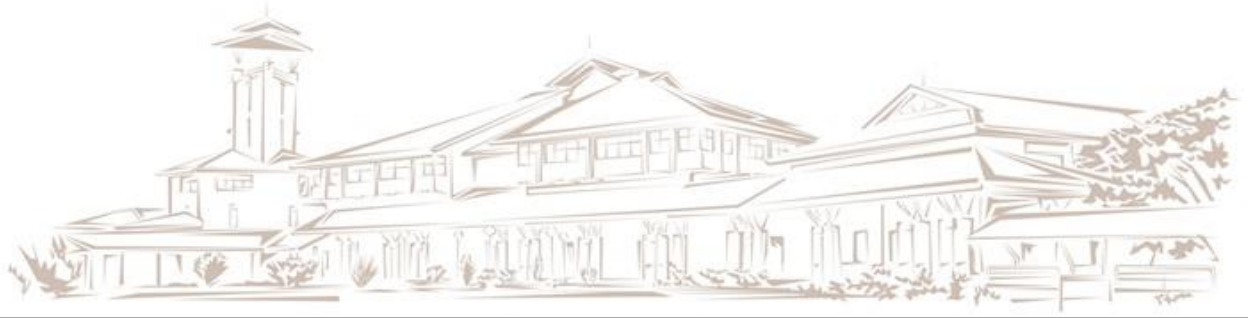


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Working Paper

IIMK/WPS/272/FIN/2018/16

May 2018

Crowdfunding for Entrepreneurs- analysis of the Institutional Work

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Abstract

The crowdfunding phenomenon is viewed through the lens of institutional theory and the institutional work done for maintaining the crowdfunding institution. Institutional work by actors of crowdfunding was studied at macro level by analyzing the provision of crowdfunding regulations across 22 countries and at the micro level by analyzing the actions of Indiegogo, a US based crowdfunding platform. It was observed that at the macro level the regulatory bodies are focusing more on deterrence work rather than enabling or policing work. At Micro level crowdfunding platforms are doing valorizing and routinizing work for maintaining the institution. Since the number of scams happening in crowdfunding is rising, it is important to focus on the full institutionalization of this new form of institution. This study will help in guiding efforts of the actors to engage in the the right kind of institutional work that will help in sustenance of this institutional form by providing legitimacy.

Key words: Alternative finance, Crowdfunding, entrepreneur, Institution, Institutional work, legitimacy, Startup

Introduction

Widespread usage of internet and social networks offer interesting opportunities for innovation. The use of crowd-based online technology (CBOT) to raise funds from a large number of people is a financial innovation that leveraged on this opportunity. This financial innovation called crowdfunding is increasingly being used around the world for raising funds for business as well as philanthropic projects (Kshetri, 2015). Usage of crowdfunding by entrepreneurs for raising funds have led to the proliferation of alternative forms of entrepreneurial finance. One of the reasons for the increased significance of crowdfunding in the recent years is the steady decline in the number of Angel investors since the financial crisis in 2008 (Tomczak & Brem, 2013). The fact that business and entrepreneurship were the most popular crowdfunding category, collecting \$6.7 billion in 2014 makes studies on crowd funding more pertinent to the field of entrepreneurship development.

Calic & Mosakowki (2016) claims that crowdfunding is an innovative institutional form that has emerged to address the needs of entrepreneurs who have limited access to traditional sources of capital. This is due to the fact that online crowdfunding platforms have introduced a new institutional setting for raising funds. They have become successful in doing this by democratizing the financial decision to fund startups and early stage entrepreneurs, who have little or no track record, by collecting a large number of small contributions and meanwhile maintaining the anonymity of the relationship between the entrepreneurs and the fund providers. Unlike traditional sources of finance, the investors also accept non pecuniary benefits in return for the investment made.

Despite its increased popularity and the benefits, crowdfunding still remains under-institutionalized (Mollick 2014). Emergence of the new institutional form of crowdfunding was an outcome of the institutional entrepreneurship of some of the earliest crowdfunding platforms in the world like Kickstarter, Indiegogo in United States and Crowdcube in United Kingdom. These platforms qualifies to be called institutional entrepreneurs because they created a new institutional form for their self-interest using the available resource i.e. CBOT. Tracey, Phillips, & Jarvis (2011) posits that there is a need to 'bridge the gap created by the institutional entrepreneurship' in order to ensure legitimacy of the new institutional form. The institutional work undertaken by the different actors like the regulators, important crowdfunding platforms which has become the institutional leaders and the entrepreneurs in general will reduce the uncertainty of the investors and encourage the growth of crowdfunding.

