

# The nature of crowdfunding in China: initial evidence

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## Abstract

**Purpose** – The purpose of this paper is to develop initial evidence about the nature and features of crowdfunding in China, given it is largely unregulated regulatory frameworks.

**Design/methodology/approach** – The paper used extensive desk research using data collected from the public and private sectors, after which the data was analyzed parallel to existing academic literature, that is, institutional context by Bruton *et al.* (2014). This paper uncovered patterns of development, profiling crowdfunding platforms, examining the regulatory landscape and providing antecedents of successful crowdfunding projects in China.

**Findings** – When the traditional financial markets are hard to reach, micro, small and medium enterprises (MSMEs) were starved for capital. Crowdfunding can play a major role in funding and risk sharing. It is an innovative and dynamic vehicle for MSMEs as well as enthusiastic investors in China. Since its initial introduction to China in 2009, crowdfunding has gained substantial popularity in a relatively short period. Currently, there is still not an identifiable guideline on how to delineate the significance of the crowdfunding platform. The development of crowdfunding in China faces a few unresolved key issues. As researchers exploring this phenomenon in new ways, crowdfunding platforms can be enhanced in a manner that benefits the capital seeker, investors and society as a whole.

**Originality/value** – There is a dearth of information on start-up crowdfunding in Asia. With little data available to analyze, so this paper hopes to contribute to knowledge and provide valuable information to researchers and industry representations. Crowdfunding represents a potentially disruptive change in the way that new ventures are funded. This paper represents an initial analysis in the study of new ventures in China. Finally, the authors provide recommendations for entrepreneurs, investors and policymakers as well as researchers and practitioners with suggestions about yet unexplored avenues of research.

**Keywords** China, Entrepreneurship, Crowdfunding, Financing, MSME, New venture funding

**Paper type** Research paper

## 1. Introduction

Micro, small and medium enterprises (MSMEs) are the main contributors to employment worldwide and are considered the backbone of economic activity. However, according to World Bank Research and Policy Report (Abraham and Schmukler, 2017), despite MSMEs significant contributions to the economy, access to financing and funding are relatively limited compared to large enterprises. They are less likely to have formal bank loans or other lines of credit because they tend to be young, informal and operate in unfamiliar business sectors which discourage the conventional financial institution from serving them (Bruton *et al.*, 2014).



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MSMEs financing problem hampers the establishment of smaller enterprises and for second round investment needed to grow, expand and launch new operations that will provide the overall growth of the economy and employment of a country. Based on the study of [World Bank, 2013 Report \(Abraham and Schmukler, 2017\)](#), there is a high proportion of MSMEs needing financial backing from financial institutions:

- 20 per cent of MSMEs in high-income countries;
- 28 per cent in middle-income countries; and
- 44 per cent in low-income countries.

Policymakers have implemented different initiatives and reforms to broaden the access to capital creating secondary exchanges targeted at MSMEs. However, there remains a large unfilled gap when funding these groups. Alternative online financing such as crowdfunding, has proliferated in many countries and begun to fill this gap by offering a diversified range of financing services in areas where conventional financial channels cannot effectively operate or have been too slow to operate.

In China, MSMEs face severe financing constraints that limit their growth and development ([Tang, 2011](#)). Governing funding for MSMEs is limited and favors state-owned enterprises, while private MSMEs face strict eligibility requirements. For example, InnoFund, the largest government program supporting corporate RandD activities of small and medium technology-based enterprises (SMTes) in China, decline to fund high-risk ventures because they prefer state-backed companies ([Guo \*et al.\*, 2014](#)). The founders of crowdfunding noticed the financing problems facing MSMEs and unlocked sources of capital which can enable the potential for dynamic MSMEs to grow.

According to [International Organization of Securities Commissions \(2014\)](#):

Crowdfunding generally refers to obtaining funds of a small amount from many individuals or institutions via online platforms, which are used to provide funding for a certain project, business or personal loans, or other needs.

