

Conference Paper

Crowdfunding Among Event Entrepreneurs: A Conceptual Paper

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Abstract

This paper aims to uncover the benefits of crowdfunding among Event Entrepreneurs in Malaysia. The study reviews literature on the definition, discussion and its revolution related to capital -raising, networking, investment, and crowdfunding among Event Entrepreneurs. The method used for this paper is based on literature reviews from journal articles, conference proceedings, newspaper, books and internet search related to this research area. The conceptual framework is recommended in the end of the paper as it allows reader to understand how the benefits will affects towards crowdfunding among Event Entrepreneurs. Hence, it will provide more research interest in crowdfunding in the future.

Keywords: crowdfunding, event, event crowdfunding

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1. Introduction

Crowdfunding has been one of the popular topics in the field of research study lately. According to Oxford Dictionaries, crowdfunding can be defined as the practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet. Most crowdfunding platforms have four common properties: a standardized format that creators used to pitch their projects, a payment system that encourages small financial sponsorships, funding-related information such as number of sponsors and amount of funding to date, and the tools the platform users employ to communicate, particularly to facilitate conversations between creators and sponsors [1].

The idea of crowdfunding has also been mentioned by Schwienbacher & Larralde (2010) that alternative approach of funding is based on financial help of general public (the crowd) instead of specialized investors such as banks or venture capital funds. Unlike traditional fundraising methods, crowdfunding allows creators, people who request resources, to appeal for funds directly from supporters, people who

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give resources, through online platforms [18]. Many entrepreneurial ventures remain unfunded, partly because of a lack of sufficient value that can be pledged to financial investors and partly because of unsuccessful attempts to convince investors [11, 13, 21].

Crowdfunding remains unnoticed and not popular until the year of 2006. As early as in year 1990, crowdfunding started to emerge mainly in the creative industry such as music, video, journalists and publishers. In other fields such as the social care, crowdfunding or microfinancing can be seen in healthcare, aid in developing economy and avert poverty. For instance, the election campaign of President Barack Obama in 2008 raised much of its cash via small donations over the Web, with about 50% coming in payments of less than USD 200. The concept of crowdfunding is rooted in the broader concept of crowdsourcing, which refers to using the crowd to obtain ideas, feedback, and solutions to develop corporate activities [3, 23, 24].

Despite all the hype and attention on crowdfunding at the international level, the phenomenon is pretty new with little empirical data locally. There seems to be not much of the awareness and knowledge about benefits of crowdfunding towards event entrepreneur. Despite the attention this area receives both academically and in practice, there remains a gap. New venture businesses, requiring early-stage or 'seed' funding are often left with two options which is either self-financing or external forms of capital. External finance in particular, including debt and equity, has attracted significant research attention in understanding their unique benefits and drawbacks. Hence, crowdfunding brings a ton of benefits to the entrepreneurs who use it and how the event entrepreneurs relate to the benefits of crowdfunding should be determined.

2. Capital Raising

Crowdfunding is the new financing channels through which firms or entrepreneurs can obtain capital from crowd online [23]. Crowdfunding includes diverse models, such as debt-based crowdfunding and equity-based crowdfunding [2]. Among the crowdfunding models, reward-based crowdfunding is the most popular. It is defined as an "open call, essentially through the Internet, for the provision of financial resources either in the form of a donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes" [26]. Entrepreneurs adopt crowdfunding platforms to obtain funds, expand awareness of their work, connect with others, gain approval for their work and for themselves, maintain project control, and learn new skills [18].

The concept of crowdfunding is rooted in the broader concept of crowdsourcing, which refers to using the crowd to obtain ideas, feedback, and solutions to develop corporate activities [3, 23, 24]. Crowdfunding is new financing channels through which firms or entrepreneurs can obtain capital from crowd online [23]. Crowdfunding platforms (CFPs) serve as an intermediary empowering users to acquire funding (i.e., pre-orders from early adopter markets) [4, 10]. Crowdsourcing sites have attracted lots of attention as innovative social media platforms (e.g. InnoCentive) which enable individuals or firms to obtain ideas/solutions of specific problems from external helpers all over the world [23].

There are various number of reasons why crowdfunding is desirable to be utilized as a stage for capital-raising by the new business people. It is well recognized that new firms face difficulties in attracting external finance during their initial stage, be it through bank loans or equity capital [6, 12, 14]. Many entrepreneurial ventures remain unfunded, partly because of a lack of sufficient value that can be pledged to financial investors and partly because of unsuccessful attempts to convince investors ([11, 13, 21]; Kirsch et al., 2009; Shane and Cable, 2002). Given the difficulties new ventures face in attracting financing from angel investors, banks, and venture capital funds, some entrepreneurs are using crowdfunding to directly appeal to the general public for financial help in getting their innovative ideas off the ground ([4, 29]; Agrawal et al., 2015). Crowdfunding is to be said as one of the attractive ways for the new entrepreneurs to raise enough capital to finance their business.