There are studies that have looked into the factors that contribute towards the successful funding of crowdfunding projects (Greenberg, Pardo, Hariharan and Gerber, 2013; Ahlers, Cumming, Gunther and Schweizer, 2015). But what should be done by the crowdfunding platforms and the regulators to maintain crowdfunding as a preferred way of alternative finance has not been examined. The studies that examines the success of crowdfunding projects will be more relevant if the maintenance of this new institutional form is ensured. Since there are no much studies that look into this aspect despite its importance, we try to examine the institutional work done at micro level by a crowdfunding platforms called Indiegogo from United States for studying the institutional work being done by at micro level to maintain the institution of crowdfunding. To see the work of regulators in providing legitimacy we analyze the existing regulations related to crowdfunding in different countries.

When the organizational field of crowdfunding grows and moves from structuration stage to stage of homogenization, the new entrants in the field will have the pressure of isomorphism which may be coercive, mimetic or normative (Dimaggio and Powell, 1983). This work which summarizes the institutional work done at different levels by different actors will help the prospective entrepreneurs, crowdfunding platforms and regulators to easily overcome the pressure of different kinds of isomorphism and adapt themselves to the norms of the organization field easily.

1.1 What is crowd funding?

Crowdfunding which has its foundations in the concept of crowdsourcing is a relatively new fundraising mechanism. Crowdsourcing is an umbrella term that encompass the efforts of an organization to engage a collection of individuals or the “Crowd” for an organizational purpose

(Wexler, 2011). The advent of Web.2 led to online crowdsourcing which enabled individuals to cooperate and interact with wider network of people and this fostered the ability of the crowd in solving business problems (Hammon and Hipper, 2012;Schwienbacher and Larralde, 2012). One of the major problems that thwarts the origin and growth of business is the availability of finance (Cosh, Cumming and Hughes, 2009) and the businesses are now tapping the potential of online crowdsourcing to solve this problem. Crowdfunding, like online crowdsourcing uses the internet as a medium for pooling the moderate monetary contributions of individuals or group of individuals for achieving the objective of a crowdfunded project (Ahlers, Cumming, Gunther & Schweizer, 2015). Crowd funded projects may have varied objectives. It may be to support a social cause like medical treatment of a child, finance a cultural group like a music band or for a business purpose like starting a new ventures. When the objective of a crowdfunding project is to support a business endeavor it is mostly positioned as a support to turn an innovative idea into a viable business or for helping a small business owner to grow his business or keep it afloat (Stemler, 2013).

Macht & Weatherson (2014) posits that the first academic definition of crowdfunding was given by Lambert and Schwiebacher in 2010 and they defined crowdfunding as “an open call, essentially through the internet for the provision of financial resources either in the form of donations or in exchange for some form of reward and/ or voting rights in order to support initiatives for specific purpose”. Even though this definition is elaborate it failed to include some aspects of crowdfunding like internet based peer to peer lending which is also considered as a form of crowdfunding in some of the studies for example Lin and Viswanathan (2013). Mollick (2014) claims that the

crowdfunding concept is still going through an evolutionary flux and hence it is difficult to provide a complete definition for the concept at this stage but he has defined crowdfunding in the context of entrepreneurial financing as “the efforts by 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.” This work has used the definition given by Mollick (2014) for conducting the study.

1.2. Crowdfunding across the world

The modern day crowdfunding is facilitated and driven by specialized online crowdfunding platforms which came into existence as a result of the development in information and communication technology (Ingram, Teigland and Vaast, 2013). But offline version of crowdfunding has been in existence since decades. There are historical evidences which shows that the practice of collecting small amount of funds from a large crowd was prevalent in various domains (Ordanini, Miceli, Pizzetti and Parasuraman, 2011). Concerts and music compositions of Mozart and Beethoven used to be financed by collecting funds from their patrons (Kuppuswamy and Bayus, 2015). The pedestal for the Statue of Liberty in New York was also constructed with the small donations collected from American and French people (Harrison, 2013).

Crowdfunding in its current form i.e. collecting funds through online crowdfunding platforms started in United States when Brian Camelio, a musician and a computer programmer launched a crowdfunding platform called ArtistShare in 200. Artistshare helped musicians in soliciting donations from their fans to create recordings and conduct concerts (Freedman & Nutting, 2015).

