

Crowdfunding: Financial Management for Small Enterprise Businesses in India

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ABSTRACT

This article is an attempt to understand the concept of crowdfunding and its significance in present scenario for Entrepreneurial practices. Crowdfunding is different from the various forms of business finance which is already in use by all the business and industries. If you have to start your business and your entrepreneurial unit than you have to conduct market research, preparing the business plans and identify the various sources of funds to run your business such as financial agencies, banks, venture capital etc. but in crowdfunding it gives you the opportunity to get the investors and the parties interested to pay for your business idea. Crowdfunding generates more avenues to hold and grow the business by using investors money, time and skills. This paper will provide the idea for the modern entrepreneur and first generation entrepreneur to start their business and venture.

1. Introduction

The concept of entrepreneurship was first established in the 1700s, and the meaning has evolved ever since. Many simply equate it with starting one's own business. Most economists believe it is more than that. To some economists, the entrepreneur is one who is willing to bear the risk of a new venture if there is a significant chance for profit. Others emphasize the entrepreneur role as an innovator who markets his innovation. Still other economists say that entrepreneurs develop new goods or processes that the market demands and are not currently being supplied. In the 20th century economics Joseph Schumpeter (1883-1950) focused on how the entrepreneur's drive for innovation and improvement creates upheaval and change. Schumpeter views entrepreneurship as a force of "creative destruction." The entrepreneur carries out "new combinations," thereby helping render old industries obsolete. Established ways of doing business are destroyed by the creation of new and better ways to do them. Support for entrepreneurship is a crucial strategy for economic development. As the Business and Industry Advisory Committee to the Organization for Economic Cooperation and Development (OECD) said in 2003, "Policies to foster entrepreneurship are essential to job creation and economic growth." Government officials can provide incentives that encourage entrepreneurs to risk attempting new ventures. Among these are laws to enforce property rights and to encourage a competitive market system. The culture of a community also may influence how much entrepreneurship there is within it.

For all the entrepreneurial practices and to become an entrepreneur the most important thing is idea generation and risk and uncertainty. Risk is always associated with the money where the first generation entrepreneur has limited capital and funds to generate or run a business even he / she is capable enough to face financial and entrepreneurial challenges for such entrepreneurs crowdfunding is the right approach to generate the funds to start a new business set up or startup.

2. Crowdfunding Concept

Crowdfunding is the source of generating funds to start a new venture and startup. This concept generates the funds in small quantity from the various sources such as individuals, organizations and the firms. In crowdfunding people and sources of funds are interested to invest their money as funds and capital to start a new venture or to any existing set up. For the new startup crowdfunding is the right approach to generate the funds but the business concept and business plan should make a positive impact over the investors so that they can be the willing investors for your firm. In India crowdfunding has become an industry of more than 350 crores.

Crowdfunding has been developed as a major source because of social networking and social media, where people interact and share their business ideas and proposals and the investors evaluate the proposals and invest their money accordingly. Online portals are providing support for generating funds through crowdfunding. Up to 2021 the internet users will be increased up to 829 billion. In India social networking sites have approx. 270 million users that would be a good source for crowdfunding in the near future.

As in startups two things are very important: idea generation and risk and uncertainty and small investors have always limited liquidity of the funds to start and to operate their business venture in its initial stage they have to measure the environment, industry trends, market analysis, consumers' choice and preferences, sales forecasting etc. as they do not have research and development cells and sound infrastructure in their organizations.

According to World Bank report this is assumed that in 2030 crowdfunding will be the industry of 300 billion dollars.

3. Objective of the study

- To know the concept of crowdfunding.
- To know the concept of entrepreneurship
- To identify the comparative advantages of entrepreneur and social entrepreneur

4. Types of Crowdfunding

1. **Reward based crowdfunding:-** in reward based crowdfunding the investors and the source expect rewards in the business it is similar to donation based crowdfunding. In reward based crowdfunding there is no equity returns. Newyork based statue of liberty is considered the first reward based crowdfunding campaign, where the people donated the money just for publication of their names in news papers as contributors. There are many agencies providing reward based crowdfunding for the artist, musician, publishers, filmmakers, designers, arts, games and technologies.
2. **Equity based crowdfunding:-** this source is generated to start a new company/business or to generate funds for the growth of the new and existing business. the investors are considered as an owner of the company. In such practice the investors are given shares of the company. In india this practice is not so much popular but in foreign countries it has been applied to provide the financial support to the new venture and startup.
3. **Donation based crowd funding:-** in such crowdfunding there is no return over the money which has been funded. In such practices all the investors release their funds without any expected returns of their investments, such donation base crowdfunding is done for nonprofit purposes, nonprofit organizations, charity, disaster management. Recently for kerala flood relief funds is the example of donation based crowdfunding where all the individuals and organizations have given their contribution as donation.
4. **Debt based crowdfunding:-** In debt based crowdfunding the investors are investing with an expected set rate of return over their investments and funding for a specific and set period of time. In this type of crowdfunding the calculation of profit and rate of return on funding is the major considerations from the investors point of view.