The efforts of individual or groups of entrepreneurs who optimize the allocation of social resources by raising funds to support their ventures in the form of donation, reward, exchange or voting rights from a large number of crowdfunding sources using the internet without standard financial intermediaries ([Schwienbacher and Larralde, 2010](#); [Mollick, 2014](#)). Based on the China Financial Stability Report of [People's Bank of China \(2014\)](#), crowdfunding is defined as the “model of small amount funding for projects or business activities that were initiated by sponsors via a network with certain returns to investors” ([Wang \*et al.\*, 2018](#)). It is an innovative and disruptive force by sidestepping traditional financing system ([Zhang \*et al.\*, 2014](#)). It plays a significant role in funding and risk sharing from a different kind of investor's providing an alternative financing vehicle for MSMEs as well as enthusiastic investors in China.

Since its initial introduction to China in 2009, crowdfunding has gained substantial popularity in a relatively short period. Currently, there is still not an identifiable guideline on how to delineate the significance of the crowdfunding platform. Unlike other countries in relation to the development of internet-based financing such as crowdfunding, China is a relative a latecomer ([Wang \*et al.\*, 2018](#)). The growth of crowdfunding in China is still in its infancy stage compared to other relatively mature markets. As researchers explore this phenomenon further, crowdfunding platforms can be enhanced in a manner that benefits the founder, funder, society and the country as a whole.

There is a dearth of information on crowdfunding study in Asia. With little data available to analyze, this research will contribute to knowledge and provide additional

information to researchers and industry representatives on the crowdfunding market conditions in China. Crowdfunding represents a potentially disruptive change in the way that new ventures are funded. This paper presents an initial analysis of the nature of crowdfunding in China. Finally, we will provide recommendations for entrepreneurs, investors and policymakers as well as researchers and practitioners with suggestions for yet unexplored avenues of research.

## 2. A framework for analyzing crowdfunding in China

In reviewing the literature on crowdfunding in China, we develop a framework that ties together common elements of understanding crowdfunding industry based on institutional context or institutional environment by [Bruton \*et al.\* \(2014\)](#) which include elements such as the supply of capital, demand for capital, governance considerations and antecedents of this financing alternatives. As stated by [Bruton \*et al.\* \(2014, p. 2\)](#):

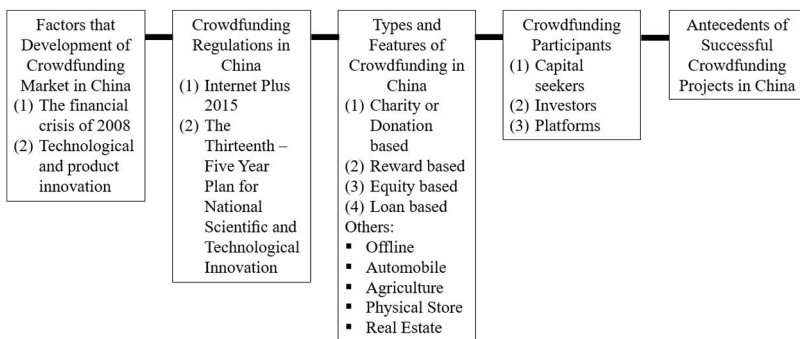
New financial alternatives for seeding entrepreneurship emerge from specific institutional contexts, but over time these financial tools adapt new settings and become viable in numerous institutional settings around the world.

For example, [Khavul \*et al.\* \(2009\)](#) and [Khavul \*et al.\* \(2013\)](#) stated that in many developing economies, strict and tedious banking regulations, family or kinship structures and the absence of global organizations all influenced how alternative finance (i.e. crowdfunding) emerged and how it has evolved.

The institutional environment for crowdfunding has had significant effects on the origin, diffusion and adoption of these new financial alternatives in developing economies like China ([Bruton \*et al.\*, 2014](#)). As a result, the institutional context should be a critical component of any framework to understand crowdfunding. Our introductory article on the nature of crowdfunding in China builds on previous and existing studies to provide a deeper understanding of the framework of emerging alternative in entrepreneurial finance in China. [Figure 1](#) summarizes the model. We discuss its constituent elements below.