Early crowdfunding platforms focused on arts and entertainment as they were less bound by regulations. Aitamuro (2011) also identified that creative and performing arts projects were the initial beneficiaries of crowdfunding and a platform called Sellaband was founded in 2006 which also helped artists to raise finance. Artistshare and Sellaband can be considered as pioneers of modern day crowdfunding.

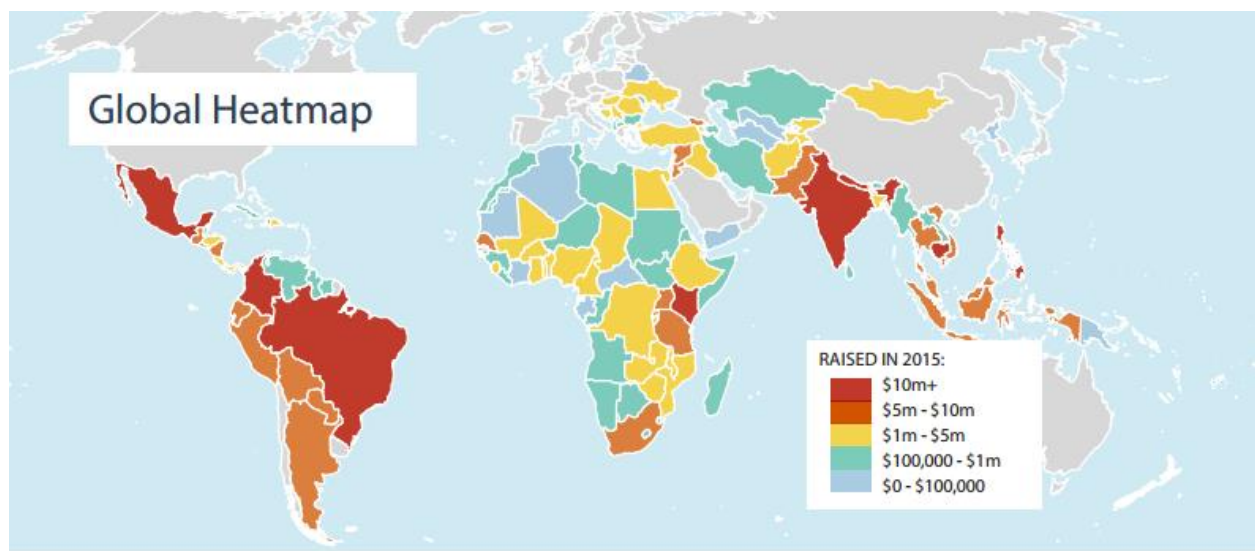
Crowdfunding emerged simultaneously in a number of developed economies (Freedman & Nutting, 2015). The development of crowdfunding platforms gained pace after the global financial crisis when traditional financing for both cultural and commercial ventures dried up (Bruton, Siegel, and Wright, 2015). New crowdfunding models also started emerging and crowdfunding platforms started to differentiate and expand by offering structured loans and equity investments for financing entrepreneurs apart from offering gifts and rewards.

According to the Crowdfunding Industry Report 2015 published by Massolution, there are 1,250 crowdfunding platforms active worldwide. The total fund raised by the global crowdfunding industry at the end of 2015 was estimated to be \$34 billion which was twice the amount raised in 2014 (\$16.2 billion). There were only 452 crowdfunding platforms across the world in April 2012 and the total amount raised was only \$2806 million. Global crowdfunding industry has grown dramatically over the last three years.

The Annual Report 2016 of Crowdfunding in developing economies published by Allied Crowd, a United Kingdom based data analytics firm which conducts research in alternative finance in developing world showed that the total amount raised by the platforms based in developing

economies was \$430 million during the year 2015 with India (\$27.8 million), the Philippines (\$26.9 million) and Nepal (\$25.5 million) occupying the top position in terms of the amount raised. The report also provides a graphical representation of the classification of the developing countries on the basis of amount raised in the form of a global heat map (Figure 2). The countries in the highest range of amount raised being the hottest and the lowest being the coldest.

