Crowdfunding Platform as an Open Innovation Model: The Importance of Effective Platform Governance

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Abstract. Crowdfunding Platform (CFP) is another financing model that is different from the traditional financial institutions. CFP serves not only as a fundraising tool but also as a source of knowledge. CFP has several forms, namely equity-based, lending-based, reward-based, and donation-based. These forms of CFP divided into two classes, investment-based and non-investment-based. CFP is one form of platform Open Innovation (OI), where multiple stakeholders are involved in a funded project. OI refers to the collaborative innovation process. The involvement of multiple parties in OI leads to various risks that can result in collaboration failure, thus preventing the achievement of established CFP goals. Therefore, there is a need for effective governance in OI to manage potential conflicts, coordinate efficient knowledge sharing among the involved parties, and achieve the main objectives of the collaboration.

1 Introduction

Crowdfunding Platform (CFP) is an alternative form of financing, apart from traditional financial institutions, that enables business entities to seek and acquire financial resources online, collectively sourced from multiple individuals (investors), to fund or develop a new specific project [1]–[3]. CFP is highly beneficial for businesses in need of funding for their capital [4], [5]. CFP is a place where people can propose their idea and request financing from others [6]. Compared to conventional financial institutions, CFP serves not only as a fundraising tool (to acquire financial resource) but also as a source of knowledge [7]. CFP CFP is also a tool for gaining benefits such as increased market knowledge, enhanced promotional capabilities, and connection with key stakeholders [8]. Looking at the functioning of CFP, it falls under the category of two-side platform, which provide matching services between two sides of market [9]. CFP does not offer one-to-one matching but rather one-to-many matching since a project requires more than one funder to

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be successful, i.e., to achieve the funding target. CFP needs to attract borrowers, new companies, or charitable beneficiaries, as well as individuals willing to contribute or invest their money in risky ventures [4]. To ensure its sustainability, CFP must be able to recognize and fulfil the interests of all stakeholders, including legal certainty.

Open Innovation (OI) is a new paradigm and approach in addressing sustainability challenges [8], [10]. OI allows companies to leverage external stakeholders’ ideas to develop new products and stimulate the innovation process. OI refers to a form of collaborative innovation process OI [10], [11]. In today’s business landscape, companies need to be more open in fostering collaborations and partnership with various organizations, professionals, and experts [12], [13]. Considering these aspects, CFP can be categorized as one form of OI platform where multiple stakeholders are involved in the funded project [8]. Currently, CFP is one of the popular approach to OI [7]. To achieve this, it is important to understand the nature of relationship among all stakeholders involved in CFP.

2 Literature Review

2.1 Crowdfunding Platform (CFP)

Crowdfunding Platform (CFP) offer a new way to gain financial support [14]. CFP is an online financing instrument that directly connect entrepreneurs with investors, without involving traditional financial intermediaries [15]. CFP facilitates connections and interactions among a large number of different agents. They enable the development of new products/services and new ways to address social needs that may not be adequately met by the market or the public sector [16]. It provides consumers with the opportunity to become investors and finance projects, companies, or ideas, even in small amounts [14].

CFP is classified into four categories [1], [4], [6], [17]:

1. Debt based: This scheme operates similarly to a loan. The borrower raises funds from creditors to undertake a project. After an agreed-upon period, the creditors receive their borrowed money back, along with an agreed-upon interest payment.
2. Equity based: This concept is similar to investors buying shares in a company. When participating in fundraising, the investors’ money is converted into ownership shares company. Shareholders have the right to receive profits in the form of dividends or capital gains when selling their shares in the future.
3. Donation based: Typically aimed at non-profit projects. This fundraiser involves working for a charity to provide assistance to those in need. Funders contribute funds to help without expecting anything in return.
4. Reward based: Primarily used for projects in creative industry. As a token of appreciation for providing material support, funders funding such projects receive exclusive offers in the form of goods, services, or other exclusive rights.

These forms of CFP are divided into two classes. The first class is investment-based CFP. In this class, the funders are investors who participate in the project and receive monetary returns. Form of CFP that fall into this class are equity-based and lending-based. The second class is non-investment-based CFP, where funders cannot expect monetary compensation.
They fund campaigns either because they receive a product or because they support the campaign’s objectives, or a combination of both. Reward-based and donation-based are forms of CFP that fall into this class [9], [18].

