

CROWDFUNDING IN HIGH-TECH ENTREPRENEURSHIP

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In this article, we discussed when it makes sense for small high-tech entrepreneurial ventures to use crowdfunding rather than another source of finance. Some main characteristics of ventures emerged:

They need to raise a reasonably low amount of capital that would accommodate a relatively small number of investors. First because some legal forms have limitations in respect to that, and second because managing too big groups can prove to be difficult, even with new technologies. There are however a few cases that have shown how to circumvent many of these problems.

They have an interesting project to offer to prospects, in particular something innovative. Indeed, since crowdfunders are not only rent-seekers, they also need to be interested in the project, often ready to become an active investor in decision making.

They need to be willing to extend their skill set, or at least welcome other people’s opinions. The reason for this is that, once again, crowdfunders seek projects where they can participate and be useful. This could be an advantage to anybody.

They need to know how to work the controls of Web 2.0, because the whole process goes through the interactive Internet, from communicating the project to managing shareholders. All of this could be done without the web, but at a considerably higher cost in time, money and efficiency.

Consequently, and mainly because of the first characteristic, crowdfunding is just adapted to small ventures. Bigger ones would be hindered with the cap in associates. Some

companies have however circumvented this problem, like Trampoline Systems. Others adopt different organizational structures such as cooperatives or are based on membership. Moreover, not all small ventures can access it, only innovative ones that plan to grow big. Finally, big ventures might not be able to satisfy shareholders in their need for participation, so that excludes them too.

This paper has studied the emergence of a new kind of business funding, the crowdfunding. It has been argued that funding was particularly difficult to obtain for small businesses in respect of their size and lack of available historical data creating information asymmetry for potential investors. Hence, traditional financing methods like bank loans, business angels or VCs are out of reach for these small companies. Moreover, bootstrapping does not allow businesses to grow fast due to its focus on cash generation, often at the expense of maximizing value creation. As a result, crowdfunding can become a viable fundraising method obtainable for small entrepreneurial companies or project-based initiatives.

Our analysis of crowdfunding practices provides avenues for future research. One urgent question is the relation with intellectual property rights. Entrepreneurs making use of crowdfunding will need to disclose some of their ideas to the crowd well in advance, creating risks of idea stealing due to the fact that potentially valuable information is put into the public domain. Does this deter financially constrained entrepreneurs from tapping the crowd?