Figure 2: Global heat map of crowdfunding in the developing countries



Source: Allied Crowd Annual Report, January 2016

1.3. Characteristics of crowdfunding

Crowdfunding has distinctive characteristics that differentiates it from traditional sources of finance. The following paragraphs explains these characteristics:

1. **The Actors:** There are three main actors in Crowdfunding (Valanciene and Jegeleviciute, (2013). They are 1) the entrepreneur who wants to raise funds for his project, which can be social, artistic or business project.2) the crowdfunders or the backers who contribute their own money for the projects and 3) the crowdfunding platform, an online platform which forms the intermediary who brings together the entrepreneurs and crowdfunders.
2. **Number and Nature of investors:** The number of investors for any crowdfunding project is not pre-specified. It goes on increasing till the targeted amount is reached. As the name implies crowdfunding involves ‘tapping the crowd’ or collecting fund from the ‘Crowd’ which comprise of large number of individuals. They usually do not have background as professional investors (Ordanini et al., 2011) but it is conceivable that business angels would also be investing through crowdfunding platforms. Entrepreneurs who wants to pre finance their product pitch their campaigns to amateur investors rather than professional ones (Frydrych, Bock, Kinder & Koeck, 2014). There are investors who repeatedly back projects. For example Kickstarter platform reported that as on October 2016 they have 3,710,351 investors who have supported multiple projects.
3. **Nature of Fund seekers:** There is no specification or required qualification for the entrepreneurs who wish to raise money through crowdfunding. But research has showed that projects which are innovative and socially oriented have better success rates. (Schwiebacher and Larralde , 2010; Schwiebacher and Larralde 2012).

4. **Geographical Scope:** The most significant characteristic of crowdfunding is that the investors are geographically dispersed and the average distance between the entrepreneurs and the investors is 3000 miles (Agrawal, Catalini, Goldfarb, 2011). This is very much different from the traditional angel investors who prefer investing in projects which are situated in close locality (Harrison, Mason, Robson, 2002).

5. **Scale of individual projects:** Even though there is no upper limit set by crowdfunding platforms for the target amount, typical crowdfunding projects seek small to modest amounts of capital. The statistics from Crowdcube, a UK based platform showed that 9 businesses had raised more than £1 million. The World Bank (2013) study on crowdfunding provides the “Crowdfunding Adoption Curve’ and posits that crowdfunding is suitable for raising funds upto \$1million.

6. **Individual investments:** The range of individual investments in crowdfunding platforms is very large. It can theoretically start from \$1. In a study conducted in United States by Van Wingerden and Ryan (2011) showed that the crowdfunder’s investment tended to be in the range of \$6 to \$50. But there are instances of investors contributing very large amounts. For example an individual had contributed £100,000 for the project called Sugru Glue launched on Crowdcube and is the highest individual contribution on the platform. The average investment in crowdfunding projects displayed on UK Crowdcube platform was £1789 in October 2016.

7. **Rewards:** Crowdfunding projects offer different kinds of rewards, both pecuniary and non-pecuniary. Pecuniary benefits like equity or share in the profits are offered by platforms like Sellaband and Wefunder. (Ward and Ramachandran 2010; Agarwal, et al. 2011). Crowdfunding platforms like Prosper and Zopa offer peer to peer lending services in which the investors get back their principle along with certain rate of interest. Almost all the crowdfunding platforms have projects that offer non pecuniary rewards like offering the products to the investor before it is launched in the market. There are platforms like Justgiving and Spot.us wherein people invest without expecting any kind of reward (Burtch, et al. 2012; Smith, et al. 2012).

1.4. Types of crowdfunding

Crowdfunding projects can be classified on the basis of reward they offer and on the basis of the duration of funding. On the basis of the rewards offered crowdfunding projects may be classified as follows (Kshetri, 2015):

Donation based: In this type of crowdfunding the crowd contributes without expecting any return. This type of crowdfunding is popular for projects which are altruistic in nature.

Reward based: In this model of crowdfunding the contributors receive a token gift of appreciation or a pre-purchase of a service or a product.

Equity based: Equity based crowdfunding models provide a share in the ownership or profit or both to the investor.

Debt based: Otherwise known as online peer to peer lending, the investors of this crowdfunding model receives a debt instrument which pays a fixed rate of interest and repays the principle after a specified period.

On the basis of the duration of the funding, the crowdfunding projects can be classified as follows (Cumming & Schwienbacher, 2014):

All-Or- Nothing (AON): In this crowdfunding model the entrepreneurial firm will have a capital raising goal i.e. to raise a fixed target amount in a specified period of time. If he fails to achieve this goal the entrepreneur will not be allowed to keep any of the pledged funds and the contributors wont get any rewrd.

