
“Determinants of Crowdfunding Adoption among Start-ups and SMEs in India”Ms Surbhi Sharma¹ Dr OP Gupta²¹ Ms Surbhi Sharma Assistant Professor KCC Institute of Legal & Higher Education, surbhi1992sharma@gmail.com² Dr OP Gupta Pro Vice Chancellor Shridhar University, Pilani ,provicechancellor@shridharuniversity.ac.in**ABSTRACT**

In India, crowdfunding has become a major alternative financing method, providing a forum for a variety of needs and initiatives, such as entrepreneurial endeavors and medical bills. An analytical overview of crowdfunding in India is provided by this paper, which focuses on its varieties, platforms, advantages, dangers, and opportunities. Donation-based, reward-based, equity-based, and peer-to-peer financing are the main types of crowdfunding in India; each one caters to different requirements and draws a variety of donors. These initiatives are greatly aided by major platforms like Impact Guru, Ketto, and Milaap. Numerous technological, social, and institutional elements that affect Indian entrepreneurs' behavioral intention and actual use of crowdfunding platforms are the determinants of crowdfunding adoption. Despite its potential advantages for entrepreneurs and SMEs, crowdfunding is a generally underutilized creative financing option in India. The intention of entrepreneurs to use crowdfunding is greatly influenced by a number of important factors, including perceived trust, trialability, social influence, performance expectations, and facilitating conditions. On the other hand, it has been discovered that perceived danger and effort anticipation have little influence on adoption intentions. Facilitating settings, trialability, and the declared behavioral aim all have a beneficial impact on the actual use behavior of crowdfunding. While perceived risk has less of an impact on attitudes, trust is crucial in promoting crowdfunding adoption. These findings are methodologically based on quantitative study conducted among Indian entrepreneurs utilizing structured questionnaires. Crowdfunding adoption among Indian entrepreneurs can be significantly increased by resolving infrastructure issues, building confidence, and raising awareness of platform usage. This will promote innovation and expansion in the entrepreneurial ecosystem. This study closes a vacuum in empirical research on India and offers policymakers and crowdfunding Managers practical advice to promote adoption in this setting.

Keywords—Crowd funding, Startups, Business Venture, Projects, SME, India.

Research Methodology

Clearly stated, the study intends to investigate how crowdfunding helps Start-ups and SMEs overcome financial constraints focussing on identifying factors that contribute to successful campaigns, investigating problems in failed campaigns, and determining the overall effect of crowdfunding on business expansion.

A well-structured questionnaire had specific questions on crowdfunding backgrounds, tasks completed, issues faced, and success obtained. Questions evaluating participants' impressions, attitudes, and learning experiences from their campaigns were included to ensure adequate data collection. Google Forms was used to collect data from entrepreneurs and small company owners with prior crowdfunding campaign experience. In an attempt to provide a representative and varied dataset, the goal is to collect responses **from a sample of 70 people**.

Secondary Research: An all-encompassing analysis of industry research, peer-reviewed studies, and market reports obtained from crowdfunding and loans to SMEs. In order to gauge insights and close knowledge gaps, primary data and conclusions from the literature were also added.

Data Collection Procedure: Posted the survey online with a disclaimer about the study's objectives, confidentiality, and requirement for truthful responses. monitored response rates, sent out reminders, and encouraged large sample participation.

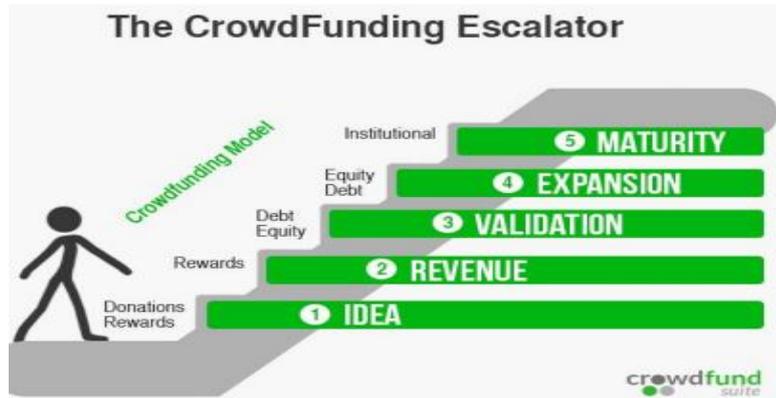
Data analysis: To ensure accuracy and completeness, replies were sorted and organized into a systematic dataset. Descriptive statistical analysis was used to describe participant demographics (such as industry type, years in business, and fundraising aims) and campaign-specific characteristics. It carried use inferential statistics, such as regression analysis and chi-square testing, to ascertain the relationship between campaign tactics and their problems and results. In order to respond to study objectives and provide practical recommendations for entrepreneurs and crowdfunding platforms, significant trends and patterns have been found.

