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**CONTEMPORARY ISSUES IN
ECONOMICS, BUSINESS
AND MANAGEMENT**

**Editor
Verica Babić**



**FACULTY OF ECONOMICS
UNIVERSITY OF KRAGUJEVAC**

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AND MANAGEMENT**

Edited by

Verica Babić, Ph.D.

**FACULTY OF ECONOMICS
UNIVERSITY OF KRAGUJEVAC
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PREFACE

The Proceedings is the result of the fifth biennial International Scientific Conference on *Contemporary Issues in Economics, Business and Management* (EBM 2018), organized by the Faculty of Economics – University of Kragujevac, on 9th and 10th of November, 2018. The Conference provided an opportunity for all those interested in various fields of economics, business and management to discuss their research and to exchange ideas. This year, we brought together about 120 young and experienced researchers, PhD students, post-doctoral researchers, academicians, and professionals from business, government and non-governmental institutions, from ten different countries, i.e. Republic of Serbia, Poland, Russia, Spain, Germany, Slovenia, Japan, Croatia, Republic of Bosnia and Herzegovina, Hungary. The Conference EBM 2018 included plenary session and five parallel sessions. As distinguished researchers in the appropriate fields of economics and management, the keynote speakers at the Conference were as follows: Darko Tipurić, Boris Begović and Vadim Kufenko.

Taking into account complexity and diversity of contemporary issues in economics, business economics and management, the Proceedings of the Conference consist of following sections: *Key Issues in Management and Marketing, Globalization and Regionalization, Accounting and Business Finance and Applied Informatics and Quantitative Methods in Economics and Management.*

First section dedicated to *Key issues in management and marketing*, encompasses the papers highlighting different relevant topics and areas of research, such as knowledge management and its application to diverse organizations, organizational design and learning and their implications for knowledge management, internal and external mechanisms of corporate governance, factors and drivers of innovation management and entrepreneurship, as well.

Taking into account contemporary research models and results of empirical studies, the second section dealing with *Key issues in management and marketing* involves the papers in which various aspects of human resource management, corporate social responsibility, digital marketing as well as Industry 4.0 were considered. Particular attention was given to protection of data in the area of mobile commerce.

The section *Globalization and regionalization* is focused on considering the key economic challenges in the Republic of Serbia and the Western Balkans region, such as: economic development, macroeconomic stability, stability of financial system, state and perspectives on financial market development, competitiveness, innovativeness and efficiency of economic policy. The importance of reconsidering the current macroeconomic paradigms aimed to achieve sustainable economic development is particularly emphasized.

Papers within the section *Accounting and business finance* are generally dedicated to diverse aspects of contemporary financial management of modern corporations, and particularly to the role of managerial accounting instrumentarium in modern business environment, as well as on the importance of alternative approaches to budgeting, such as zero-based budgeting and rolling budgeting.

In the section dedicated to *Applied Informatics and Quantitative Methods in Economics and Management*, the papers consider application of modern informatics and quantitative methods, models and techniques, such as text clustering methods, evolutionary algorithms for complex optimization problems, artificial neural networks for determination of technology acceptance model parameters, DEA method, contemporary approaches to digitalization in managing the cadastral data based on blockchain methodology, as well as the application of modern information systems.

A high number of participants at the Conference are a good indicator that the Conference EBM 2018 offers a great opportunity for scholarly exchange and networking. All the papers have been reviewed and we hope that these Proceedings provide valuable knowledge for academics, professionals and students. Therefore, we would like to thank to all authors who have contributed to the success of the conference in our common response to the above challenges.

Editor
Verica Babić

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CROWDFUNDING AS A BASIS FOR LAUNCHING NEW BUSINESS VENTURES

Ernad Kahrović¹, Zenaida Šabotić²

Abstract: *Over the last ten years the crowdfunding concept expanded rapidly and became one of the most attractive methods of financing new business ventures. Crowdfunding is a method of securing funds for the realization of an entrepreneurial venture by collecting small investment funds from a large number of investors over the Internet, without using standard financial intermediaries. Crowdfunding uses web technologies and existing online payment systems to facilitate transactions between founders (people who require funds) and funders (people who give money). Its relevance and popularity are still growing thanks to the development of ITC technologies and new ways of thinking about business ventures. Start-ups as well as small and medium-sized enterprises see crowdfunding as an important instrument of raising capital which benefits from undisturbed financial assets of the Internet users. Crowdfunding implies mobilizing the crowd to finance projects which are posted on dedicated websites, known as crowdfunding platforms. Therefore, more and more investors are noticing the evident advantages offered by this kind of financial instrument. Crowdfunding is changing the way entrepreneurs finance their effort, launching new products and services on the market and how they create start-ups. Crowdfunding's social impact appears to be unchallenged when it comes to start-ups, and it also seems to be a key factor in contributing to the increase of their number and social and economic success. The objective of this paper is to improve our understanding of crowdfunding concept and discuss its characteristics, related terminologies, and key elements, as well as the possibilities of financing innovative ideas in Serbia. The paper expounds basic activities in the realization of this concept, such as creating a presentation of the call, getting to know the online community, collecting roles, developing innovations and distributing the revenue. Also, the paper highlights the crowdfunding models. These are donation based, reward based, equity based and interest based crowdfunding.*