## 3. Chinese crowdfunding market

China's rapid development of internet finance coupled with the prevalence of smartphone usage among the Chinese fuel the growth of crowdfunding. According to 2016 China Business Review, 86 per cent of Chinese internet usage is through cell phones. The vast online population, the diffusion of smartphones, the extensive use of social media and the use of online payment such as Alipay and WeChat Wallet drive the success of the Chinese



**Figure 1.**  
A framework for institutional environment of crowdfunding in China

crowdfunding industry. As of 2018, there were around 1.12 billion mobile users in China, 751 million internet users and 911 million active mobile social media users, many of having electronic money (We are Social and Hootsuite, 2018). The World Bank estimated that approximately US\$96bn in funding would be raised in developing countries by 2025 through crowdfunding, of which US\$50bn would come from within China, especially given the rise of female investors and fundraisers (World Bank, 2013). There may be many factors driving the rapid development of China's crowdfunding market and certainly, the world's largest online population is one of the critical reasons (FSDC, 2016).

From 2013 to 2015, the Chinese alternative financing market grew from US\$5.56bn to US\$101.7bn, with the amount of alternative financing in China totaling over US\$100bn (European Commission's Directorate-General for Research and Innovation, 2015). According to the third European alternative finance industry report, the American and EU markets have grown about 480 and 1036 per cent, respectively, while Asia has shown tremendous growth of 2,290 per cent. In Asia, the Chinese market has the fastest annual growth rate of the online alternative financing volume accounting for over 99 per cent of the growth within the Asia-Pacific region (Ziegler *et al.*, 2018). The total number of crowdfunding platforms in the country surpassed 400 and the total amount of funds that were successfully raised reached RMB20bn (Yingcan Consulting Company, 2017).

Two main factors are contributing to the rapid development of crowdfunding in China:

- (1) the financial crisis of 2008; and
- (2) technological and product innovation (i.e. advent of social media platform).

Crowdfunding took root immediately after the global financial crisis (Bruton *et al.*, 2014), so the online search for crowdfunding began in 2008, and there was an explosion of such queries since 2009, "while in China such queries began in 2012 and exploded in 2014" by Google Trends 2016 (Xu and Ge, 2017). Crowdfunding business model rapidly began to expand. The initial focus of crowdfunding activities started with arts and entertainment ventures (e.g. offering gifts, rewards and royalties) because of lesser regulatory policies then they moved to structured loans and equity investments to financed entrepreneurs (Bruton *et al.*, 2014).

In China, the first crowdfunding platform is Demohour that went online in 2011 as a response to the financial crisis in 2008 (World Bank, 2013). After two years of operations, Demohour had received more than 7,000 project proposals. It had raised funds for more than 2,000 projects from small contributors online with the absence of access to bank loans or wealthy private investors. With this success, crowdfunding was identified as an alternative financing vehicle by China. The majority of successful Demohour projects are movie animations including:

- Big Fish and Begonia (2013) – It raised almost RMB1.6mn from over 3,596 backers. The film recorded a box office revenue of RMB430mn.
- A Hundred Thousand Bad Jokes (2014) – The campaign raised almost RMB1.4mn from 5,300 backers. The film earned RMB120mn at the Chinese box office.

Zhongchou also launched a crowdfunding movement to finance the movie "Happy Boys Movie", which attracted 4 million Chinese crowdfunding investors (Hu and Yang, 2014). Another movie entitled "Monkey King: Hero is Back" as the top-grossing project in China's animation history making a record-breaking US\$150mn at the box office. It was initiated through a popular Chinese social media platform WeChat in 2014 where a total of 89 individuals invested RMB7.8mn. The return on investment (ROI) of 400 per cent with a total of RMB30mn which yielded nearly RMB250,000 for each backer (Lee, 2016).

The reasons behind the rapid growth of film and television crowdfunding is the enthusiasm of the smaller investors (Chen and Wang, 2018a):

- for monetary (e.g. box-office sales return, sales of copyright) and non-monetary benefits (e.g. visiting the production crew and entertainers; signature of movie stars);
- to get access and invest because traditionally TV and film financing are done through conventional channels; and
- finally, the rise of online entertainment.

At the end of September 2016, there were 1045 film and television crowdfunding projects (Yingcan Consulting Company, 2017). Also, the theater movie segment has the highest number of investors accounting for 50.61 per cent of the total investors of film and TV crowdfunding in China. Most of the successful projects are online movies (ranked first), the mini-movies (ranked second), dramas (ranked third), theater movies (ranked fourth) and documentaries (ranked fifth) (Yingcan Consulting Company, 2017).

