Chapter 5

Toward a Typology of Crowdfunding Motivations

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ABSTRACT
Crowdfunding is a modern approach to provide real-time financial assistance to those entrepreneurs who are interested in starting seed ventures. This phenomenon is developing slowly and the financial regulators are considering options to put appropriate checks and balances to regulate these activities. Although the experience of crowdfunding may not be satisfying as it ought to be, but there a sense of willingness on the part of the civil society to participate in crowdfunding as it is associated with a good cause. It is important to note that crowdfunding as a system is being based amongst small and mid-sized income group members. The motivation to support the cause of entrepreneurs is growing as the fund lenders are novice and in the threshold stage of supporting such seed ventures. The motivations of fund lender differ depending on their personal and environmental factors, especially in connection to the emerging laws and mandatory disclosures under the financial regulatory regime. In this paper, the focus is on (i) identification of what motivates fund lenders to support entrepreneurs and the impact of the fund movement.

INTRODUCTION
The last five years period has witnessed the growth of this phenomenon termed ‘crowdfunding’. Through an open transaction source, like Internet banking service, amounts’ of money are safely transferred from a large number of individuals or organizations (Waters, 2007) to various entrepreneurs. The main purpose of crowdfunding here is to fund a project, a business or personal loan, and other needs through an online web-based platform (Kleemann et al, 2008). Crowdfunding initiatives have a wide range of projects to offer. The entire focus of goals to be achieved is determined by fund lenders and fund seekers who initially build relationship through Internet platforms.
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Various factors bind this relationship in different environments, contexts and the nature of the funding efforts (Belleflamme et al., 2014). Geographically diverse individuals coordinate to provide capital to others in need, often for minimal or zero-financial returns. Small and unrelated individuals depict a collective and a cooperative endeavor to support such ventures. It may not be quite profitable yet it attempts to provide the required amount of protection to their commercial expectations. However, crowdfunding is oriented toward providing new products and services with quality. It is also a counter strategy to address the challenges of ‘preconditions’ that entrepreneurs are facing in the huge market competition. A planned process does not drive new entrepreneurs in business ventures constantly. As a consequence, they fail to do business in innovative and emerging sector.

The emerging dimensions of crowdfunding projects provide the measures to fix the gap that exists in the financial market structures and tend to exploit the same. The endeavor is to develop new sets of opportunities for entrepreneurial growth. It provides a platform to introduce new market models, apply new methods of lending system and create a generation of unregulated interest rates, introduce exchange market, draft new model of business for ‘startup’ business ventures. Crowdfunding operates as ‘an open call’, essentially through the Internet, for providing financial resources in form of donations or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes (Schwienbacher & Larralde, 2010). Crowdfunding refers to “the efforts of entrepreneurial individuals and groups – cultural, social, and for-profit – to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries” (Mollick & Ethan, 2014).

The main objective of the current research study is to assess the factors of motivation and to identify substantive drive in fund lender decision-making process. Due to potential risks involved in parting with their surplus monies in crowdfunding process and risks involved in crowdfunding and regulatory regime, fund lenders experience motivational changes. Hence, the present research inquiry endeavors to analyze the importance of awareness and awareness deficit about the risks in crowdfunding processes and their outcomes. As knowledge about crowdfunding process plays an important role in the formulation of motivational drive and its translates into lending decisions the current enquiry intends to explores to find out whether motivational behavior of individuals correspondingly relates to prevailing norms in the four crowdfunding environments namely credit-based, donation-based, equity-based, and reward based.

LITERATURE REVIEW

Our review of literature contains two parts. The first is descriptive and traces the field of our research, crowdfunding. The second is analytical, and investigates the concept of motivation which provides the theoretical insights for the research inquiry.

Crowdfunding

As the financial institutions like banks usually have well instilled bureaucratic structure, anticipated procedural compliance, integrated and multi-layered system, an entrepreneur finds difficulty in approachability and ensuring of timely payment of debt taken for project accomplishment. Conventional banking systems do not encourage granting of loans for some creative, cultural, social projects which are, however, perceived to be socially beneficial.