Keywords: *Crowdfunding, Venturing, Entrepreneurship*

JEL Classification: *L26, O31, G18*

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INTRODUCTION

The crowd can invest in business ideas and projects that are initiated by entrepreneurs in the crowd who do not have the traditional monetary resources, such as banks and investment agencies, to implement their ideas. These entrepreneurs can pledge for financial resources from the crowd in various open social communities. This emerging approach of raising money via the Internet is called *crowdfunding*. Crowdfunding, as a novel method for funding a variety of new ventures, allows founder of different projects to fund their efforts by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries, via websites such as Kickstarter (www.kickstarter.com) and IndieGoGo (www.indiegogo.com). Through these sites, businesses or individuals who need financing for a project/venture publish an appeal for funds to those who make contributions. Because small amounts of money from a large number of people can add up quickly, these sites have experienced tremendous success (Stemler, 2013).

Crowdfunding is uniquely positioned to assist two groups of people in securing the money and support they need: (1) entrepreneurs trying to turn their ideas into viable businesses, and (2) small business owners trying to keep their businesses afloat or get them to grow. Both face enormous challenges in today's financial environment. Due to their lack of credit, operating history, and proven track record, fledgling companies often have a hard time pursuing financing through traditional avenues, such as bank loans (Fink, 2012).

Belleflamme et al. summarize *three characteristics of crowdfunding*. *First*, crowdfunding initiatives often rely on the pre-order of products that are not yet available on the market. Entrepreneurs who start crowdfunding projects describe what the final products are and offer a list of monetary or nonmonetary rewards for sponsors who are willing to invest. *Second*, consumers or sponsors pay more in the pre-ordering process than traditional consumers do, who wait to buy the final product on the market. *Third*, sponsors identify themselves as members involved in the production process, which ranges from the initial donation of money to direct involvement in the entire project. The third characteristic is considered one major benefit of crowdfunding over traditional funding approaches because crowdfunding can involve consumers or sponsors and thereby enhances their experiences in the complete production process.

CROWDFUNDING PARTICIPANTS

The role of actors of the crowdfunding scheme is important to understanding how does the crowdfunding work. The participants contribute to the crowdfunding in diverse ways by creating a balanced environment that determines process functions and practices. What follows is a short review of major participants in the crowdfunding ecosystem, with attention to what each of them brings to the system and what are their expectations. The main participants are: website providers, founders and backers.

The website providers create and manage the process from the technical point of view and ensure that it's operating properly for the founders and backers. Website providers connect all the stakeholders and represent the hub of the ecosystem. Crowdfunding at its core is enabled by technology; therefore, website providers play a crucial and central role in the crowdfunding phenomenon. They provide the technology backbone that allows founders to expose their project to a large number of potential backers. Providers perform another role within the project: they facilitate communication between the founder and backers (both potential and actual) by using features such as a comment section, project update capabilities, and email exchanges. Additionally, the providers have to ensure that the payment functions are secure and reliable, in order for backers to be able to actually contribute financially to the project. Thus, website

providers may act as intermediaries, orchestrators, rule enforcers, and distribution channels (Ordanini, Miceli, Pizzetti, & Parasuraman, 2011).

It is possible to use the term “founder” to represent those individuals who post their idea on a crowdfunding website to receive funding. Individuals seeking funding come from a wide variety of backgrounds and have a wide range of goals (Mollick, 2014). Many definitions are present in the literature, such as “creator”, “borrower”, “entrepreneur”, “firm”, “founder”, “owner”, and “start-up”. However, many of these labels are restrictive and leave out some of the actors. For example, some people who ask for funding are not necessarily entrepreneurs or have a goal of starting a business. As a suitable definition, we propose the term “founder”, being “a person who founds or establishes” (“Founder”, n.d.) to refer to initiators of communities, charitable organizations, and businesses. This term is rendered credible by its current use in the literature.

The crowdfunding was established because of the founders’ unfulfilled need for capital. To achieve this objective, the founders create a concept product or a project and then seek to compel the potential backers to invest, by creating an eye-catching website. During the campaign, founders control access to information by being accessible and transparent. In addition to raising capital, founders may use crowdfunding to gain exposure for future funding (Dingman, 2013), to test market an idea (Helmer, 2014), to gain validation (Gerber, Hui, & Kuo, 2012), and to build relationships by fostering open communication and collaboration with backers (Gerber et al., 2012).