Keep- It- All (KIA): In this model is the entrepreneur can keep the fund albeit at a higher fee regardless of whether the capital raising goal is achieved.

1.5. Benefits of crowdfunding as a source of seed capital

The unique characteristics of crowdfunding provides the entrepreneurs benefits which are not available from traditional sources of finance. Traditional sources of finance are constrained by geography because of the need of the investors to monitor their investments (Mollick, 2014).

Crowdfunding has been found to reduce the distance related issues in financing businesses since the investors do not desire to invest only in close geographic proximity to their homes (Agrawal et al., 2011). Moreover, the pool of the potential investors expands because anyone who possess

a small amount of money, internet can become a crowdfunder. The wider geographical coverage and the expanded pool of prospective investors reduces the funding difficulty of businesses.

When a project gets funded by a large crowd it gets public exposure and raise awareness of its existence among people. This is beneficial for small businesses as it gives them an easy entry in the market (Belleflemme et al., 2014). Given the fact that crowdfunders take into account the opinion of other crowdfunders (Van Wingerden and Ryan, 2011) it is highly likely that the publicity will facilitate further fund raising from other crowdfunders or financial intermediaries. The popularity of the crowdfunding project in turn the product or service for which the fund is raised, will act as a high quality market research for the business. The failure of the project to raise funds may be considered as a signal for improving upon the idea.

Crowdfunding has also gives the opportunity to retain the ownership and control when the projects are funded through donation, reward or debt based crowdfunding models. Even in equity based models the investors will invest very small amount and they will only be small shareholder with very less control over the business. Since crowdfunders are not sophisticated investors they seldom engage in scientific valuation of the businesses and hence the time and cost of entrepreneurs to provide detailed contractual information is saved.

1.6. Process of financing startups through crowdfunding:

The process of crowdfunding starts as soon as an entrepreneur registers the crowdfunding project with a crowdfunding platform. The crowdfunding platform conducts an initial scrutiny and screens the project before displaying it on the website (Collins and Pierrakis, 2012). The entrepreneurs

create an investment pitch which usually comprise of narratives and videos regarding the entrepreneur, target amount, fund raising period, reason for raising money and the rewards for making contributions (Frydrych et al.,2014;Mollick, 2014). The crowdfunders who are registered with the crowdfunding platform can view the investment pitch and make their contributions using online fund transferring mechanisms. The crowdfunding platforms also display the status of the funding ie the amount raised by the project till date and the number of funding days left. In case of All or Nothing crowdfunding model the amount raised is temporarily kept in an escrow account by the crowdfunding platform and is transferred to the entrepreneur only if the funding goal is achieved. Otherwise the Crowdfunding platform refunds the contribution to the crowdfunders. Under Keep it All model of crowdfunding, the entrepreneur receives whatever amount has been raised. After the successful fundraising the entrepreneurs have to complete their project and deliver the promised reward (if any) to the crowdfunder.

Crowdfunding- Institutional Work Model

The characteristics of crowdfunding makes it a socially embedded process (Frydrych et al.,2014). The nature of the crowdfunders eliminate some of the frictions in funding startups and small businesses. The crowdfunders who are unlike professional investors like banks and venture capitalists, do not insist upon constantly monitoring the progress of the enterprise or gathering information about them (Agrawal et al., 2011). This gives rise to the free riding problem and people would fraudulently amass funds from the innocent investors and fail to deliver the promised rewards or finish the projects on time. For example, GXP technology launched a campaign on Kickstarter for their new product called Luci-the advanced lucid dream inducer. The project was

abandoned midway by the company without having to face any consequences³. (). The Security Exchange Commission in United States filed a case of fraud against a company called Ascenergy which raised approximately \$5 million through various equity crowdfunding platforms by claiming that they are in the Oil and gas industry and the CEO was accused of siphoning the funds to other personal investments.⁴

Crowdfunding has its foundations in trust and the frequent occurrences of frauds may reduce the trust of the investors in this form of alternate finance. Hence to ensure the sustenance of crowdfunding, it is crucial to build its legitimacy (Mollick, 2013). Owing to its recent origin, there is very less understanding of the factors that drives legitimacy of crowdfunding phenomenon (Frydrych et al., 2014). Kshetri (2015) posits that clearly defined rules to protect investors and mechanisms to enforce these rules along with norms that guide the behavior of entrepreneurs will reduce the uncertainty that entrepreneurs and investors face in crowdfunding environment (Kshetri, 2015).