In the five years of development after the first crowdfunding platform, various platforms became established in the Chinese market. In 2013, Alibaba Group introduced China's entertainment industry crowdfunding operated by Alibaba's digital entertainment division and Guohua Life Insurance. It is dubbed Yu Le Bao (entertainment treasure) with an opportunity to finance TV, movie and online game projects by investing as little as US\$8.00 with an annual return of 7 per cent. The objective of the platform is to bring Chinese closer to cultural activities and initiatives of the country. Yu Le Bao investments can be made online through Taobao's mobile app, China's largest online marketplace also owned by Alibaba Group. After the success of Yu Le Bao, Alibaba launched another alternative financing platform known as Zhao Cai Bao in April 2014. A peer-to-peer (P2P) platform, it is designed for investment and financial products offering loans to MSMEs, individuals, universal insurance and structured funds.

Another top e-commerce platform in China, Jing Dong (JD), established Coufenzi in July 2014 which allows users to contribute funds toward individual projects and products. Also, in 2015, JD Equity Crowdfunding was formed and is designed for ecosystem entrepreneurs who need to find early-stage investors. Baidu rolled out Baifa Youxi in December 2013, followed by Tencent's Licaitong in January 2014. Zhongchou in 2013 and Suning Crowdfunding in 2015 are also among the top platforms in China based on their having attracted a large market share. As of 2016, the number of various crowdfunding platforms in China had reached 332. As shown in Table I, as of April 2018 the Big Three crowdfunding platform in China are; Tencent Lejuan, JD Crowdfunding and Taobao Crowdfunding, with 722 projects, 351 projects and 261 projects, respectively. Duocaitou, Kashiba and JD Crowdfunding are ranked the top three in China, based on the amount of funds raised.

In the first half of 2014, a total of US\$40mn in funding was raised by approximately 120,000 Chinese registered investors (Zero2POO Group, 2014). One project is known as "Cuptime" has been one of the most successful projects on Demohour receiving RMB1.35mn from over 2,600 backers in a month. According to iResearch statistics, the Chinese crowdfunding market size had grown to RMB440mn at the end of 2014 (Yang and Zhang, 2016). In the year 2015, Chinese crowdfunding platforms raised the considerable incredible amount of RMB11.424bn, while in 2014, this number was only RMB2.82bn (European Commission's Directorate-General for Research and Innovation, 2015). Blace and Grubisic (2017) stated that China is now the third biggest crowdfunding market in the world.

**Table I.**  
Number of projects  
and amount of funds  
raised as of April  
2018

Platform	No. of projects	Amount of funds raised (10,000 RMB)
Duocaitou	92	54,300.00
Kaishiba	62	19,684.05
JD Crowdfunding	351	12,737.73
Zhongtous	189	12,685.00
Taobao Crowdfunding	261	9,045.98
MI Crowdfunding	13	8,429.35
Idianchou	152	2,414.35
Fenfentou	5	2,369.00
Jumi Crowdfunding	14	1,971.78
Renrenhehuo	1	1,960.00
Weiming1898	3	1,800.00
Ezc360	196	1,576.72
Tencent Lejuan	722	1,300.50
Hehuo8	1	1,252.64
Suning Crowdfunding	71	1,164.72
MINIPO	1	1,152.00

Source: [Yingcan Consulting Company \(2018\)](#)

#### 4. Crowdfunding regulations in China

Unlike the rest of Asia, Chinese crowdfunding platforms have grown consistently since 2011. The rapid increase of crowdfunding operations because of the lack of specific regulations for crowdfunding processes enables platforms to begin their operations very quickly. As a result, substantial risks and challenges faced by investors, project initiators and regulators against illegal unlicensed fundraising have occurred. To address some of these issues, from 2015 to the end of September 2016, the central government has issued a series of policy announcements to encourage the development of crowdfunding.