INTRODUCTION

Crowdfunding has grown to be a multibilliondollar sector on a global scale. Its market was estimated to be worth USD 117.53 billion in 2023 and is expected to reach USD 2,801.29 billion by 2032, with a compound annual growth rate (CAGR) of 42.3% between 2024 and 2032 (Geetha et al., 2016). Technological developments, the expansion of digital platforms, and the incorporation of machine learning and artificial intelligence (AI) into crowdfunding ecosystems have all contributed to this exponential rise (Yasar, 2021). This strategy has been popular all over the world, especially in India, a country with a rapidly growing digital payment environment and internet connection (Caputo et al., 2022). India's crowdfunding scene is continually changing, and there are noticeable differences in how it is used. Studies have shown that social injustices, especially those based on caste, are frequently reflected in medical crowdfunding initiatives. In particular, campaigns started by Members of dominant caste groups typically receive larger sums of money than those started by members of marginalized communities. This implies that not everyone profits evenly from crowdfunding, which could exacerbate already-existing social injustices. (Shah, 2024) Platforms like Ketto.org enable donation-based crowdfunding, which is a popular approach in India. Compared to campaigns run by individuals, those started by nonprofit organizations, which have tax advantages, typically draw larger donations. This pattern shows that initiatives that offer financial incentives through tax deductions and perceived legitimacy are preferred by donors (Khurana 2021) []. Donation-based, reward-based, equity-based, and peer-to-peer lending platforms are just a few of the many crowdfunding models that are available in India. Each model serves a different purpose and is subject to different levels of regulation. Notwithstanding its promise, the industry confronts significant obstacles, most notably the requirement for clearer regulatory frameworks to promote openness and trust while addressing fraud concerns (Zhao et al., 2019). Additionally, social media sites like Facebook, Instagram, LinkedIn, and Twitter have been crucial in spreading awareness of crowdfunding projects and inspiring donors all over the world (Atawna, 2023). Additionally, government programs and legal systems throughout. Particularly in North America and Europe, areas like the U.S. Code of Federal Regulations (Article 17) have helped crowdfunding markets expand and gain institutional legitimacy. Crowdfunding has a lot of potential for underdeveloped nations like Pakistan. Because early-stage companies sometimes face obstacles from traditional financing institutions, web-based crowdfunding offers a mechanism to get over these restrictions and effectively raise cash (Guimarães et al., 2024). Emerging economies can "leapfrog" traditional financial institutions and adopt more flexible, technologically advanced finance options because to the growth of mobile technology, social media, and online payment systems (UDUKEKE & Usoro, 2024). Crowdfunding adoption is also influenced by additional contextual and technological variables. Crowdfunding campaign participation is directly impacted by smart device readiness and technological maturity, which indicate people's readiness and comfort with digital tools and online payment systems (Okine et al., 2023). Additionally, Digital wallets, internet banking, and blockchain systems are examples of digital financial services that enable quick, safe transactions, increasing consumer convenience and confidence (Behl et al., 2024). Successful crowdfunding ecosystems still rely heavily on trust since donors need to have faith in the platforms' dependability as well as the legitimacy of campaign (Rahman et al., 2024). Lastly, financial literacy influences people's capacity to assess crowdfunding options critically and make wise decisions, which has a moderating effect.

Concept of crowdfunding

Crowdfunding is a digital finance approach that allows people, businesses, or entrepreneurs to raise money from a large number of participants, usually online. Instead of requesting large sums of money from a small number of conventional investors, like banks or venture capitalists, this strategy uses online platforms to collect modest financial contributions from a large audience, generally referred to as "the crowd." Due to its accessibility and community-focused nature, crowdfunding has become more popular in a number of fields, including the arts, entrepreneurship, and scientific research (Pierrakis and Collins, 2014; Zhao et al., 2017). The ability of crowdsourcing to democratize financial access is one of its main benefits. It gives a wide spectrum of participants—including small-scale business owners and inexperienced creators—the chance to share their ideas and get support. Without significant funding, crowdfunding takes many different forms, each suited to certain requirements. In reward-based crowdfunding, contributors receive non-cash rewards for their efforts, such as product prototypes or thank-you cards. Donation-based crowdfunding is predicated on unpaid, voluntary contributions that are frequently used for philanthropic causes. Lastly, peer-to-peer financing enables loans between private citizens and small enterprises, providing lenders with the possibility of earning interest (Pierrakis and Collins, 2014). Understanding the crowd's decision-making processes and the impact of several elements including perceived value, campaign clarity, and story strength is necessary for this process (Zhao et al., 2017).



