

RESEARCH ARTICLE

THE ROLE OF CROWDFUNDING IN SUPPORTING INNOVATION AND CREATIVE PROJECT DEVELOPMENT: A REVIEW OF THE CROWDFUNDING PHENOMENON IN THE DIGITAL ERA

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ABSTRACT

This research analyzes the role of crowdfunding in supporting innovation and creative project development in the digital era. Using a quantitative descriptive method approach and secondary data. The phenomenon of crowdfunding as an alternative funding source, has experienced significant growth in recent years. Findings from secondary data analysis show that raising funds through crowdfunding continues to increase over time, with the total funds raised reaching a significant figure. Secondary data originating from trusted sources, such as the Financial Services Authority (OJK-INDONESIA) and crowdfunding platforms, is used to analyze growth trends in funds raised, the number of investors, and the role of crowdfunding in connecting project creators with their supporters.

KEYWORDS

Crowdfunding, Innovation, Creative Project Development, Digital Era, Quantitative Descriptive Methods, Secondary Data.

1. INTRODUCTION

The background to this research arises from the increasingly significant role played by crowdfunding in supporting innovation and creative project development in the digital era. Crowdfunding is a method of raising funds through the participation of many individuals to support certain projects, ideas, or initiatives. The crowdfunding phenomenon has opened up new opportunities for creatives, businesspeople, and entrepreneurs to raise funds for their projects without having to depend on traditional funding sources such as banks or institutional investors.

In recent years, crowdfunding has become an increasingly popular trend and is experiencing rapid growth. Many crowdfunding platforms have emerged and provide a platform for creative, technological, artistic, educational, social, and other projects to gain financial support from the wider community. Through crowdfunding, individuals can actively participate in supporting ideas that they consider valuable and have the potential to have a positive impact on society.

The role of crowdfunding is not only limited to funding, but also opens up opportunities for access to a wider market, getting feedback from the community, and building social networks and relationships with project supporters. However, despite its benefits, crowdfunding also faces several challenges, including the risk of fraud, project failure, and different regulatory policies in different countries.

Therefore, this research aims to conduct an in-depth analysis of the role of crowdfunding in supporting innovation and creative project development in the digital era. This research will also explore the challenges and opportunities faced by crowdfunding projects as well as society's views on this phenomenon. With a deeper understanding of crowdfunding, it is hoped that this research can provide valuable insight for creative industry players, companies, and governments in exploiting the potential of crowdfunding and facing the challenges that arise in raising funds through crowdfunding platforms.

2. THEORETICAL BASIS

In the context of research regarding the role of crowdfunding in supporting innovation and creative project development in the digital era, the most appropriate theory is Innovation Theory. Innovation Theory will help in explaining how crowdfunding as an alternative funding tool can facilitate the innovation process by allowing project creators to access funds without having to go through traditional funding channels (Sweezy, 1943; Tamney et al., 1989; Telser, 1982). This theory can also help us understand how contributions from the community through crowdfunding can accelerate the process of adopting innovation, as well as how innovation and creative project development can adapt and grow in a digital context.

The role of crowdfunding can be strongly linked to Innovation Theory, which describes how innovations are discovered, implemented, and accepted in society. Crowdfunding makes a significant contribution to supporting the innovation process and creative project development in the digital era. Basic concepts of innovation theory, such as adoption and diffusion of innovation, can be applied in the context of crowdfunding.

First, the principle of innovation diffusion includes the stages of adoption of innovation by society. Crowdfunding allows project creators to present their new ideas or products to a wider audience. The contribution made by the community in the form of financial support shows the adoption of this innovation. Communities become part of the innovation process by donating funds to projects that interest them and supporting new ideas that have the potential to grow.

Second, innovation theory highlights the importance of factors influencing innovation adoption, such as relative advantage, complexity, compatibility, and communication. Crowdfunding provides relative advantages for project creators by providing direct access to funds without having to go through traditional channels which may be more complicated. Then, crowdfunding platforms facilitate direct

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communication between project creators and potential backers, creating a better understanding of the project and increasing compatibility between the project and community values.