2.2 Open Innovation (OI)

The concept of Open Innovation (OI) was introduced by Chesbrough (2003) as a new innovation paradigm. OI refers to a form of collaborative innovation process [10], [11]. The aim of OI is to create opportunities for cooperative new design processes with all external parties through networks, helping companies achieve and maintain innovation processes [19]. Collaboration in the OI process involves the exchange of knowledge and resources, with a defined structure of authority and responsibility based on the active participation of involved parties (organizations or individuals) in innovation activities [20]. OI occurs through three main processes [21]: (1) inbound processes (“outside-in”) of referencing and integrating external knowledge (2) outbound processes (“inside-out”) of selling intellectual assets and bringing new technologies to the market, and (3) combined processes to complements both inbound and outbound OI through alliances and partnership. The collaboration between external and internal entities makes OI a highly complex process [12]. There are various risks that may occur and hinder the OI process. It necessary to have a governance mechanism that outlines the authority, responsibility, and mitigation of potential risks that may arise in the OI process [22], [23].

2.3 Digital Platform Governance

Digital platform serve a socio-technical foundation where varied actors can develop supplementary products, technologies, or services and establish predetermined modes of interaction through designed coordination mechanisms that involve shared feedback adjustments as well as hierarchical and formal controls [24]. Digital platforms reinforce business operations by serving various technical elements, such as software and hardware, that help organizations reconcile within and outside their own structures for smooth business flow [25]. Its also enable ease of connectivity, bringing in diverse external knowledge resources and providing opportunities for sustained collaboration among partners in the supply chain [26].

Platform governance determines who has the right to decide what actions can be taken within the platform. This relates the immediate access granted to external parties and the role of platform owners in managing the involvement of external paties to collectively create innovation and value within the platform [24], [27]. Platform governance outlines how to control access openness within the platform and manage collaborations among internal and external parties [28]. Platform governance regulates interactions within the ecosystem through rules that define rights, obligations, and values that reflect the main objectives and collaborative approaches [29]. It consists of a set of comprehensive rules, constraints, and incentives developed and used by platform owners to address information asymmetry and market dynamics in coordinating and disseminating shared specialized capabilities with platform stakeholders [30].
2.4 Governance of CFP and OI

Several studies on the governance of CFP and OI have been conducted. Annabeth Aagaard, Fabien Rezac, in their research, discovered a sequential model that governs the mechanism of interaction and relationship among organizations in OI projects across the ecosystem [23]. Other studies have also shown that decentralized governance, partner involvement, and shared context are three important dimensions for designing platform ecosystem [31]. Tobias Guggenberger et al conducted research on blockchain-based tokens for equity crowdfunding. This study designed token for equity-based crowdfunding [32]. The research findings indicate that blockchain-based equity tokens enhance efficiency, transparency, and interoperability while complying with regulatory requirements and facilitating secondary market trading.

Niko Ibrahim dan Verliyantina propose a microfinance business model in their research to fund microenterprise through crowdfunding. This model is tailored to the behaviour of Indonesia society, aiming to enhance lender trust and partner and organizational transparency, enabling funds to be allocated to the right individuals and managed appropriately, thus improving the borrowers’ quality of life and achieving the highest potential return on investment. This business model will be implemented through a web-based system that allows all stakeholders to communicate and support each other. The developed business model utilizes the Business Model Canvas, and the proposed crowdfunding business model is specifically designed for non-profit organizations [33]. Further research on crowdfunding has also been conducted by Chaoyang Song, Jianxi Luo, Katja Hölttä-Otto, Warren Seering, and Kevin Otto [34]. Using the Data-driven and Critical Factors methods, this study construct a prediction model with important factors for success of reward-based CFP.

3 Methodology

Traditional literature review was adopted as the methodology for conducting the analysis in this research. Several articles related to CFP, OI, digital platform governance were studied and discussed in this article. These articles are then analysed to find out how CFP is part of open innovation and the importance of platform governance to support this.

4 Discussion

CFP is one form of platform within OI. OI refers to a form of collaborative innovation process. In CFP there are several stakeholders involved where each of them has their own roles and goals but collaborate with each other. The involvement of many parties raises various risks that can lead to collaboration failure, thus hindering the achievement of the desired CFP objectives [35]. Therefore, it is necessary to have good governance in CFP to manage potential conflicts, coordinate efficient knowledge sharing among the various stakeholders involved, and achieve the main objectives of collaboration [36]. But first, it is necessary to determine the form of the CFP that will be built in order to know the needs and interests of the stakeholders.
5 Conclusions

Good governance can minimize the risks that may arise in a digital platform. By controlling vital resources, platform providers can regulate disproportionate access in governance. The establishment of governance in CFP aims to facilitate the realization of OI.

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References