II. REVIEW OF LITERATURE

Crowdsourcing gave rise to the idea of crowd funding. In more recent times, some business owners have begun to use the Internet to directly ask the public for financial assistance. Public (the "crowd") as opposed to contacting financial investors like banks, venture capital funds, or business angels (Kleemann et al., 2008; Lambert and Schwienbacher, 2010). This method, known as "crowd fundraising," has made it feasible to raise money for both launching new businesses and project-specific investments. According to Cosh et al. (2009), attracting outside financing is a fundamental issue that entrepreneurs encounter at the outset of their venture due to the absence of collateral and enough cash flows, as well as the existence of a substantial information gap with investors. Crowdfunding platforms raised \$16.2 billion in 2014, up from \$6.1 billion in 2013 (Massolution 2015). Notable examples of crowdfunding include Sellaband (which gives consumer investors a stake in the business through a profit-sharing arrangement; Agarwal et al. 2015), Prosper (which involves peer-to-peer lending where the original principal is expected to be repaid along with some fixed interest; Zhang and Liu 2012), JustGiving (where funders voluntarily donate money without expecting any tangible rewards for their contributions; Smith et al. 2014), and Kickstarter. There are several investors for greater sums of money, like banks and venture capital firms, as well as entrepreneurial projects that need much less sums to begin with must rely on own resources or friends and relatives. They then heavily employ bootstrapping strategies to increase their short-term revenues in order to lessen their financial constraints (Bhě, 1992; Winborg and Landstrom, 2001; Ebben and Johnson, 2006). Lastly, because crowdsourcing is not widely utilized, Franke and Klausberger (2008) observe that the phenomena of crowdsourcing—and thus, crowd funding—is still a working notion. The resource "crowd" will become scarce as more businesses begin to use it. However, a lot of new businesses are unable to obtain debt financing because they lack the necessary security and steady cash flows to guarantee consistent interest payments. (Udell and Berger, 1998). Mollick, Ethan R., and Kuppuswamy, Venkat (2014) claimed that crowdsourcing might offer businesses significant advantages beyond fundraising. According to Ueda (2004), entrepreneurs that approach venture capital firms are more likely to have protected their concepts through intellectual property rights, which also suggests that the entrepreneur's His decision is directly impacted by the legal climate. Each area has a variety of funding sources. Crowd fundraising can be utilized in conjunction with some of these forms of funding. Bootstrapping methods are one example of this (Bhě, 1992; Winborg and Landstrom, 2001; Ebben and Johnson, 2006). Furthermore, in some ways, crowd funding resembles bootstrapping. Specifically, entrepreneurs who take advantage of crowd funding's capabilities attempt to use as many alternative resources as they can, just as bootstrappers. According to (Belleflamme & Lambert & Schwienbacher, 2013), the challenge of obtaining indicates that a persistent issue that new businesses encounter in their early stages is the difficulty of obtaining outside funding. Many businesses are still unfunded, in part because they don't have enough cash flows or security, and in part because they haven't been able to persuade investors. These days, business owners rely on the internet to find finance for their ventures, which allows them to access a global audience.

Christian Catalini, Avi Goldfarb, and Ajay Agrawal (2013): In "Some Simple Economics of Crowdfunding," the writers look at the growth of crowdfunding websites like Kickstarter. They contend that crowdfunding disrupts conventional forms of financing by lowering transaction costs by connecting producers and far-off donors. But they mention production. Once again, concerns include hazards, delays, and overoptimism, especially in equity crowdfunding. The article "Individual Crowdfunding Practices" by Grégoire Krieg (2013) examines the relevant elements that affect crowdfunding campaigns' performance in both the nonprofit and for-profit industries. Nonprofit crowdfunding has an advantage because, as Krieg contends, it increases the likelihood of success for nonprofits. This is because they are more trusted by the public and align with the notion of contract failure, which prioritizes social benefit before profit. Sascha Kraus, Malvine Komorek, and Ricarda Bouncken (2015): The elements that influence crowdfunding success are examined in their paper, "Crowdfunding: The Current State of Research," which makes a distinction between factors connected to projects, creators, backers, and platforms. They contend that the most crucial factors in guaranteeing campaign success and advocating for standardized evaluation in upcoming studies. Armin Schwienbacher, Thomas Lambert, and Paul Belleflamme (2010): In their work "Crowdfunding-An Industrial Organization Perspective," they examine the various crowdfunding models (donation-based, loan-based, equity-based, and reward-based) and their implications for the dynamics of the emerging market. They urge for the democratization of finance by pointing to research focused on the legal framework that would promote crowdfunding's expansion.

The article "Does Crowdfunding Actually Contribute to Digital Financial Inclusion?" by MA Halim (2024) explores how different types of crowdfunding contribute to global financial inclusion. Reward-, equity-, or donation-based crowdfunding models are acknowledged as essential models that might be applied to enhance the outreach of these services to people without bank accounts. However, other issues include legal barriers and a lack of digital literacy, particularly in poorer nations. In 2024, Amina Rizwan et al. According to their paper, "Prospects for Institutionalization of Crowdfunding: A Developing Country Perspective," there are a number of chances for crowdfunding in Pakistan's entrepreneurial ecosystem, including less reliance on traditional banks and financial inclusion highlighting difficulties such as inadequacies in digital infrastructure and regulatory uncertainty. Ritika (2024): Her research "Crowdfunding in the Indian Context" looks at how crowdfunding is now used to help SMEs and entrepreneurs get capital in the difficult financial environment. This study shows that the "Regulatory Framework Governing Equity Crowdfunding" is the title of their work because SEBI in India has stringent rules on equity crowdfunding. The report examines the legislation of 26 different countries in an effort to strike a balance between safeguarding investors and fostering innovation. The authors propose global legal harmonization to streamline equity crowdfunding processes and provide a safer investing environment impedes the expansion of this industry. Therefore, it was concluded that in order to fully realize the promise of crowdfunding in India, a well-balanced legislative framework was necessary. Gupta Prateek and associates (2024).