2.1. Networking

Crowdfunding mostly takes place on crowdfunding platforms (CFPs), i.e., Internet-based platforms that link fundraisers to funders with the aim of funding a particular campaign by typically many funders [5]. In addition, crowdfunding platforms are a novel place for fundraising activities, functioning as online intermediaries between entrepreneurs with ideas and the public with money and expertise [27]. According to Hemer and Joachim (2011), what is new in crowdfunding is that it exploits the capabilities of social networks and other new features of Web 2.0, especially the function of "viral networking and marketing", which enables the mobilisation of a large number of users in specific Web communities within a relatively short period of time. Crowdfunding is expanding rapidly as an alternative source of finance and new business model for the era of internet and social networks (Giercczak, 2016). In other words, since the late 1990s, crowdfunding (in the following also abbreviated as CF) has been

emerging and developing within the Internet community, mainly in the creative industries comprising music, film and video, independent writers, journalists, publishers, creators of performing and visual arts, games and theatres [22]. In addition, by using the Internet, an entrepreneur can communicate with little expenses to millions of potential investors [31]. Though no single or universal definition exists, crowdfunding is a new and informal practice of financing new ventures and projects, commonly based on an open call over the internet to obtain financial resources through small contributions from large crowds [4, 33]. While traditionally, entrepreneurs had to raise capital through financial markets, crowdfunding provides a new channel for funding of entrepreneurship and social entrepreneurship, with access to a large number of investors [16]. As well as, CFPs provide a means for startup firms to generate publicity; a project on a CFP may thus be used as a marketing device. In addition to its financial advantages, crowdfunding can be used as a marketing tool as it allows to build a community and to develop a public image [5]. In short, the internet can offer entrepreneurs direct access to their customers without troublesome regulations. Therefore, a new economy can be built upon online communication, in which trust among strangers is one of the key values [8].

Other than that, transition through networks in crowdfunding is identified by Ordanini et al. (2011) and modeled as a three-stage process. Phase one is described as “friend funding” where there is an initial quick flow of investment from those directly connected to the campaign. Friend funding therefore stems predominately from First Degree Networks, where the trust of personal connections accelerates initial funding. The second phase is described as “getting the crowd” and is argued to be the most challenging phase, where the responsibility is on the campaigner to move visibility beyond the First Degree Network, or risk stagnation. For campaigns that are able to maintain momentum, a third funding phase begins which is described as the “Race to be in”. This situation occurs when individuals with no original connection to the campaign see the project is close to reaching its goal and they are motivated by a fear of missing out (Hobbs, Grigore and Molesworth, 2016). Moreover, in comparison to other sources of funding, crowdfunding is said to generate small amounts of capital and as such contributions tend to stem from a campaigners family and friends [28], or what is known as the First Degree Network (RocketHub, 2011). Recently, however, we have seen campaigners targeting larger amounts of capital, requiring campaigners to utilize wider networks, defined as the Second (friends of friends) and Third (strangers) Degree Networks (RocketHub, 2011). Hence, this combination of networks is akin to

the balanced composition of strong and weak ties in a start-up's social capital that is argued to aid its innovation and performance [30].

Networking is strongly related to entrepreneurship, which is "the process by which individuals – either on their own or inside organizations – pursue opportunities without regard to the resources they currently control" (Stevenson & Jarillo, 1990). In result, previous studies show that the emergence of online networking has opened the door for innovative companies to connect with each other and to operate more efficiently [15]. One way to understand how start-ups can increase their chances of receiving funding investment from investors is to understand one's business networking behavior [34]. For example, Agrawal et al. (2011) suggested that understanding both the mechanisms of crowdfunding and how to reach networks is the key to crowdfunding success.

2.2. Investment

Investment in crowdfunding is the way to find source money for a company by asking a large number of backers to each invest a relatively small amount with it so that the backers will receive equity shares. During President Obama unveiled American JOBS Act it include the crowdfunding provision. Under this section, it allows for a greater scope of investors to invest via crowdfunding once it is implemented. Entrepreneur and small business may utilize the crowdfunding exemption and any investor whether they are accredited or unaccredited may invest in company based on crowdfunding exemption.