Institutional theory is popular for its ability to provide powerful explanation for the actions of organizations as well as individuals (Dacin, Goodstein and Scott, 2002). Institutional theory explains how organizations and groups secure legitimacy by adhering to the rules and norms of the institutional environment (Bruton, Ahlstrom and Li, 2010). The term “institution” broadly refers to formal set of rules and informal constrains (North, 1990); a set of standardized sequence of interactions (Jepperson, 1991) or taken for granted assumptions (Zucker, 1977). Hence

³<http://www.gadgetreview.com/7-scamtastic-crowdfunding-campaigns>

⁴<http://www.crowdfundinsider.com/2015/12/77955-the-first-investment-crowdfunding-fraud-what-does-this-mean-for-the-industry>.

examining the phenomenon of crowdfunding through the institutional theory lens will indicate ways in which crowdfunding can attain legitimacy.

Calic & Mosakowki (2016) claims that crowdfunding is a new institutional form that has emerged to meet the financial needs of entrepreneurs who have limited access to traditional sources of capital. Emergence of the new institutional form of crowdfunding was an outcome of the institutional entrepreneurship of some of the earliest crowdfunding platforms in the world. (DiMaggio, 1988) defined institutional entrepreneurs as “the agents that create new and modify old institutions because they have resources that support their self-interest”. The earliest crowdfunding platforms qualifies to be called institutional entrepreneurs because they created a new institutional form for their self-interest using the available resource i.e. CBOT. The institutional entrepreneurs along with the members of the organizational field like government, professional and trade associations (Wooten and Hoffman, 2016) engage in purposive action known as institutional work in order to create, maintain and disrupt institutions (Lawrence and Suddaby 2006). The institutional work result in formal rules and informal norms that guide the behavior of organizations and individuals.

Institutional work for maintaining an institution

Lawrence and Suddaby (2016) explains the different types of institutional work done at three different stages i.e. creation, maintenance and disruption of institutions. Since the study’s objective is to see what has to be done for the sustenance of the new institutional form of crowdfunding, we analyze institutional work done actors for maintenance. Institutional work undertaken for

maintaining the institution tries to ensure compliance by supporting or repairing the social mechanism.

In order to maintain institutions, the actors engage in six types of institutional work. They are 1) enabling work 2) Policing 3) deterrence 4) valorizing and Demonising 5) Mythologizing 6) Embedding and Routinizing.

Data for analysis:

For understanding the institutional work done by crowdfunding platforms the study analyzed the statements of the crowdfunding platform owners or chief officials, informing their intentions to act and decisions to act in a particular manner. These quotes were taken from the news articles posted on the Google news platform. The study considered the news articles regarding the leading crowdfunding platforms: Indiegogo based in US.

Indiegogo is a crowdfunding platform that was started in 2008 in United States and is a “jack of all trades” in the crowdfunding industry (Bradley and Luong, (2014). It helps entrepreneurs to raise funds engaged in diverse domains like music, film, small business etc. Indiegogo is also special because it gives the entrepreneur the opportunity to choose between KIA or AON. This platform was selected because it provides opportunity to raise funds for varied purposes, offer diversity in reward types including equity share and they are the oldest in their respective base countries.

The data on the regulations governing crowdfunding platforms and the features of the regulations were obtained from the Crowdfunding 2015 Survey Response Report published by The Board of the International Organization of Securities Commission. This report studied the crowdfunding regulations of 22 countries (Australia, Brazil, Canada, France, Germany, Hong Kong, Hungary, India, Italia, Japan, Korea, Mexico, Morocco, Netherlands, Pakistan, Quebec, Romania, Singapore, Spain, Turkey, United Kingdom, United States) by surveying the Regulatory bodies of these countries.

Method:

The study uses qualitative interpretative research method for analyzing the data. The statements made by the owner or the chief official of the crowdfunding platforms and reported in the news articles were analyzed and categorized under different type of institutional work. Similarly the provisions of different crowdfunding regulations were analyzed and categorized under the different types of institutional work.

Institutional Work at the Macro level.