Abhishek Behl (2023): The "Information Technology in Crowdfunding" study explores how blockchain technology and data-driven innovations could improve crowdfunding performance. The results demonstrated that a strong IT infrastructure would boost campaign visibility and promote active participation, but that there are additional difficulties, such as knowledge asymmetry and cybersecurity risks. Diego Zunino (2024): The author explains how crowdfunding encourages small investors to support entrepreneurial development in "What is Crowdfunding and How is It Helping Small Businesses in the UK?" The findings demonstrate how crowdfunding democratizes cash, fosters community engagement, and validates creative ideas for small companies. Diego Zunino (2024): In "What is Crowdfunding and How is It Helping Small Businesses in the UK?" the author describes how crowdfunding encourages small investors to assist entrepreneurial development. The results show how crowdsourcing promotes community involvement, democratizes money, and validates innovative ideas for small businesses. Crowdfunding Startups and Small Businesses, Bresciani, S., and Camilleri, M.A. (2022). This is a thorough examination of theoretical perspectives on crowdfunding for startups. Among the challenges identified are market congestion and regulatory obstacles, although equity crowdfunding is seen as an opportunity to close financial gaps. Douglas Cumming, Meoli, Michele, Vismara, and Silvio (2019): These authors examine how equity crowdfunding (ECF) has impacted small enterprises' access to capital in their paper, "Does Equity Crowdfunding democratize entrepreneurial finance?" The authors contend that ECFs make finance more accessible by enabling a multidiversified pool of equity investors to participate in financing small company endeavors, entrepreneurs who would have received only partial investment or no funding at all through standard financing channels. As a result, when campaigns successfully conclude, these incentives typically confirm market demand, leading to further funding from traditional sources. However, there are still significant challenges that may need to be overcome, such as the regulatory structure of fund raising and investor protection measures.

Böhle, F., & Wiegand, N. (2024): The paper "Crowdfunding for Innovation: A Comprehensive Empirical Review" examines how crowdsourcing helps startups close funding shortages. The results show that crowdfunding plays a crucial role in innovation, both financially and through customer input and market validation. The Information asymmetries and a lack of investor education are obstacles. Yang, Y., and Lee, J. (2023): "Crowdfunding Platforms: A Systematic Bibliometric and Literature Review" examines crowdfunding systems that are lending-, equity-, and reward-based. While there are more studies on equity-based models, reward-based crowdfunding is the most researched field. Long-term project sustainability and the effects of crowdfunding restrictions require more investigation.

TYPES OF CROWD FUNDING

Crowd funding comes in four Types: Equity, Reward, Lending, Donation, and Micro Crowdfunding.

Equity based Crowdfunding : It refers to fund raising by a business, especially early stage funding, offering equity interests in the businesses to investors online. Businesses seeking to raise capital by this mode typically advertise online through a crowd funding platform website, which serves as an intermediary between investors and the startups.

Crowd fundraising based on rewards :It is the process of raising money in which investors receive a tangible profit, either now or in the future, such as membership incentive programs.

Crowd fundraising based on lending :Peer-to-peer lending is the term for an internet platform that connects lenders and investors to offer unsecured loans, with the platform determining the interest rate. While some peer-to-peer platforms facilitate loans between individuals, others aggregate money and lend it to small and medium-sized enterprises. Few platforms have an incentive to drive investors into larger loans that might not fit their risk tolerance and levy a fee based on the loan origination.

Based on donations Crowdfunding :It refers to raising money for charitable, artistic, social, or other purposes without expecting anything in return. Anything that has material worth. Examples of platforms that facilitate donation-based crowd funding are Kickstarter, Indiegogo, and others.

Crowd financing on a micro basis :It alludes to modest financial gains. Typically, microcrowd financing entails obtaining a modest sum of money for a crowdfunding initiative. It may be as little as Rs. 1000 or more. Crowdfunding is available for both small and major projects on a number of platforms in India and throughout the world. The project might be as modest as a few thousand to support someone's medical care or any other social cause, or it could be as vast as supporting a full feature film for at least 50 lakhs.