In addition, innovation theory also considers factors that influence innovation adoption, such as socio-economic level and information sources. In the context of crowdfunding, adoption can be influenced by participation in the digital world and people's readiness to utilize online platforms. The availability of information and awareness about the project also plays a role in attracting participation.

By relating the role of crowdfunding to Innovation Theory, we can see that crowdfunding functions as a catalyst for innovation by opening the door for new ideas to gain support from society. Financial contributions and community participation in crowdfunding are an integral part of the innovation adoption process, and crowdfunding platforms become a communication medium that facilitates interaction between project creators and the community.

Crowdfunding, or collective funding, is a funding model in which a small number of individuals or groups support a project or venture by contributing funds collectively through an online platform. This concept allows the creator of a project or venture (such as an entrepreneur, artist, or innovator) to raise funds from many people who are interested in their idea or cause. Crowdfunding gives people the opportunity to participate in small investments, often in the form of donations, investments, or up-front product purchases.

One famous example of crowdfunding is Kickstarter. On this platform, project creators can submit their ideas and set funding targets that they want to achieve. Interested people can make a small donation or purchase the product on presale. For example, an artist can submit a project to create a comic book, and the people who support him can contribute small amounts to help make the project happen. If the funding target is reached, the project creator will receive funds to implement the project. Otherwise, the funds will be returned to the contributors.

Apart from that, there are also crowdfunding models such as Equity Crowdfunding. In this model, investors provide funds in exchange for shares or ownership in the business they back. For example, a technology startup could use equity crowdfunding to raise funds by selling partial ownership shares to individual investors.

In general, crowdfunding has changed the way people get financial support for creative projects, new ventures, or charitable causes. It also allows broader access for people who haven't had access to traditional funding sources, such as banks or venture capital investors.

3. LITERATURE REVIEW

Studies attempt to understand the context of crowdfunding as well as the interaction between social and financial factors in driving lenders' decisions by applying economic development theory inspired by the two-sector model (Gama, Emanuel-Correia, Augusto, & Duarte, 2021). Using the leading pro-social crowdfunding platform, KIVA, this study examines the impact of business loan objectives (traditional vs modern) on the success of fundraising campaigns. The research results show how modern sector business loan campaigns generate funding faster than crowdfunding campaigns. Furthermore, when directed at the modern sector, large loans appear more attractive to lenders, showing how large loans are used to finance high-yield projects. Female microentrepreneurs gain advantages compared to men in both traditional and modern sectors. However, the comparative advantage of female microentrepreneurs is becoming less evident among modern sector-related lending campaigns. Overall, these findings support how the global crowdfunded microfinance ecosystem encourages the transition of poor microentrepreneurs to the modern economy and thereby avoids development pitfalls, and provides theoretical insights in predicting pro-social lending decisions regarding sector choice.

Further research tries to criticize global digital platforms that have the potential for small-scale entrepreneurs (SSE) (Keskinen et al., 2021). However, they are often excluded from direct participation in global initiatives, such as crowdfunding. Apart from socio-cultural disparities, the issue of accessibility and adoption, use, and integration of technology is also a major challenge. To bridge the gap, we propose a viable model consisting of a local technology mediator operating on a digital platform that connects local SSEs with global digital services. We have engaged a group of SSEs in an informal settlement in Windhoek, Namibia, to jointly develop a concept of the role, duties, and responsibilities of a local technology mediator, along with technical skills training and the

development of an international crowdfunding campaign. We believe that the jointly developed concept of the local agency model and the co-design process have enabled us to create a model that enables the utilization of global digital platforms for SSE in the global south.

Further research studies seek to carry out an analysis of the factors determining the success of crowdfunding initiatives using the example of 5,251 projects from the Verkami platform in Spain based on a reward system (Martínez-Cháfer et al., 2021). In contrast to most of the literature that measures success with dichotomous variables, we measure success with a continuous variable, namely the attainment ratio, which is measured as the resources obtained divided by the total amount requested by project proponents. We consider several potential determinants of success, which have a strong theoretical basis and cover a wide range of aspects related to project features. The results showed that factors related to signaling theory such as partnerships, having previous experience, and interactions with supporters were positively related to the achievement ratio, while no significant impact was found for the amount of rewards. Additionally, we found uneven effects for low and high achievement ratios, identifying key determinants at different project stages.