For the purpose of this study we consider the macro level comprising of actors who are in the organizational field but not directly involved in the crowdfunding process. For example, government, professional regulatory bodies, society etc. The study examines the actions of the regulatory bodies of different countries to see the regulatory provisions of that helps in maintaining crowdfunding in their countries.

The first three types of institutional work i.e Enabling, Policing and Deterrence is undertaken to maintain the institution by making the actors adhere to the rule systems. Enabling work refers to “creation of rules that facilitate supplement and support institutions.” Policing refers to “ensuring compliance through enforcement, auditing and monitoring.” It involves using inducements and sanctions for getting compliance (Russo, 2001). Deterrence refers to “establishing coercive barriers to institutional change”.

The rules that guide the actions of actors are established either by the regulatory bodies or the recognized professional bodies of which the actors are members. Following these rules gives the actors legitimacy (Dacin, Goodstein and Scott, 2002). The provisions under different regulations that can be categorized under these 3 types of institutional work which deals with rules are as follows

Enabling work:

The provisions in the crowdfunding regulations in different countries and analyzed and those which supports or supplements crowdfunding activities where considered as enabling work. The provisions that enable and support crowdfunding were mostly related to:

- 1) The relaxed entry requirements:
- 2) The special provisions on how the crowdfunding platforms have to conduct their business:
- 3) The relaxed reporting requirement for the entrepreneurs who are raising funds:

Policing work:

The provisions in different regulations were examined to identify those which stipulates monitoring of the actions of crowdfunding platforms to ensure the compliance of the rules. The provisions that ensure compliance through monitoring and auditing of crowdfunding platforms were mostly related to:

- 1) The platforms having to appoint a third party custodian to keep the invested assets
- 2) The platforms scrutinizing the entrepreneurs business plans for genuineness and feasibility
- 3) The platforms having to submit a report of the successful completion of issues

Deterrence:

To understand the institutional work which provides deterrence, the provisions of various regulations which coerce the actors to abide and obey the rules were identified. Deterrence work of regulatory bodies that govern crowdfunding platforms and which secure conscious obedience of institutional actors were related to

- 1) The restriction regarding the activities the crowdfunding platform is permitted to perform
- 2) The restriction on the type of investors who can invest

- 3) Demanding crowdfunding platforms to maintain back up facilities and proper Information Technology systems
- 4) Making the crowdfunding platforms liable to all the committed services and in the event of closure of the activities of the platform, continue providing the committed services
- 5) Demanding the crowdfunding platforms to ensure that the prospective investor acknowledges the risk and is educated about the consequences of his investment decision.

Institutional work at Micro level

For the purpose of this study we consider the micro level comprising of actors who are in the organizational field and are directly involved in the crowdfunding process. For example, the crowdfunding platforms, entrepreneurs and investors. These actors engage in institutional work that are less structured and unconscious but over the time becomes norms for other actors to follow. The actions of the successful organizations are mimicked by the new organizations and in the course of time becomes embedded in as the informal norms that helps in maintaining the institutional form. Such institutional work which are less comprehensible are of three types: Valorizing and Demonizing, Mythologizing, Embedding and Routinizing.

Valorizing and Demonizing:

These are actions which provide signals to the public in the form of positive and negative examples that indicate the intended norms of the institutions. These may be in the form of appreciating the

actions that display alignment to the intended norms and criticizing those actions which are deviating from the intended normative foundations.

Crowdfunding platform Indiegogo has extensively used valorizing for signaling to the public the desired norm. One of the norm that are following voluntarily is to help the entrepreneurs. The following statement given by CEO David Mandelbrot is an evidence

“We’ve been developing products and forming partnerships to help entrepreneurs at all stages of their journey,”

They are setting examples of positive actions that helps in establishing this informal norm. Some of the actions taken in this regard by Indiegogo is as follows

1. Teams Up with electronics major Arrow Electronics to help entrepreneurs in delivering their project on time by providing engineering and market assistance⁵.
2. Indiegogo acquired the assets of a “pre-commerce platform” called Celery to help the entrepreneurs to secure pre-orders for their product⁶.
3. Indiegogo has partnered with the technology focused e-retailer Newgg to provide promotional support to entrepreneurs⁷.
4. Indigo has partnered with organizations like Dell Women’s Entrepreneur Network, Girl’s in Tech, Blooming founders, Trep life and Lipstick and Politics to provide one-to one consultations to women entrepreneurs⁸.