THE CROWDFUNDING OPERATIONS

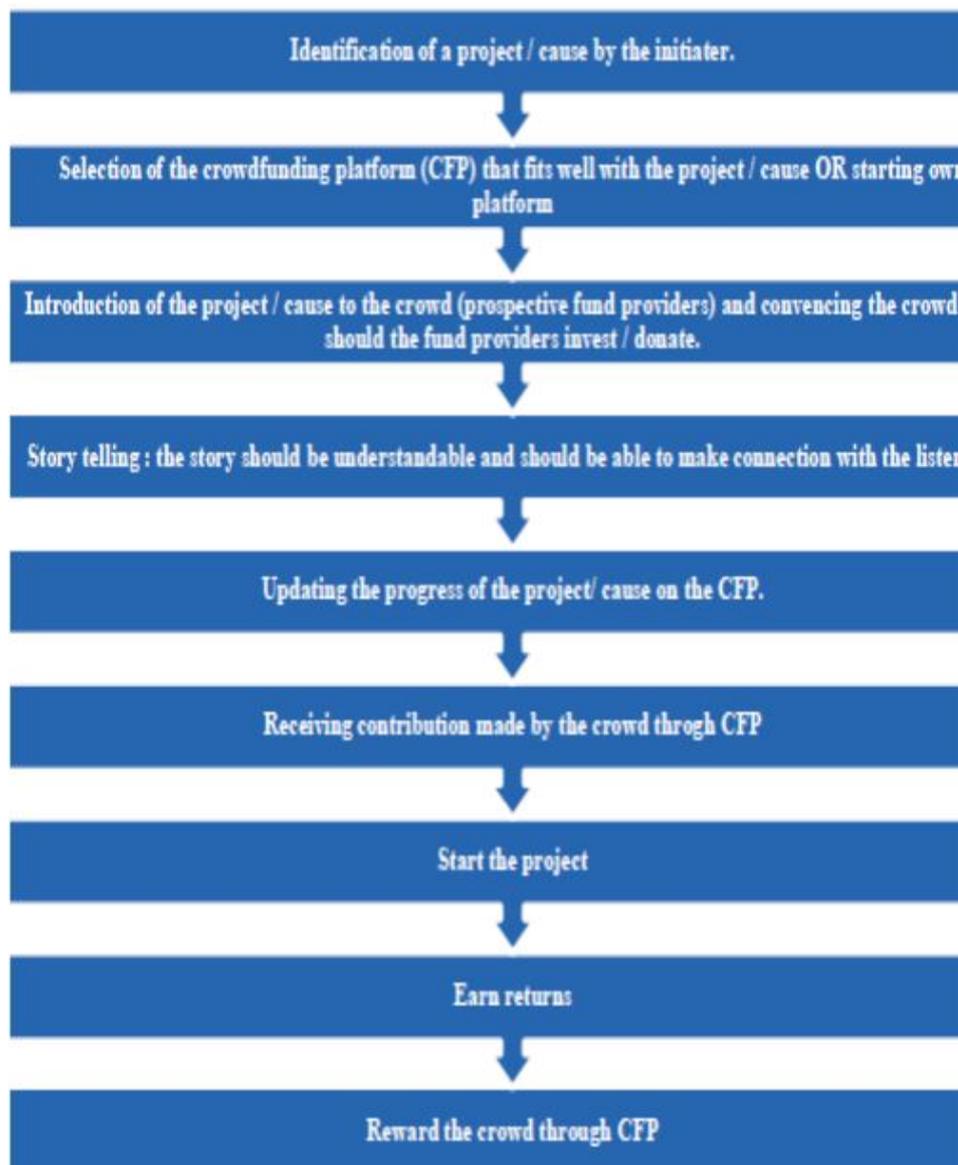


Fig. 1 – The working of crowdfunding

Scope of Crowdfunding for Start-ups and SMEs in India

The corporations' Act of 2013 and the Securities Act, which includes the SEBI Act of 1992, the Securities Contracts (Regulation) Act of 1956, and Depositories, control the rules in the current legal framework for corporations to raise capital. Securities laws govern the raising of pooled managed investment funds by different companies, such as mutual funds (MF), alternative investment funds (AIF), etc. Recent actions by SEBI have made it possible for startups and SMEs to raise capital through a variety of channels, including the SME Segment of Exchanges, the Institutional Trading Platform (ITP), and the Category I-SME Fund under AIF Regulations. Small and Medium Enterprises (SME) can list their securities on Recognized Stock Exchanges thanks to a structure established by SEBI. A business whose post-issue face value capital is not .More than ten crore rupees will only be listed on the SME marketplace. A company may choose to list on the SME platform if its post-issue face value capital is between ten and twenty-five crore rupees. The issuer must only list on the main board of the stock exchanges if the post-issue face value capital reaches twenty-five crore rupees. SEBI has offered a number of frameworks to help startups, SMEs, etc. raise money. SEBI aims to offer new opportunities for startups and SMEs founded by young entrepreneurs in addition to the existing frameworks. Technology experts might possibly raise early-stage capital more effectively and economically through online platforms than through public offerings or private placements. Crowdfunding is a creative technique to give entrepreneurs and tech experts who require early-stage funding for startups a little amount of money, which could then accelerate the growth rate of Companies.