One of the major policies to boost crowdfunding is the “Internet Plus” initiatives announced on the 5th of March 2015 the aim of which was to help China achieve a digital economy. The plan is to integrate “internet, cloud computing, big data, and the internet of things with traditional manufacturing and consumer industries” (The State Council of the People’s Republic of China, 2015). Under the Internet Plus action plan, allowing traditional financial institutions and alternative financing such as crowdfunding to carry out financial activities with the use of internet technology. The goal also includes the integration of Internet finance with other industries such as logistics, social security and manufacturing. So as of 2015, the establishment of crowdfunding in China must accommodate national guidelines, industry-specific interest and local communities (Hu and Yang, 2014). Chinese authorities also sought to strengthen efforts to crack down on illegal unlicensed fundraising activities while totally encouraging and supporting the development of crowdfunding and the growth of China’s online financial system. On August 2016, State Council issued the “The Thirteenth – Five Year Plan for National Scientific and Technological Innovation” which stated strengthening the innovation and ventures of crowdfunding as well as it indicates increasing the serving capability of crowdfunding to massive innovation and venture.

#### 5. Types and features of crowdfunding in China

The differences between international and Chinese crowdfunding platforms are a manifestation of cultural differences. China’s crowdfunding platforms are distinctly



sale-oriented or commercial (Legrand, 2016; Xiao, 2015). Marketing campaigns are often run by platforms to drive product promotions and sales which is far from the ideal crowdfunding fostered through Kickstarter or Indiegogo. For example, a Chinese startup product like Mars (Bluetooth speaker) by Crazybaby raised more than US\$800,000 on Indiegogo before even refining Mars and preparing it for mass production. The product was only put on the Chinese crowdfunding platform Taobao after having run a successful campaign on the international crowdfunding site Indiegogo and before launching Crazybaby into the domestic Chinese market. More than a thousand units of Mars were claimed by Taobao crowdfunding investors who earned 1277 per cent of the original target, surpassing it by more than RMB200,000 (Xiao, 2015). A similar example is the case of Czur Tech Co., Ltd., a hardware startup based in Shenzhen which produced the ET Smart Book Scanner. Who after successfully attaining funding through Indiegogo successfully launched their product on the JD crowdfunding website.

Most of the crowdfunding platforms in China “do not charge fees or commissions for matching capital-seekers and investors” which encourages trust among capital participants (Hu and Yang, 2014, p. 28). From the perspective of the funders' returns, there are four main types of crowdfunding: donation-based, reward-based, equity-based and loan-based crowdfunding (Beck, 2012; Giudici *et al.*, 2012; Leimeister, 2012), they differ in terms of the return to funders and the allocation of resources (Moritz and Block, 2014; Tomczak and Brem, 2013; Zhang, 2013). Similar to the other international crowdfunding platforms, Chinese crowdfunding models consist of these four main categories as shown in Table II, but have delicate differences in details and development history. Initially, there were only reward-based and donation-based crowdfunding in China and funders at that time invested for rewards or donated. Later, the equity-based and lending-based crowdfunding appeared.

### 5.1 Charity or donation-based

Under this crowdfunding model, investors only expect a social reward for charitable causes, for example, acknowledgments (Leimeister and Zogaj, 2013) but not material rewards in exchange for their investment (Giudici *et al.*, 2012). On August 22nd of 2016, China's Ministry of Civil Affairs made an announcement in their website that out of 29 online fundraising platforms, 13 platforms were officially designated by the Ministry of Civil Affairs as online public fundraising platforms, later reduced to 11 as of August 2018 as shown in Table III. The majority of the charity crowdfunding platforms in China are based in the large commercial and culture hubs of the major cities; Guangdong, Shanghai and Beijing.

The majority of the projects are put forward by non-profit social organizations or non-governmental organizations (NGOs) in China, for example, 706 Youth Space raised more than RMB 100,000 from Dreamore while Zanchou raised RMB222,945 from the Zhongchou crowdfunding platform. As philanthropic activities are relatively new in China, this model is rather novel (Aveni and Jenik, 2017). For instance, Shilehui, one of the oldest charity crowdfunding in China established since 2009 claims to have donated US\$19.2mm in funds that were donated by 175,226 donors (Aveni and Jenik, 2017). Considering China's legal policies, non-governmental organizations (NGOs) choose crowdfunding as the primary source of their funds because they are not allowed to raise money from the public unless they are affiliated with government projects or get permission from the government (Zheng and Liu, 2017). As a result, NGOs have played a significant role in China by encouraging and organizing donation-based crowdfunding and exercising their cultural rights.