⁵ <http://www.crowdfundinsider.com/2016/09/90391-indiegogo-announces-arrow-electronics-1m-flashing-funding/>

⁶ <https://techcrunch.com/2016/05/10/sell-your-stuff-after-you-go-go/>

⁷ <http://www.crowdfundinsider.com/2016/07/88406-indiegogo-shares-details-newegg-partnership/>

⁸ <http://thenextweb.com/insider/2016/03/08/indiegogo-supports-female-entrepreneurs/>

Indiegogo is also trying to propagate the norm that investor interest should be protected for gaining legitimacy. They have undertaken valorizing for accomplishing this by setting examples like;

1. Indiegogo gives opportunity to investors to contribute using Fixed funding and Apple Pay apart from Paypal which makes it convenient for the investors.
2. Indiegogo is testing the feasibility of an 'Optional Insurance fee' that will insure the backers by giving them refund if the promised product is not delivered within three months of the delivery date⁹.

Mythologizing:

Mythologizing involves deliberately recounting the actions that was done in the past as a signal to convey the importance attached to that action and that it was aligned to the intended norms of the institution.

The study was unable to identify any mythologizing work done by Indiegogo for establishing the norms they are desirous of propagating.

Embedding and Routinizing

These institutional works are more concerned about propagating the norms among the members and make it a part of the routine functioning of organizations. This involves education, training, celebrating ceremonies etc.

⁹ <https://techcrunch.com/2016/01/06/indiegogo-now-wants-fortune-500-companies-to-create-pre-order-campaigns/>

Indiegogo has used Embedding and Routinizing institutional work for educating the entrepreneurs about how they can improve their campaign for raising funds. They are indirectly trying to routinize this practices among the future entrepreneurs. Some of the actions are follows;

1. Indiegogo partnered with organizations like General Assembly, 500 Startups, Techstars, Startups.co, and Rent and Runway to come out with a guide called Startup Fundraising 101 which provides useful insights to entrepreneurs on fundraising.
2. Indiegogo has announced that it will be releasing a Campaign Marketing Workbook that will guide the entrepreneurs in managing their different stakeholders.

Conclusion:

Crowdfunding as an alternative source of finance has immense potential to be the future of entrepreneurial finance, provided it sustains the test of time. The mounting incidents of fraud is threatening the very existence of this phenomena. Crowdfunding can insulate itself from fraudsters and win the trust of investors by establishing formal rules and informal norms that determine the behavior and actions of individuals involved in the process. The institutional theory explains how a new institutional form can gain legitimacy by resorting to the various forms of institutional works done by the actors that creates, maintains and disrupts institutions.

This paper examines how the regulatory bodies and the crowdfunding platform as actors of the organization field of crowdfunding is trying to maintain this new institutional form by indulging

in institutional works. The institutional work done at the macro level by the regulatory bodies were of enabling, policing or deterrence in nature. The study found that the enabling institutional work that encompass of the rules that promotes the supports the crowdfunding phenomena are less in comparison to the institutional work done to restrict the actions of the organizations. Policing work which results in establishing rules that monitor the action of crowdfunding platforms and entrepreneurs should improve to protect the interest of the investors. More of deterrence work will curtail the benefits ensuing from crowdfunding being a democratic form of fund raising. Hence regulators should focus on enabling as well as policing work to ensure the maintenance of this institutional form.

The Institutional work done by crowdfunding platform at the micro level were Valorizing and Embedding and Routinizing in nature. The platform was trying to propagate some of the norms to be followed by the crowdfunding platform that will help in achieving legitimacy for crowdfunding. One of the norm was that the platform should help the entrepreneurs by providing them professional guidance and another norm was to always protect the interest of the investors. The platform which was studied was not indulging in mythologizing work to maintain the institution. Mythologizing will provide more information for the new organizations as to what is the desired norms followed by the institutional leaders. Hence the successful crowdfunding platforms must engage in mythologizing for maintaining crowdfunding phenomena.

Full institutionalization will provide ad hoc stability to the institution and will occur only when the rules and norms set through the institutional work of the actors get diffused. Frequent adoption of the rules and norms will help in the diffusion of the rules and norms. This study facilitates the

diffusion and adoption of rules and norms by the new actors in the organizational field by providing an overview of the institutional work going on in the field.

This study has only examined the institutional work of very few actors and future studies may focus on the other important actors of the organizational field and the nature of the institutional work done by them to find out novel ways in which the institution of crowdfunding can be maintained.

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