Determining Factors for Successful Crowdfunding

Projects or companies that are socially or non-profit oriented are more likely to secure crowdfunding. This connection has been validated both through theoretical frameworks (Belleflamme et al., 2010, 2013a) and empirical studies (Belleflamme et al., 2013b). Investors are mainly focused on the successful implementation of the project (Belleflamme et al., 2013b). According to Belleflamme et al. (2013b), non-profit entities are perceived as more credible in meeting this expectation compared to profit-driven companies. Therefore, Lehner (2013) argues that crowdfunding and social entrepreneurship should align. Mollick (2014) examined data from the Kickstarter platform and discovered that as the funding amount and duration increase, the chances of a successful crowdfunding transaction diminish. Factors such as the size of the capital seeker's social network, the inclusion of a product video, and the geographical closeness to capital providers enhance the chances of successful funding (Frydrych et al., 2014; Giudici et al., 2013; Hekman & Brussee, 2013; Mollick, 2014; Saxton & Wang,

2013). Supporting these findings, Mollick and Kuppaswamy (2014) revealed that successful capital seekers had a significant number of Facebook friends (used as an indicator of the social network), external endorsements, and suitable backgrounds. Agrawal et al. (2011) also examined geographical proximity. The researchers discovered that when evaluating the archival data from the music platform SellaBand, the typical distance between musicians and capital providers in funded projects was 3,000 miles. However, at the beginning of the funding process, a closer proximity between the involved parties was observed. Agrawal et al. (2011) attributed this finding to the influence of family and friends. Similar positive effects of geographical proximity on the success of funding were also noted in P2P lending markets (Burtch et al., 2013b; Lin & Viswanathan, 2013).

Some Success Stories of Start-ups and SMEs in India through Crowdfunding

- Technologies for Biosense: The idea that only filmmakers are successful with crowdfunding has been refuted by Biosense, a medical technology startup based in Mumbai. The business, which was started by a group of physicians, engineers, and product designers, was able to raise \$500,000 for its uChek urine analysis app on Indiegogo.
- Lucia: The film's director, Pawan Kumar, simply needed to create a blog post titled "Making Enemies" to spark attention. A group of strangers banded together ten days after the article to donate. They did their best to fulfill his ambition. Lucia was launched in theaters eighteen months following the Catapooolt campaign.
- Sarthak's Mean Metal Motors Paul used Catapooolt to raise INR 4,05,793 for his company.
- Manjunath: Sandeep Varma used Catapooolt to generate INR 15,61,845 for his movie Manjunath.
- Mr. Srinivasan Mohan raised a loan of INR 1,25,000 at Interest Rate of 18.00% p.a. for a duration of 18 months through Faircent.
- Rang De has helped Ushamani Barik, a betel farmer from Orissa, to raise a loan of INR 18,000 in May 2016 at interest rate of 10% p.a.

Who are eligible to Raise Crowdfunding?

- An unlisted public business registered in India that is in its early stages of development, or SME, is qualified to raise Crowdfunding if they satisfy the requirements listed below.
- The company plans to raise no more than Rs. 10 crore over the course of a year.
- A company with a turnover over Rs. 25 crores that is not sponsored, marketed, or associated with an industrial group.
- A business that isn't listed on any exchange
- A business that is no older than four years

A corporation that does not operate in real estate or operations that are prohibited by the Indian government's industrial policy. The RBI should not designate directors, promoters, or associates as "defaulters" or "willful defaulters."

In addition to this, SEBI advises against listing on more than one crowdfunding site if a company wishes to raise money through crowdfunding. All crowdfunding concerns must be routed through a crowdfunding platform approved by SEBI. In addition to this, SEBI advises against listing on more than one crowdfunding site if a company wishes to raise money through crowdfunding. All crowdfunding concerns must be routed through a crowdfunding platform approved by SEBI. The business that wants to use crowdfunding should also make measures for oversubscription. A minimum of 5% equity share in the company must be maintained by the promoter or promoters for at least three years, and the issuers will not allow any one investor to own more than 25% of the business.



India's Leading Crowdfunding Websites

Rang De
Faircent
Ketto,
Wishberry,
FuelADream,
Catapooolt,
Bitgiving

India's crowdfunding platforms are still in high demand and yet have a ways to go before they can compete with international crowdfunding behemoths like Indiegogo, Kickstarter, and others. Most of these overseas platforms are inaccessible to emerging Indian businesses because of their stringent admissions policies. Later in 2016, SEBI declared more than 20 crowdfunding platforms to be "illegal." While equity-based crowdfunding has come under intense scrutiny from SEBI, reward-based and donor-based platforms continue to function. SEBI declared that it is re-examining crowdfunding laws, possibly even enacting legislation permitting equity crowdfunding.