Further study studies seek to explore the development of equity crowdfunding (ECF) in the next 5 to 10 years by conducting an international Delphi study (Tiberius and Hauptmeijer, 2021). Our results show that the ECF market is expected to grow significantly. However, it is unlikely to disrupt other forms of financing and will not cover all MSME financing needs. ECF will remain a funding technique for MSMEs and small investors; unlikely to attract large companies or institutional investors. Platforms will impose stricter requirements on capital raisers, expand their services, and innovate their business models. The country's government is likely to partially waive ECF market regulation.

Lastly, research studies about reward-based crowdfunding projects with two models: All-or-None (AON) and Keep-It-All (KIA) (Xu and Zhang, 2021). In AON, creators only get funds if the target is achieved. In KIA, the creator still gets all the funds, achieved or not. Analysis shows AON is more successful and profitable if fixed costs are large. KIA is more profitable if fixed costs are small. The AON model also has a higher success rate, but the risks are higher than the MCH in most cases.

4. RESEARCH METHODS

This research method will combine a literature study model with a quantitative descriptive approach using secondary data. This combined approach will provide comprehensive insight into the crowdfunding phenomenon from multiple sources and perspectives, as well as provide the data necessary for more in-depth quantitative analysis. Researchers will search and collect related literature from various relevant sources such as academic journals, books, research reports, media articles, and current publications. Secondary data will be obtained from various trusted sources, such as crowdfunding platforms, market research reports, creative industry statistical data, as well as publications from government or regulatory agencies.

5. DISCUSSION

The Financial Services Authority (OJK) noted that funds raised by securities crowdfunding (SCF) continued to increase. As of December 28, 2022, the total funds collected amounted to IDR 713.29 billion. For information, the total funds collected in 2020 amounted to IDR 184.9 billion. Then it continued to increase until it reached IDR 413.19 billion in 2021. In detail, the funds raised came from 135,778 investors through 13 SCF organizing platforms. Meanwhile, the funds have been successfully utilized by 334 MSME players. The growth in funds collected by SCF plus the growth in the number of issuers this year cannot be separated from the growth in the number of retail investors which has increased almost 10 times compared to the last 5 years (Octaviano and Dewi, 2022).

As of July 7, 2023, 16 institutions are administering the Financial Technology-Based Funding System (SCF) that have obtained approval from the Financial Services Authority (OJK). The number of publishers in SCF reached 423, with the number of investors reaching 156,632 people. The total funds collected through this system reached IDR 911.35 billion. SCF is an alternative option that is very suitable for helping Micro, Small, and Medium Enterprises (MSMEs) who need capital support. Especially for MSMEs that do not meet the requirements to obtain financing from banks, SCF provides easy access via digital platforms. This allows all businesses, regardless of their location across the country, to easily access funds through this system (Madjid and Sidik, 2023).

Fundraising through securities crowdfunding (SCF) which is supervised by the Financial Services Authority (OJK) continues to increase. By the end of 2022, the amount of funds collected will reach a significant figure. This development can also be seen in the growth in the number of individual investors and issuers on the SCF platform. Apart from that, until July 2023, there are already several SCF organizing institutions that have obtained permission from the OJK. This platform has succeeded in collecting quite large funds and can provide alternative options to support Micro, Small, and Medium Enterprises (MSMEs). For MSMEs who find it difficult to meet traditional requirements for obtaining financing, SCF provides easier access opportunities through digital platforms. This makes funding more affordable and accessible to various business actors throughout Indonesia.

SCF's development in raising funds also shows its important role in supporting MSMEs. Over a certain period, the number of SCF organizing institutions that have received approval from the OJK has increased. This reflects the authorities' confidence in this funding model. With the SCF, MSME players who need funds can take advantage of alternative options that are more flexible and easier to reach. Even though they do not meet the criteria of banks or traditional financial institutions, MSMEs can access the funds needed to develop their businesses.

Additionally, it is important to remember that SCF has had a positive impact in encouraging the participation of individual investors, the number of which has increased significantly in recent years. This shows that more and more people are interested in investing in projects that interest them. With the support of digital platforms, access to SCF becomes more open to various levels of society, regardless of their location throughout Indonesia. This is an important step in expanding access to funding and more inclusive investment opportunities.

