

A Study on awareness of Crowd Funding as a viable option to raise pre-seed Capital for Startups

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Abstract

Revolution of Startups have played very pivot role in the growth of Indian economy. The huge growth in Indian economy for the next decade is expected to be taken by the startup revolution, driven by private enterprises. This revolution has largely contributed in the incremental development of our country and as result service and manufacturing sectors has witnessed doubled digit GDP growth that achieved during 2003-2007. In the recent three years the startup fever has gripped this country and have the potential to catapult it into the planned path for economic supremacy. In this backdrop raising pre-seed capital is become a significant and burning topic. Researches have indicated that raising capital was always a challenge for the startup. Though different modes of raising capital like angel investors, venture capitalists, bank loans are available in the market still these options are not effective

enough always to raise pre-seed capital. The role of Crowd funding is become significant

here and has the potential to solve this problem to raise capital at pre-seed stage for Startups. However the awarness of crowd funding is still in the nasent stage. There exist a big Gap between the demand and supply in terms of fund availability and that gap can be easily bridged with the help of popularly emerging option known as crowd funding. This paper is the indicative of different trypes of crowd funding and their acceptability in the area of startups.

Key Words: IT Startups, Crowd funding, Pre-seed Capital, Crowd Funding.

Introduction

Raising capital has become a key problem for all kind of startups in today's world. Many entrepreneurs are facing challenges and landing in failure while raising the capital for their projects. External support is not always easily available while starting a new venture. The traditional modes of raising funds have their own limitations. For

example while issuing loan, banks generally ask for collateral of the organizations which results in failure in many cases as the startups are not able to fulfill the requirement of getting loan. Another problem of raising capital is lack of historical data that includes asymmetric information for investors. One famous mode of finance is to identify venture capitalist where they also prefer to invest relatively large amounts and only if the project has potential and significant return propositions. Adding on to this, venture capitalists are generally not interested in pre-seed capital and prefer to fund on later stage companies because of the safe return on investment and a more precise valuation process (EY, 2012). All these issues have made the crowd funding as one of the most popular tool to raise fund. Even Governments has recognized the importance of this mode and the potential of crowd to raise capital for startups (Collins, 2012). Compared to the traditional mode of raising capital, crowd funding is recognized as one of most important and talked about alternative avenue for raising capital in pre-seed stage.

Objectives of the study

- This study helps to understand in detail the various funding options available to start -ups in general.
- To explore the possibility of different types of crowd funding as a viable options to finance the pre-seed capital requirement of Startups.
- To identify that which form of crowd funding is more popular to raise capital.
- To evaluate the validity of the questionnaire to do further research.

Hypothesis Testing

Null Hypothesis (H0): The average score of all the different crowd funding options in terms of attractiveness and feasibility are equal and hence there is no difference between the options.

Alternate Hypothesis (H1): The average score of all the different crowd funding options in terms of attractiveness and feasibility are not equal and there is a significant difference between the options.

Methodology

This paper revolves around the responses circulated through a questionnaire. The number of samples collected is 500. The questionnaire has questions both in terms of

continuous variables and categorical variables including 5 point Likert Scale.

Data Analysis

The concept of crowd funding is relatively new in the country like India and mostly unknown among the startup population. The never ending struggle to raise funds for pre-seed capital requirements of startup continuous and they face difficulties to scale up to the next level.

Analysis & Interpretation

Reliability Analysis

Case Processing Summary

	N	%
Valid	500	100.0
Cases Excluded ^a	0	.0
Total	500	100.0

a. List wise deletion based on all variables in the procedure.

The above output showcases that all the 500 samples taken are valid.

Item Statistics

Reliability Statistics

Cronbach's Alpha	N of Items
.829	6

The test of reliability is an important aspect for gauging the validity, or the consistency of the responses of the samples across the questionnaire circulated. Cronbach Alpha is one of the popular and acceptable mechanism to gauge the reliability. The above output showcases the Cronbach's Alpha value to be 0.829 which is above the acceptable threshold of 0.8 thus proving that the responses provided are reliable and can be utilised for inferential decision making.

The output below showcases the Cronbach's Alpha value for each questionnaire which are in the Likert scale having 5 levels (From Strongly Agree to Strongly Disagree). All the responses for each of the questionnaires are more than 0.8 thus incorporating that all of them are reliable and hence can be taken up for inferential statistics.