DIRECTION FOR THE FUTURE RESEARCH

A study of the literature on crowd funding highlights the need for more investigation into how crowdsourcing is used in all types of business endeavors. The crowdfunding sector in India is still in its infancy. Startups should be conversant with the crowd funding business model. There should be more crowdfunding and steering websites. New perspectives on crowds will be introduced by big data analysis.

BENEFITS OF CROWD FUNDING

Crowdfunding offers an essential new approach to financing for start-ups and the SME sector, increasing the availability of credit.

A number of banks failed as a result of the 2008 financial crisis, and institutions are now subject to capital adequacy standards. Consequently, banks have turned into gradually limited in their capacity to provide loans to businesses or start-ups that can involve risk. Funding for SMEs through various sources is therefore crucial.

In this approach, SMEs can raise financing at a cheaper cost of capital without having to go through stringent formalities.

Crowd funding offers a new product for the diversification of a group of investors as well as a new investment path.

In a field that has historically been controlled by providers (offering capital to start-ups and SMEs).

In order to maintain the website's reputation, the operators of a crowd funding platform may be involved in the examination or due diligence of projects to be included on their website.



Motivations of Companies for Crowdfunding

In their discussions with entrepreneurs experienced in crowdfunding, Belleflamme et al. (2013b) reveal three primary reasons for opting for crowdfunding as a means of financing projects. All interviewed participants indicated that raising funds was the primary motive for using crowdfunding. Additional motivations mentioned included garnering public attention and obtaining feedback for their products or services. Gerber et al. (2012) arrived at very comparable findings. They conducted semi-structured interviews with market stakeholders and identified five categories of motivation: funding, building relationships and networks, self-validation, emulation of successful examples, and heightened awareness of the product.

Crowdfunding provides, as noted by Hemer et al. (2011), a means to secure funding during the initial phases of a company's development, thereby presenting an opportunity to bridge the early-stage funding gap. Other reasons for pursuing crowdfunding include the quickness and adaptability of financing, minimal formal commitments, the ability to test products in the market, multiplier effects, favorable signaling effects, and leveraging the "wisdom of the crowd" for various tasks within the company (Hemer et al., 2011; Hienrath & Riar, 2013; Macht & Weatherston, 2014; Surowiecki, 2004).

In recent years, businesses have started leveraging their customers' expertise for their own purposes (Kleemann, Voß, & Rieder, 2008). Crowdfunding now allows consumers to take on the role of investors (Ordanini, Miceli, Pizzetti, & Parasuraman, 2011). Individuals who are inclined to invest typically do so because they have confidence in the success of the company and its offerings. If crowdfunding proves to be successful, it legitimizes the company in the market (Martin, 2012) and simultaneously assists in establishing a customer base. Burtch et al. (2013a) provide empirical evidence that crowdfunding results in increased visibility and greater product consumption. Mollick and Kuppawamy (2014) discovered that crowdfunding serves a purpose beyond merely providing financial support for firms, as it enhances customer access, increases media attention, and generates greater interest from prospective employees and external investors.

Additionally, crowdfunding enables businesses to better leverage their market potential (Belleflamme et al., 2010; Hu et al., 2014). According to Belleflamme et al. (2010) and Hu et al. (2014), their theoretical model demonstrates that reward-based crowdfunding (pre-ordering) facilitates price discrimination. Companies face challenges in identifying customers willing to pay extra for early access to a product. Crowdfunding helps in recognizing these customers, allowing businesses to take advantage of these premium pricing opportunities. Subsequently, Belleflamme et al. (2013a) advanced their model by incorporating a decision-making process for companies to select between crowdfunding as a pre-ordering strategy and a profit-sharing approach.

RISK AND BARRIERS IN CROWD FUNDING

Saviance Technologies' white paper states that there are several possible dangers or obstacles associated with crowdfunding for companies.

- **Reputation** :If producers are unable to reach their objectives, spark audience interest, or disseminate financial goals and collect significant public backing. Additionally, one's reputation may suffer greatly if they are unable to communicate on a project for any reason.
- **IP defense** : Because the websites itself offer little to no intellectual property protection, there is a strong likelihood that once an idea is submitted, it may be replicated. Due to concerns about concept holdup and protecting their intellectual property from theft, creators are reluctant to publicly disclose project information prior to creation.
- **Donor fatigue** : If a similar network of organizations is contacted repeatedly, there's a chance that it will eventually lose interest and cease providing the required assistance.
- **Fear of abuse among the Public** : Supporters worry that there is a great chance of fraud or financial mismanagement in the absence of a monitoring organization. The Concern could become a barrier to public participation.