Overall, the development of SCF makes an important contribution to increasing the availability of funding for MSMEs and creative projects in Indonesia. With the role of technology and digitalization in this process, this kind of collective funding model can help realize the potential for more innovation and economic growth at local and national levels.

Crowdfunding works by connecting the creator of a project or business that needs funding with a group of individuals who are willing to donate or invest in the project. The process can be explained in several steps:

I. Project Creator Submits Proposal.

Project creators submit proposals or descriptions of their projects to crowdfunding platforms. This includes information about what they will do, the goals they want the funds to achieve, and how the funds will be used.

II. Crowdfunding Model Selection.

Project creators choose the crowdfunding model that best suits their needs. These can be pure donations, where contributors give funds without expecting financial reward; pre-purchase of products or services; or equity crowdfunding, where they provide funds in exchange for ownership of shares or a share of the business.

III. Funding from Individuals.

Once the proposal is uploaded, people interested in the project can provide funds through crowdfunding platforms. They can contribute small or large amounts, depending on their individual preferences.

IV. Fund Target Achievement.

Project creators have funding goals they want to achieve. If the funds obtained reach or exceed the target, they can continue to realize the project as planned. If the target is not reached, some crowdfunding platforms refund funds to contributors.

V. Providing Rewards or Ownership.

Depending on the crowdfunding model chosen, the project creator provides rewards to the contributors. This can be a previously promised product or service, or for equity crowdfunding models, they provide equity ownership or part of the business to investors.

VI. Implementing Projects.

If the funds collected reach the target, the project creator uses these funds to realize the project according to their plan. For example, an artist will create works of art promised to contributors.

VII. Transparency and Communication.

During and after the project, the project creator communicates regularly

with contributors via the crowdfunding platform. This helps maintain transparency and keeps contributors informed about project progress.

VIII. Project Completion.

After a project is complete, the project creator often provides information and results to contributors as a form of appreciation for their support.

With online platforms, crowdfunding allows people from all over the world to participate in supporting projects they care about, creating global connections between project creators and contributors.

In Indonesia, there are several examples of crowdfunding platforms that are active and have become a place for various types of projects and businesses to collect funds from the public. Some popular examples of crowdfunding platforms in Indonesia are:

- I. "Kitabisa" is a crowdfunding platform that focuses on social and charity campaigns. Through Kitabisa, individuals or groups can raise funds for various needs, such as medical treatment, natural disasters, education, and other charity projects.
- II. "Make It Happen" is a crowdfunding platform that encourages creators to submit projects in various creative fields, such as art, film, music, and literature. Contributors can contribute funds to support projects they are interested in.
- III. "Investree" is an equity crowdfunding platform that allows individuals or institutional investors to invest in small and medium businesses (MSMEs) in Indonesia. Investors gain ownership stakes in the businesses they back.
- IV. "Dana Didik" is a crowdfunding platform that focuses on education. Through this platform, people can support the education of children who need financial assistance for school fees.
- V. "Sociabuzz" is a platform that connects influencers with brands or projects they want to support through crowdfunding campaigns. The influencers invite their followers to contribute to the campaign.
- VI. "Instead of Begging" is a crowdfunding platform that invites the public to provide support to beggars who want to change their lives in an independent and empowered way.
- VII. "AyoBerbagi" is a platform that allows people to donate funds or goods to those in need, such as orphans, the elderly, or people affected by disasters.

These examples show the diverse forms and purposes of crowdfunding in Indonesia, from charity and social support to creative projects and business investment.

5.1 Author Opinion

Crowdfunding has emerged as a strong driving force in supporting innovation and creative project development in the digital era. By leveraging global connections through online platforms, this phenomenon has made it easier for creators, innovators, and business actors to access the funds they need without being bound by traditional funding constraints. The important role of crowdfunding lies in its ability to raise funds from various levels of society, from individuals to groups of investors, who are interested and believe in the idea or project being promoted. In overcoming the financing challenges often faced by innovative and creative projects, crowdfunding provides a democratic and inclusive alternative, enabling various types of projects to come to life, while connecting creators with a wider base of fans, customers, or supporters. By harnessing the potential of digital networks, crowdfunding has become an important bridge between creativity and funding, helping advance innovation and the development of projects that may have previously struggled to gain sufficient attention or financial support.