5. Crowdfunding Process

When we start any venture start up we need to have two or three founders in that case finance is not a big issue but when a solopreneur has to start a new venture he has to work himself in all the spheres and he has to look in to all the affairs of the business. Ultimately the entire liability of a business is to be carried out by the solopreneure whether it is idea generation, resource generation, allocation of resources, funds generation and resource utilization. For any entrepreneur the big issue is funds generation and the funds can be generated through various means and crowdfunding is one of them.

For generating funds through crowdfunding the business idea should be very sound and effective and it should have the feasibility and validity. For crowdfunding the individual should go for effective crowdfunding campaign. An effective crowdfunding campaign should have clarity, accuracy, positivity preciseness, concreteness in its crowdfunding campaign.

6. Process of Crowdfunding Campaign

1. Developing the entrepreneurial mind
2. Creating , shaping and recognizing the opportunities
3. Scanning the environment and venture opportunities
4. Developing the business plan
5. Selection of media
6. Sharing and discussing the business plan with investors
7. Discuss the investors role and ROI
8. Developing the portal for entrepreneurial finance and campaign

7. Areas or scope of crowdfunding

Crowdfunding is very useful in the following small business activities

1. Software development
2. Media
3. Film making
4. Food processing
5. Organic farming
6. Floriculture
7. Education and training
8. Health care sector
9. Biotechnology
10. Recycling and E-waste business
11. Service industry toys manufacturing etc.

8. Types of Entrepreneurs

I. According to the Type of Business

- a) Business Entrepreneur:
- b) Trading Entrepreneur:
- c) Industrial Entrepreneur:
- d) Corporate Entrepreneur:
- e) Agricultural Entrepreneur:

II. According to the Technology use

- a) Technical Entrepreneur:
- b) Non-technical Entrepreneur:

III. According to the Entrepreneur and Motivation

- a) Pure Entrepreneur
- b) Induced Entrepreneur
- c) Motivated Entrepreneur

IV. According to the Growth and Entrepreneurs.

- a) Growth Entrepreneur:
- b) Super-Growth Entrepreneur:

V. According to the Entrepreneur and Stages of Development

1. First-Generation Entrepreneur:
2. Modern Entrepreneur:
3. Classical Entrepreneur:

9. Entrepreneurship in India

The history of entrepreneurship is important worldwide, even in India. In the pre colonial times the Indian trade and business was at its peak. Indians were experts in smelting of metals such as brass and tin. Kanishka Empire in the 1st

century started nurturing Indian entrepreneurs and traders. Following that period, in around 1600 A.D., India established its trade relationship with Roman Empire. Gold was pouring from all sides. Then came the Portuguese and the English. They captured the Indian sea waters and slowly entered the Indian business. They forced the entrepreneurs to become traders and they themselves took the role of entrepreneurs. This was the main reason for the downfall of Indian business in the colonial times which had its impact in the post-colonial times too. The colonial era made the Indian ideas and principles rigid. A region of historic trade routes and vast empires, the Indian subcontinent was identified with its commercial and cultural wealth for much of its long history. Gradually annexed by the British East India Company from the early eighteenth century and colonized by the United Kingdom from the mid-nineteenth century, India became an independent nation in 1947 after a struggle for independence that was marked by widespread nonviolent resistance. It has the world's twelfth largest economy at market exchange rates and the fourth largest in purchasing power. Economic reforms since 1991 have transformed it into one of the fastest growing economies however, it still suffers from high levels of poverty, illiteracy, and malnutrition. For an entire generation from the 1950s until the 1980s, India followed socialist-inspired policies. The economy was shackled by extensive regulation, protectionism, and public ownership, leading to pervasive corruption and slow growth. Since 1991, the nation has moved towards a market-based system.¹⁵ Entrepreneurship is the result of three dimensions working together: conducive framework conditions, well-designed government programmes and supportive cultural attitudes. Across these three perspectives of entrepreneurship, two major conclusions are apparent. Firstly, the economic, psychological and sociological academic fields accept that entrepreneurship is a process. Secondly, despite the separate fields of analysis, entrepreneurship is clearly more than just an economic function.