CHALLENGES OF CROWDFUNDING

- **Reproduction of Products/Projects** : This can occur due to the large number of participants, and an idea or concept may be appropriated by another party since the owner holds exclusive rights to produce, utilize, or market the invention for a specified period, which is characteristic of crowdfunding projects.
- **Inadequate communication** : Absence of clear objectives and vague goals can confuse potential shareholders regarding the reliability of entrepreneurs' expectations.
- **Unrealistic financial objectives** :Project leaders occasionally request either too much or too little. If they request too much, potential investors may perceive them as greedy, while if they request too little, investors might question whether the project leaders understand their own operations.
- **Delays in updates** : Individuals are not inclined to contribute their funds to crowdfunding ideas, but they are willing to invest their time and interest. It's crucial to encourage backers to return frequently. Failing to regularly update throughout the process could lead to losing potential investors.
- **Creativity**: It serves as the essential ingredient for launching an exceptional movement. In this economy, those who can capture and engage the interest of the audience will come out on top. Reports from crowd-funding platforms indicate that projects presented in a more imaginative way tend to have better success rates.
- **Complex Business Idea** : An entrepreneur seeking crowdfunding might not be suitable for a complicated business concept that potential investors could struggle to comprehend. They should have the skill to articulate their business idea in a concise, clear, and engaging manner if they wish to attract investors on a crowdfunding platform.

Summary and Open Research Questions

This article presents a summary of the current research surrounding crowdfunding. Our study specifically examines start-ups as the entities seeking capital. There has been a notable increase in academic research on crowdfunding for new ventures recently, driven by several market changes: the need for start-ups to seek alternative funding options, especially in the initial stages of their development (influenced by the financial crisis), the recent success stories associated with crowdfunding for new ventures, and the implementation of the JOBS Act in the United States in 2012.

Our analysis has pinpointed various research priorities within academic literature. The reasons for engaging in crowdfunding markets for those seeking capital and for investors have garnered significant academic attention. We found numerous qualitative studies aimed at addressing this research question. Furthermore, discovering success factors for crowdfunding transactions and examining various national legal frameworks have been key areas of interest for researchers. The crowdfunding market is marked by considerable information asymmetries among market participants. Quality signals and the presence of social networks can help mitigate these information asymmetries and are the focus of several research articles. However, there is a lack of studies that concentrate on the role of crowdfunding platforms and their ideal business models.

Research into crowdfunding is still at a preliminary stage. There is a scarcity of quantitative studies that utilize actual market data. Consequently, following our review of the existing literature and the selected framework that emphasizes capital seekers, capital providers, and intermediaries, various research questions can be formulated. Like our literature review, we concentrate on new ventures as the entities seeking capital.

Research Questions Focusing on Capital Seekers , Capital Providers & Intermediaries

1. For what types of ventures is crowdfunding an appropriate financing option?

Crowdfunding represents a modern funding option for startups. The unique features of crowdfunding suggest that this financing method may not be suitable for all businesses. It is important to explore which types of ventures can effectively utilize crowdfunding and what impact it has on a company's success.

2. How significantly does crowdfunding contribute to bridging the early-stage financing gap?

The question of whether crowdfunding can effectively bridge the early-stage financing gap for new businesses remains unanswered given the market's relative youth. The cause-and-effect dynamics have yet to be revealed to mitigate the risk of market failure stemming from inefficiencies or reputational damage. The relationship between crowdfunding and traditional financing sources is significant in this regard (Hornuf & Schwienbacher, 2014a). It is essential to investigate the conditions under which professional investors, including venture capitalists or banks, are inclined to fund ventures that have already garnered support from the crowd.

3. To what degree should the regulation of crowdfunding markets occur?

The expansion of crowdfunding markets in recent years, along with the rise in the number of crowdfunding platforms, may lead more companies to opt for this financing method (Klöhn & Hornuf, 2012). Critics highlight the heightened risk of fraud associated with this trend (Hazen, 2012; Hornuf & Klöhn, 2013; Wroldsen, 2013). It is still uncertain whether the market is capable of self-regulation (Fink, 2012) or if there is a necessity for external regulatory measures (Cumming & Johan, 2013).

4. What factors do capital providers in crowdfunding markets consider when making investment decisions?

Research on the factors that capital providers consider when making investment decisions is still in its early stages. Research on venture capital and business angels may offer some insights into the critical elements. It's still unclear, though, if professional investors and crowd investors employ comparable standards when making decisions. The group of entrepreneurs .For professional investors, the novelty of the product or business model and the patent protection of intellectual property are crucial (Baum & Silverman, 2004; Franke, Gruber, Harhoff, & Henkel, 2008; Jell, Block, & Henkel, 2011). It has not yet been determined whether these elements are also important for the crowd or if emotions, herd instinct, or altruistic motivations have a greater influence on the investment choice (Bretschneider, Knaub, & Wieck, 2014).

5. Which crowdfunding platform business strategies enable the best outcome for both capital providers and seekers?

As middlemen, platforms are crucial in lowering information asymmetries (Belleflamme et al., 2013a) and fostering confidence in crowdfunding marketplaces (Agrawal et al., 2013; Heminway, 2013b; Vass, 2013). If significant losses and failure rates happen, it is reasonable to anticipate a decline in trust in crowdfunding and the corresponding platform. Nevertheless, little is now understood about the platform business models that are most suited to enabling these advantageous outcomes for market players.

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