The first empirical study on the crowdfunding industry by Schweinbacher et al. (2010) cemented the value of non-profit crowdfunding with the study's conclusion that non-profit project generally secure more funding than general for-profit projects. The study controls for individual projects characteristics and concludes non-profit status by itself can induce greater participation. These characteristics range from the category of individual projects (e.g. art, film, product, education, etc.) to the investment form for the project returns (e.g. active investment, passive investment or donation) as well as a few others.

The study finds that types of investment produce very little effect on incentives to participate and support a project. In most cases, people are more concerned with funding an idea with which they agree rather than receiving a return on their investment. Belleflamme et al. (2014) is one of the few theoretical studies that deals specifically

with crowdfunding. It addresses the question whether a crowdfunding entrepreneur is better off raising her capital by reward-crowdfunding or by equity-crowdfunding.

Investment in crowdfunding can be obtain into two main group which is equity and debt. In equity crowdfunding typically comes into play where crowd invests in a venture or project and in return it gets equity [17]. Capital of the company can be gain when money is invested in the equity. Investors receive shares for their investment, and they have a control of the company, but at the same time they need tolerate with the high risk (Berger and Udell, 1988). Equity crowdfunding becomes the only best option for bankrolling their projects and investors are then rewarded with equity for placing their moneys into the project [25]. If the project succeeds the investor succeed too and the reverse is true too. In debt crowdfunding or peer-to-peer lending is highly preferred of sought by investors and entrepreneurs who more often than not do not have the necessary securities, collaterals or guarantees that banks normally require before they can grant them a loan [33].

In crowdfunding, people pool their money together in order to invest and support efforts initiated by other people or organizations. Some people may decide to pay for producing and promoting a product, and tolerate the risk, represents an additional step in the evolution of consumers’ roles. Being new phenomena, crowdfunding and its consequences for company and customers are not completely understood (Ordanini et al, 2009).

2.3. Proposed conceptual framework

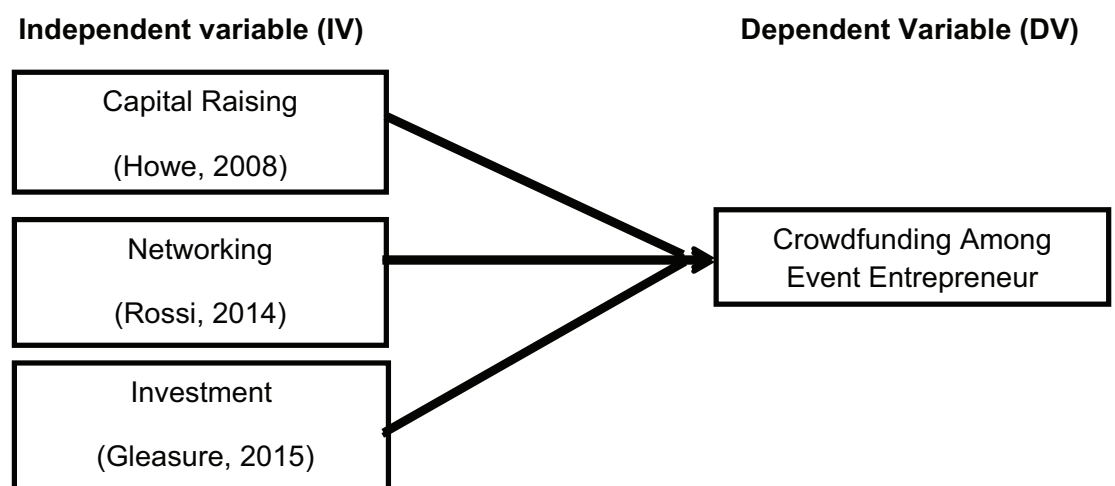


Figure 1: Conceptual Framework on the Relationship between Benefits of Crowdfunding among Event Entrepreneurs.

From the literature reviews, Figure 1 above suggests the relationships between benefits of crowdfunding among event entrepreneurs. The independent variable of this study is the benefits which consist of capital raised, networking and investment. The dependent variable of this study is crowdfunding among event entrepreneur.

3. Conclusion

Although a great number of publications and study has conducted on crowdfunding, a factors that contributed to the crowdfunding should not be neglected. Capital raising, investment, and networking is the purposed variables that will influenced the crowdfunding among entrepreneurs. Since this paper only focus on this three factors and it is suggested for further empirical and imperial study must be done to support the proposed conceptual framework. Plus, the scope of the study might be extend to the entrepreneurs in general and other types of businesses.

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