Amid the development of digital technology, the role of crowdfunding is not only limited to funding sources alone but also produces a wider impact. Crowdfunding provides a means to test the validity and attractiveness of new ideas, as the response and participation of contributors can provide valuable feedback to the project creator. Additionally, crowdfunding serves as a powerful marketing tool, as successful campaigns often attract widespread media and public attention, which in turn can expand a project's reach and visibility. A project's success in raising funds through crowdfunding may also be early evidence

that the idea has significant commercial potential or artistic value.

By providing access to funds and support, crowdfunding helps drive innovation and creativity which in turn can stimulate economic growth in various sectors. It also supports diversity and plurality of ideas, as projects that may not meet mainstream criteria but still have a positive impact can gain support from relevant communities. In a global context, crowdfunding has provided a bridge for projects from various countries to gain international attention and support.

It is important to remember that, while crowdfunding has significant benefits, challenges such as increased competition and campaign success are not always guaranteed. Therefore, while understanding the positive role of crowdfunding, project creators and entrepreneurs also need to develop effective strategies, good communication, and strong unique value to ensure the success of their campaigns in this increasingly complex and diverse digital era.

6. CONCLUSION

Overall, crowdfunding has proven itself to be a powerful tool in supporting innovation and creative project development in the digital era. By relying on online platforms, this phenomenon provides access to funding and support to project creators from various backgrounds. Through the participation of individuals and groups of investors, crowdfunding overcomes traditional funding constraints, allowing projects with high potential to be realized. However, the role of crowdfunding is not limited to funding alone. It also serves as an initial market test, marketing tool, and liaison between creators and backers. In an increasingly connected global ecosystem, crowdfunding facilitates the fusion of ideas from different parts of the world. Although full of opportunities, project creators must devise thoughtful strategies and communicate effectively to succeed in the competitive crowdfunding environment. Thus, the role of crowdfunding in stimulating innovation and economic growth through the development of creative projects is very significant.

SUGGESTION

The following are some suggestions and recommendations that can be taken as guidelines for utilizing the potential of crowdfunding to support innovation and creative project development:

- I. **Careful Planning:** Before launching a crowdfunding campaign, it is important to plan carefully. Set realistic goals, determine the amount of funding required, and identify effective communication strategies to achieve these targets.
- II. **Clear and Compelling Explanation:** When pitching a project, make sure the explanation of your project is clear, engaging, and easy for potential contributors to understand. Include information about the goals, benefits, and impact of your project.
- III. **Offer Unique Value:** Present why your project is unique and important to contributors. Offer attractive rewards or benefits to those who support your project, such as exclusive products, special recognition, or exclusive access.
- IV. **Focus on Communication:** Throughout the campaign, maintain open communication with contributors. Respond to questions, and feedback, and provide regular updates on project progress. This will build stronger trust and engagement.
- V. **Promote Through Social Media and Networks:** Leverage social media and personal networks to promote your campaign. Inform friends, family, and colleagues about your project and ask them to support and spread the word.
- VI. **Create Engaging Content:** Create engaging visual and narrative content to support your campaign. Videos, images, and stories about the project background can help attract attention and build an emotional connection with potential contributors.

- VII. **Respond to Feedback:** If there is feedback or input from contributors or potential contributors, respond appropriately. This can give a positive impression and show your openness to improvement.
- VIII. **Maintain Transparency:** Ensure transparency in the management of collected funds. Provide financial reports and regular updates on project progress to contributors.
- IX. **Analyze Results and Learnings:** Once the campaign is complete, analyze the results. What works and what can be improved? Learn lessons from your campaigns to improve future performance.
- X. **Collaborate and Expand Your Network:** Consider collaborating with others or joining relevant crowdfunding communities. Expanding your network can help increase visibility and support for your project.

By following these suggestions and recommendations, you can increase the chances of success in your crowdfunding campaign and utilize it as a powerful tool in supporting innovation and creative project development.

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