well-documented video. The history about the campaign states a description of the founder Narayan Peesapaty. It also describes his educational qualifications along with previous work experiences. The reward plan was well targeted beginning from a pledge of dollar 1 to a pledge of 2300 dollars. The project creator has posted 11 updates during the March 2016 period to September 2016. They have also made a list of FAQs for pledgers. (Kickstarter.com), which is an effective way to clear all customer queries regarding the project.

Interestingly, they also started a similar campaign on Indian Crowd funding site Ketto.com. They raised a total of ₹25,05,820 with the help of 1572 supporters. The project creator posted 17 updates from March 2016 to September 2016. The campaign was shared 13 times on facebook. The campaign has clearly achieved more success on the international platform. (Ketto.com)

Khabar Lehariya – A Media Revolution

Khabarlehariya is another revolutionary campaign, a woman run enterprise empowering rural woman in India .The campaign was launched on Ketto.com and raised a total of ₹6,42,000. The campaign was well descriptive with a very intense video depicting the social impact it is creating. The project has in total 15 supporters. It was a local newspaper based in regions of Uttar Pradesh and Bihar the rural hinterland of India. Their Crowd funding model was based entirely on donation. There was no physical reward associated with it. The donations range from ₹3,29,500 to ₹500. It was interesting to see that most of the major donors were anonymous. This further focuses on the need for regulatory framework and policy about crowd funding in India. (www.ketto.com)

This case depicts unusual, innovative business solutions which do not qualify as loan receivers in traditional financial institutions are raising sufficient amount of funds through platforms like Crowd funding. Recent SEBI cautionary notification released on 8th August 2016 cautions investors from putting money in these platforms as they were unauthorized. The platform operators argued that the system under which SEBI is reviewing them is archaic and there should be a separate criteria for them as SEBI is not viewing online and offline channels as two separate mediums. (Variyar & Ganguly, 2016)

6. CONCLUSION

The securities and exchange board of India, has constituted a committee on crowd funding, with intentions to boost India's thriving startup ecosystem through channelizing funds and formulating the norms. At present there are no guidelines for raising funds via crowd funding in India. Indian start up ecosystem is facing a strong challenge where investors are suspicious of funding without any government Intervention. Indian economy has potential to capitalize on crowd funding. Hence, there is an urgent need to develop policy framework for crowd funding in India. This would create an environment of trust and will help in promoting crowd funding in India. Apart from the start-ups, social enterprises or social businesses also face the challenge of getting funds through traditional funding channels. With the enactment of new policies, the Indian social enterprise ecosystem will also receive support and recognition. Through this research we came to learn that innovativeness of the project and success are correlated but further work needs to be done to analyze the scale and scope of innovation.

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