Equally important to the crowdfunding ecosystem are the backers of crowdfunded projects. The role of the backer goes beyond just contributing money: they also play a role in testing the market and providing judgment toward what is a good idea and whether a concept is worth pursuing. Backers can contribute monetarily and/or through the use of social media and their own personal networks by spreading the word about a project. Because their role extends beyond a purely monetary one, we use the broader term, “backer”, in favor of other terms such as “consumer”, “contributor”, “crowdfunder”, “funder”, “investors”, and “lender”, all of which are currently in use in the literature.

There are many theories what lies behind the backer's reasons for contributing to a crowdfunding campaign. For example, warm glow giving (Andreoni, 1990); that is, the positive feeling one gets from helping someone else, and there is evidence that in some crowdfunding contexts altruism does exist (Burtch, Ghose, & Wattal, 2013). On the other hand, some reasons may be egotistical - backers participate because they desire to participate (Gerber et al., 2012) or to gain social benefits from advertizing their participations.

STEPS IN THE CROWDFUNDING CAMPAIGN PROCESS

Crowdfunding is typically carried out through a crowdfunding website, many of which have emerged over the last several years. The founder posts a description of their idea or project on such a website to expose their idea to potential backers. Individuals discover projects through avenues such as social media or by browsing a crowdfunding website. If the individual believes in the idea and would like to help make the project possible, the individual can back the project by contributing money via the crowdfunding website. Typically, the amount given by a backer is small relative to the overall funding needs. The idea behind crowdfunding is that, if many individuals donate a small amount, large sums of money can be raised quickly and efficiently. In addition to contributing financially, individuals can also help a project by spreading awareness through social media about projects they support, which builds up a crowd of interested parties willing to invest (Beaulieu et al, 2015). Having said that, the process of completing a crowdfunding campaign can be represented within four basic steps, which are explained ahead.

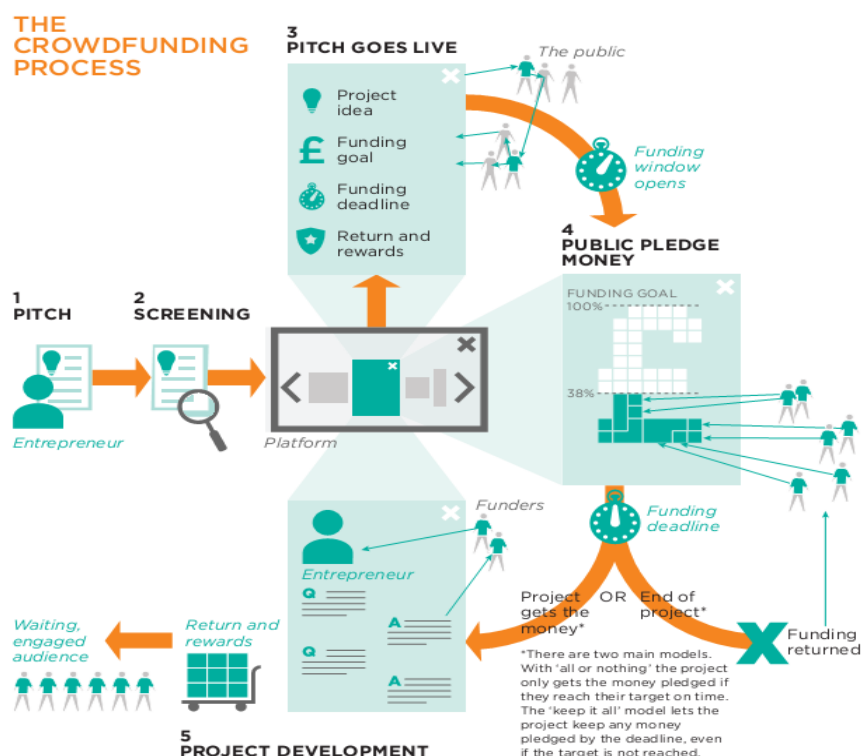


Figure 1 - Crowdfunding campaign process

Source: Authors

The first phase is to convince the investor (pitch the idea), where the founder has to prepare the presentation for their idea. Afterwards, there is the verification (screening), i.e. analysis of the idea which is carried out to check its feasibility. The last step is to publish the idea. Therefore, the platform (website) displays the idea, the investment goals, deadlines, and the gains for the investors. The next step is the public fundraising, i.e. by the deadline, the investors send their funds by using the platform. Each platform always shows the current status of the fundraising. After the deadline for fundraising, it is possible to apply two models: “All or nothing” or „Keep it all“, which are shown on the Figure 1. The last step should be the successful completion of the project. The distribution of gains is mostly agreed upon with potential investors. At this point, the attention should be paid to the potential risk which involves investments. In the event that the planned goals do not get reached, nobody, and that includes investors, will not achieve any profit.