10. Present Status of Social Entrepreneurship

Social entrepreneurship in India has progressed significantly over the last decade. More and more people are using entrepreneurial skills in building sustainable enterprises for profit and non-profit to effect change in India, says Deval Sanghavi, a former investment banker and now president of Dasra. Based in Mumbai, Dasra is a non-profit organization which bridges the gap between those investing in social change and those spearheading the changes.

“Social entrepreneurship in India is emerging primarily because of what the government has not been able to do. The government is very keen on promoting social entrepreneurship - not necessarily by funding it or by advising on it or enabling it. What they do do, is not disable it,” Sanghavi, who brings the rigour and discipline of an investment banker to the social sector, told INSEAD Knowledge on the sidelines of the International Social Entrepreneurship conference held here recently.

For example, in Mumbai alone, non-profit organisations educate more than 250,000 children on a daily basis. The government has not told these organisations not to do it, he

says. Whereas in some countries, when someone takes it into their own hands to start a facility for education or healthcare or empowerment, the government often puts in place barriers to prevent this from happening. “In India, there is this drive and commitment to take change upon yourself. There are no inherent barriers to begin with in India.

11. Difference between social entrepreneurs and traditional entrepreneurs.

1. The primary difference between the business and the social entrepreneurs is the **purpose for setting up the venture**. While the business entrepreneurs' efforts focus on building a business and earning profits, the social entrepreneurs' purpose is to create social change.
2. A business entrepreneur may create changes in the society, but that is not the primary purpose of starting the venture. Similarly, a social entrepreneur may generate profits, but for him/her that is not the primary reason for starting the venture.
3. **Profitability** - not 'profit-making' - however, is important for the social entrepreneur. Being 'profitable' helps self-sustainability of the venture, and also works as a mechanism for self-monitoring. To quote from DrYunus (GrameenBank)
4. Another key difference between the social and the business entrepreneur is in **the meaning of wealth creation**. For the business entrepreneur, 'wealth' is same as profits. For the social entrepreneur, however, wealth also encompasses creation/sustenance of the social and environmental capital.

12. Comparative Advantage

Social entrepreneurs can help get better various issues like nutrition, education and health care and many are still blighted unemployment and illiteracy by helping those less fortunate towards a worthwhile life. Rather than. Leaving societal needs to the government or business sectors, they can solve the problem by changing the system. Social Entrepreneurship is expected to be the next big thing to influence India as the country juggles to achieve a balance Between a growing GDP growth, ensuring inclusive growth and attempting to address issues ranging from education, energy efficiency to climate change. Every year social entrepreneurs mingle with the CEOs of the world's largest corporations and prominent politicians at the World Economic Forum in Davos. Social Entrepreneurs are the stars at global events like the Clinton Global Initiative. Finally, social entrepreneurs' ventures are the favorite investment of philanthropists, i.e., the Eli Lilly's or Bill Gateses of this world.

More than 2% of the adult active population in USA, United Kingdom or Finland is involved in a social venture. Social entrepreneurship (SE) has become an increasingly significant domain in business world. Social entrepreneurs have been the driving force behind the rapid expansion of the social sector; they identify opportunities to address an underserved social market and offer creative solutions to complex persistent social problems. SE has been seen as an important mechanism for supporting economic activity in areas deemed unprofitable by the commercial sector, offering

innovative solutions to complex and persistent social issues by applying traditional entrepreneurship models. Social companies share the pursuit of revenue generation with commercial firms but they also seek to achieve social goals such as positive human/social impact, and positive environmental impact. Closely related to this are the motivations of the entrepreneurs. Social and commercial entrepreneurs have different intentions when they decide to create a business because social entrepreneurs seek to increased social capital and enhance community cohesion. They also have different brand different access to resources; social entrepreneurs are more closely associated with communities characterized by limited access to resources ;. Finally, the extant social entrepreneurship academic research has primarily utilized case studies or anecdotal evidence as a means to describe rather than analyze the phenomena of social entrepreneurship.

13. Utility of the study

After this study we can understand the concept and advantages of crowdfunding so that solopreneur can easily raise their funds through the investors to start their venture as most of the start ups are generating their funds through crowdfunding and it gives support to new entrepreneurs as we know finance is the life blood of any organization that way it is really helpful for any business organization. This study has also focused over social entrepreneur. Now we can easily differentiate between traditional entrepreneurs from a social entrepreneur. Through this study we can convince potential entrepreneur to work as social entrepreneur rather than commercial entrepreneur through providing various facilities and guidelines provided by government and societal benefits and balance regional development.

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