	Mean	Std. Deviation	N
Question_9	3.50	1.286	500
Question_10	3.70	1.347	500
Question_12	3.90	1.045	500
Question_16	3.60	1.282	500
Question_19	1.80	.981	500
Question_21	2.40	1.282	500

Item-Total Statistics

	Scale Mean if Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Question_9	15.40	5.251	.442	.813
Question_10	15.20	4.369	.591	.815
Question_12	15.00	8.417	.000	.804
Question_16	15.30	4.619	.589	.821
Question_19	17.10	13.317	-.666	.814
Question_21	16.50	10.872	-.356	.820

Regression Analysis

Dependent Variable:

On a scale of 100 total score of crowd funding as a viable options in terms of attractiveness and feasibility (Continuous Variable)

Independent Variables:

- Score provided for “**donation based crowd funding**” in terms of attractiveness and feasibility (Continuous Variable)
- Score provided for “**reward based crowd funding**” in terms of attractiveness and feasibility (Continuous Variable)
- Score provided for “**equity based crowd funding**” in terms of attractiveness and feasibility (Continuous Variable)

Since the dependent variable is a continuous variable and all the independent variables

Correlations

		14_3	18_1	18_2	18_3
Pearson Correlation	14_3	1.000	-.403	.300	.123
	18_1	-.403	1.000	-.545	-.510
	18_2	.300	-.545	1.000	-.443
	18_3	.123	-.510	-.443	1.000
Sig. (1-tailed)	14_3	.	.000	.000	.003
	18_1	.000	.	.000	.000
	18_2	.000	.000	.	.000

are also continuous variable the statistical technique incorporated is regression analysis. The regression analysis zeroes on the significant variables as well as the quantum of impact for each variable.

Regression

Descriptive Statistics

	Mean	Std. Deviation	N
14_3	19.20	.981	500
18_1	46.50	7.096	500
18_2	22.50	6.808	500
18_3	31.00	6.640	500

N	18_3	.003	.000	.000	.
	14_3	500	500	500	500
	18_1	500	500	500	500
	18_2	500	500	500	500
	18_3	500	500	500	500

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	82.446	2	41.223	51.535	.000 ^b
Residual	397.554	497	.800		
Total	480.000	499			

a. Dependent Variable: 14_3

b. Predictors: (Constant), 18_3, 18_2, 18_1

The above output showcases the p value to be 0.000 less than the benchmarked 95% confidence level or 5% significance level (0.05) propelling us to zero in on the alternate hypothesis that the average score of

all the different crowd funding options in terms of attractiveness and feasibility are not equal and there is a significant difference between the options.

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	16.309	.307		53.141	.000

18_1	.564	.607	.442	9.694	.000
18_2	.054				
18_3	.247	.007	.319	7.001	.000

a. Dependent Variable: 14_3

The p value of all the three options namely **donation based crowd funding, reward based crowd funding & equity based crowd funding** are less than the benchmarked 5% significance level or 95% confidence level thus propelling that all the three options are significant.

The quantum of impact for each variable is as follows:

Variable Name	Coefficient	What does it mean	Rank
Donation based crowd funding	0.564	1 unit change in the score in this variable changes the dependent variable by 0.564 times.	1 st
Reward based crowd funding	0.054	1 unit change in the score in this variable changes the dependent variable by 0.054 times.	3 rd
Equity based crowd funding	0.247	1 unit change in the score in this variable changes the dependent variable by 0.247 times	2 nd

Conclusion:

Progress and innovation are adjoining twins that are attached to each other although there are some other view progress as exchange of one form of nonsense for another. Many

authors consider innovation as invitation to risk through your door front, it has not stopped the world from progressing through innovation (Ahlers, 2014) . Especially since the advent of free market economy, there has been rapid strides in information technology

telecommunication and financial service and instrument that the world has witnessed last fifty years. In this research, The value of Cronbach's Alpha indicates that questionnaire is validated for the further study. Further analysis has also indicated that the average score of all the different crowd funding options in terms of attractiveness and feasibility are not equal and there is a significant difference between the options. Donation based crowd funding is the most viable option as far as crowd funding is option, followed by equity based crowd funding option and the reward based crowd funding option.

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