CROWDFUNDING PLATFORMS

In addition to encompassing a wide range of potential projects, and founding goals, crowdfunding also differs from other methods of start-up funding because the relationship between funders and founders varies by context and nature of the funding effort (Belleflamme et al., 2012). There are four main contexts in which individuals fund projects, but these contexts that often overlap as projects may allow funders to achieve several different goals simultaneously (Mollick, 2014). It is useful to distinguish between two broad classes of CFPs, (i) investment-based CFPs and (ii) reward and donation-based CFPs. The first class includes equity-based, royalty-based, and lending-based CFPs, where funders are investors in a campaign and may obtain monetary benefits. In the second class, funders cannot expect a monetary compensation; they fund a campaign because they obtain a product or because they support its cause (or a combination of the two) (Belleflamme, Omrani, Peitz, 2015).

In the first model, *equity-, royalty-, and lending-based CFPs*, funders act as investors or lenders. They have to assess the risk of the investment; i.e., the expected performance of a successful

campaign. The uncertainty from the viewpoint of the funder is whether the project will lead to a product that caters to the tastes of a sufficiently large number of potential customers. On equity-based CFPs, fundraisers offer equity stakes for the funding of a campaign, while, on royalty-based CFPs, a fraction of revenues or profit is offered. Fundraiser typically specifies a target that has to be reached. This “All-or-nothing“ approach means that if a project does not reach its target then it does not receive any of the money that has been pledged. This is seen as a way of protecting funders and encourages projects to set realistic funding targets that match the amount of money they need in order to realize their project's aim.

The second model, the *lending-based CFPs*, is the one in which the funds are offered as a loan, with the expectations of some rate of return on capital invested. In the case of microfinanced loans, the lender may be more interested in the social good promoted by the venture than any return generated by the loan.

The third approach, commonly called *reward-based crowdfunding*, is the most widespread crowdfunding model. In most cases, the reward is the product that is eventually produced by the entrepreneur with the money raised during the campaign. In practice, two types of platforms have emerged: "All-Or-Nothing" (AON), and "Keep-It-All" (KIA). The “Keep-It-All” (KIA) model involves the entrepreneurial firm setting a fundraising goal and keeping the entire amount raised, regardless of whether or not they meet their goal, thereby allocating the risk to the crowd when an underfunded project goes ahead. The “All-Or-Nothing” (AON) model involves the entrepreneurial firm setting a fundraising goal and keeping nothing unless the goal is achieved, thereby shifting the risk to the entrepreneur. We show that small, scalable projects are more likely to be funded through the KIA scheme, while large non-scalable projects are more likely to be funded through the AON scheme. Overall, KIA campaigns are less successful in meeting their fundraising goals, consistent with a risk-return tradeoff for entrepreneurs, where opting for the KIA scheme represents less risk and less return for the entrepreneur (Cumming, Leboeuf, Schwienbacher, 2015).

Alternately, reward-based crowdfunding treats funders as early customers, allowing them access to the product produced by funded projects at an earlier date, better price, or some other special benefit. The “pre-selling” of products to early customers is a common feature of those crowdfunding projects that more traditionally resemble entrepreneurial ventures, such as projects producing novel software, hardware, or consumer products (Mollick, 2014). Kickstarter and Indiegogo are reward-based crowdfunding platforms whereby entrepreneurs state capital raising goals, and, in exchange, individuals are offered a reward for participating.

Some crowdfunding efforts, such as art or humanitarian projects, follow a *donation-based CFPs*, placing funders in the position of philanthropists, who expect no direct return for their donations.

The entrepreneurs and innovators from Serbia can use the platforms abroad, in the countries whose laws allow foreigners to participate. There is no Serbian platform for a mass investment because there is no legal framework, which is necessary to avoid different possibilities of fraud, as well as to limit greater amounts with the aim of limiting the damages if the investment endeavour fails.

CONCLUSION

Crowdfunding represents a novel way for founders to raise capital for a wide variety of projects. The concept and use of crowdfunding is evolving and it is being used in increasingly creative ways. Crowdfunding's core elements, however, focus on technology, capital funding, and the power of the crowd, which enables many small efforts to amass into a significant financial outcome. The crowdfunding process relies heavily on technology, both in terms of the websites

where it takes place and the technologies that provide social media connections that spread awareness about a project.

Crowdfunding represents a potentially disruptive change in the way that new ventures are funded. Additional research is required to catch up with practice and policy, both of which are embracing crowdfunding. This paper represents initial evidence about what promises to be an important and fruitful phenomenon in the study of new ventures.

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