Platform	Level	Type	Category	Famous Project
JD Crowdfunding	A+	Reward-based	Art, technology, food, living goods	“NC01U”, “Musiland Voice Box”
Taobao Crowdfunding	A+	Reward-based	Technology, food, comics, design, donation, entertainment, film, book, game	“Chezheng Box”, “Meiweichuangtou”
Tencent Lejuan	A+	Donation-based	Non-profit	“New Year New Clothes”, “My Father is an ALS”
Suning Crowdfunding	A+	Reward-based	Technology, design, non-profit, entertainment, agriculture, culture	“SEEV Technology”
Fun in Funding	A+	Mixed	Treatment	“Help brain tumor girl”
Idianchou	A+	Reward-based	Agriculture	“Comitia of Year Pig”
JD Dongjia	A+	Equity-based	Private placement	“Pengyang Medical”
Zhongchouwang	A+	Reward-based	Non-profit, agriculture, art, film publication, entertainment	“Letong Music”, “Solar Power Station”
Kaishiba	A	Reward-based	Catering, agriculture, accommodation	“Masters in Forbidden City”
36Kr Equity Crowdfunding	A	Equity-based	Hardware, media, e-commerce, entertainment, medical, education, travel, technology	“Chuxinketing”
The 5th Avenue	A	Equity-based	Catering, agriculture, education accommodation, entertainment	“Meilihao Hotel”
Zhongtou8	A	Equity-based	Energy, material, culture, media, pharmacy, IT	“Yihaoguan”
ZHIJIN.VC	A	Equity-based	TMT, IT, internet, entertainment	“Lice LIDAR”
Yimihaodi	A	Real Right-House Property	House property	“Shanghai Jiangzhen Apartment”
Renrentou	A	Equity-based	Offline-store	“Laisi”
Zhong E Caifu	A	Real Right-Automobile	Automobile	–
Changzhongsuo	A	Mixed	Technology, education, sport, film, media, art	“SEED”, “Clean”, “UTH”
Duocaitou	A	Mixed	Accommodation, health, catering, sport, agriculture	“Among Riviera City of Sky”
ijointoo	A	Equity-based	Technology, green, media, design, education, art, consumer goods	“Daofeng Technology”
Choudao Equity	A	Equity-based	Fund-raising	“WIFI Master Key”
MoDian	A	Reward-based	Game, comics, publication, film, music, design, activity, food, technology, public benefit	“Feirenzai Comic”
ichuangye	A	Equity-based	Internet, e-commerce, retail, game, culture, hardware, green, education, travel, agriculture	“Taiping Rubber”, “Chenengdai”
Weicilicai	A	Real Right-Automobile	Automobile	–
Kaoputou	A	Equity-based	Brand, store	“Guanjian Catering Primary School”
jbZhongchou	A	Equity-based	Fund-raising	–

Source: Zhongchoujia (2017)

**Table II.**  
Chinese  
crowdfunding  
platforms rating  
report, 2017



5.2 Reward-based

The reward-based model might be the most prevalent model in China because it is ideal for small-scale projects (e.g. smart hardware, agriculture, used cars, film and television, with various return forms) that offer both tangible and intangible compensation. Funders can get a better price from pre-selling or pre-ordering, as the reward products are often marketed and sometimes available before official market entrance or publication (Hemer *et al.*, 2011; R thler and Wenzlaff, 2011) or even for the price of an acknowledgment (Belleflamme *et al.*, 2014; Kortleben and Vollmar, 2012). In China, reward-based crowdfunding platforms are closely branded with e-commerce where goods and services are delivered in return for funding contributions via the large Chinese technology firms such as Alibaba, Baidu, JD and Tencent, which provide multifunctional platforms for online retail services. This sector accounted for 42.24 per cent of crowdfunding with RMB20.904bn (China Internet Finance Annual Report, 2015). For most reward-crowdfunding platforms, the cash inflows come from service fees or commissions for the successfully funded projects and fees for consulting services (Table IV). After the project has been successfully funded, initial payment funds will be transferred to the capital seeker. The remaining balance will be transferred after the confirmation by the investors of the receipt of the promised outcome of the project.

**Table III.**  
Crowdfunding by  
types in China, 2016

Type	No. of platforms	No. of projects	Volume in RMB billion
Reward-based	222	54,695	16.7
Equity-based	117	4,087	5.3
Public service	18	14,598	0.5
Mixed type	70	–	–

Source: OECD (2018)

**Table IV.**  
The list of 11 internet  
fundraising  
information  
platforms of charity  
organizations as of  
August 2018

Platform name	Entity name
Ant Group Charity Platform	Zhejiang Ant Micro-and-small Financial Service Group Co., Ltd
Baidu Charity Information Center	Baidu Online Network Technology (Beijing) Co., Ltd
China Foundation Center	Beijing Sijiu Non-profit Organization Development Research Center
Gongyibao	Beijing Hopu Juyi Technology Co., Ltd
JD Charity Internet Fundraising Information Platform	China Bank Payments (Beijing) Science and Technology Co., Ltd
Qingsongchou	Beijing Qingsongchou Network Technology Co., Ltd.
Sina Weibo Micro-Charity	Beijing Weimeng Chuangke Network Science and Technology Co., Ltd
Tencent Charity Online Fundraising Platform	Tencent Charity Foundation
Taobao Charity	Zhejiang Taobao Co., Ltd
United for Charity	Shanghai United Foundation
Xinhua Charity Service Platform	Xiahua Network Co., Ltd

Source: The Ministry of Civil Affairs of China (2018) – China Development Brief

### 5.3 Equity-based

Big investors tend to favor the equity-based crowdfunding model most of the various models especially for large projects (Wang *et al.*, 2018). Crowdfunding utilizing the equity-based model is also known as crowdsourcing, crowdlending or crowdinvesting and is a means of dealing securities via an internet platform where investors acquire shares of a business as an investment for financial return (Brem *et al.*, 2014; Hornuf and Klöhn, 2013; Leimeister and Zogaj, 2013) such as investment crowdfunding (Barnett, 2013, p. 1) in the German-speaking realm (Kraus *et al.*, 2016). In China, where equity-based crowdfunding has not been legalized, it takes the form of private-placement led equity-investment mechanisms' using both offline and online channels. It is known as clubbed investing or online angel-investing.

The funders of equity-based crowdfunding projects are regarded as investors, they get shares of projects as their return (Mollick, 2014) and aim for profit sharing in the form of dividends or distribution (Beck, 2012; Brem and Wassong, 2014). For example, AngelCrunch, launched in November 2011 operated by Tianjin Sheng Bang Investment Co. Ltd. was one of the first equity crowdfunding platforms in China, later followed by other well-known platforms including Dajiatou, Yuanshihui, Renrentou, Ihetou, Yunchou, Daibang, ichuangye and TSJ123. All of them share certain operational models such as an investor membership system, lead-investment plus co-investment and offline and online modes. Among the more well-known of the projects supported by AngelCrunch are:

- Didi Dache, a ride-sharing company which collected US\$2.4mn to startup operations in China; and
- Huang Taiji, a traditional Chinese breakfast store which received US\$0.5mn.

Although on the global scale, equity-based crowdfunding market value is smaller than the other three major types in China, it is the mainstream model (Hu and Yang, 2014). Because of China's strict regulations on public offerings, equity crowdfunding can only be a private offering and is supervised and administered by China Securities Regulatory Commission (CSRC), China Banking Regulatory Commission (CBRC), The People's Bank of China and the China Insurance Regulatory Commission (CIRC). As stated by Chen and Wang (2018a, p. 33), because of strict requirements for investors, higher risk, a higher threshold of equity investment and because of the challenges of making a profit, the success rate for equity crowdfunding is generally low.

As stated by Yingcan Consulting Company (2017), as of 2016, there about 127 equity crowdfunding platforms including the five internet giants; Alibaba, JD, Baidu, Suning and Qihoo 360. For the equity crowdfunding platform, the profit models include:

- commission fees which are usually 3-5 per cent of the total funds raised;
- equity shares by becoming the shareholder of the firm; and
- value-added fees, for example, management consulting, legal and financial advisory services.

### 5.4 Loan-based

There are several names of loan-based crowdfunding including; "debt-based crowdfunding", "P2P lending" and "marketplace lending" (Ng, 2017). These "bring together borrowers and lenders directly rather than through a banking intermediary" (Economist, 2014). In this model, funders provide capital through small, medium or large loans which are suitable for large projects, and they can earn interest before the making of loans based on contracts

(Giudici *et al.*, 2012). In this kind of crowdfunding model, debts are issued to borrowers to raise funds in the form of loans that will be paid back to the lenders over a pre-specified period with a pre-determined interest rate (Hemer *et al.*, 2011; Kaltenbeck, 2011; Kortleben and Vollmar, 2012). This is typically a loan between an individuals and companies (Barasinka and Schäfer, 2010; Mach *et al.*, 2013). Many crowdfunding studies have not considered P2P lending as a kind of crowdfunding although it is a popular form of funding for borrowers in China (Zhang *et al.*, 2014). The CBRC has also drafted stricter regulations and rules for the lending-based crowdfunding to regulate its activities (Zhang *et al.*, 2014).

For this type of crowdfunding in China, the individual lending the money receives the firm's legally binding commitment to repay the loan at specific period intervals and a particular interest rate. Launched in 2006, CreditEase backed by Morgan Stanley's private equity arm for Asia is considered one of the largest lending-based crowdfunding in China. In 2013, CreditEase and IDG Capital Partners established a US\$100mn fund to assist Chinese start-ups that are creating financial services technology (Zhang *et al.*, 2014). During the same year, the estimated P2P loans were about RMB70bn, which was about three times larger than in 2012 (Zhu, 2014), while according to China's Expanding Cyberspace (2014), the Chinese P2P lending platforms issued RMB89.7bn in loans in 2013. Later in 2015, P2P lending reached a total market volume of about US\$52.44bn in China (Zhang *et al.*, 2016).

#### 5.5 Sub-fields of crowdfunding in China

In addition to the various types of crowdfunding models in China that are discussed above, some other models are developing in the market.

5.5.1 *The "offline crowdfunding"*. Refers to a phenomenon that some funders in China would like to have more personal contact, so they meet and know each other in some offline places before investing. There are some general rules of offline crowdfunding such as:

- the number of investors cannot exceed 200;
- fundraising should only be among acquaintances; and
- investors should never be lured with a promise of high returns.

Some examples of this model include:

- JRCoffee's total financing is estimated at RMB100mn. Crowd-funders in this case invested money and received shares of equity. Additionally, in return, they also get a membership card for the purchase and consumption of coffee of the same value, with a five-year validity period. Most shareholders of the coffee shop are in their 40s or 50s and tend to be middle to top-level managers at financial institutions (Lan, 2014). About 60 per cent of the funders hold a master degree, and up to 30 per cent are from overseas (Wang *et al.*, 2018).
- The 1898 café in Zhongguancun (China's Silicon Valley) is a notable example of offline crowdfunding. Located in Beijing, it is one of the most famous crowdfunding cafés in China. All 120 investors of 1898 cafe are Peking University alumni who each contributed RMB 30,000 to open the café (Ko, 2016). In return for their investment, each person gets a consumption card to redeem food and services from the café (Wang *et al.*, 2018).
- As stated by Wang *et al.* (2018), Wei Ming Café (or Unnamed Café in Chinese, mimicking the name of the famous Wei Ming Lake in PKU's Beijing campus) was also crowdfunded by 200 PKU alumni with RMB50,000 from each. As a shareholder, all the investors of the café are entitled to use the facility as part of their return package.

- 3W Café was established in August 2011 through crowdfunding from more than 180 investors who put in RMB60,000 each. The investors include some well-known internet, technology, and business individuals. Subsequently, 3W Coffee has helped incubate more than 100 start-ups.
- Project Nongfu is a P2P lending platform registered as an NGO with a social initiative to support entrepreneurial efforts of rural villagers in China. It was founded in 2009 by Winnie Kao with a mission to help children, families and the elderly who were left behind by workers from the rural area who moved to the urban and industrialized areas. The mission is to improve the well-being and revenue streams of those left behind. According to [Zhang et al. \(2014\)](#), Project Nongfu loans are divided into three categories: small businesses, animal husbandry and agriculture. The annual investment size ranges from RMB2,000 to RMB30,000 of which there is a 1 per cent service fee and a 0.3 per cent collection fee per month to support operations.

*5.5.2 Agriculture crowdfunding.* There are ten agriculture crowdfunding platforms in China focusing on agricultural products and technologies ([Yingcan Consulting Company, 2017](#)). There are two types of agriculture crowdfunding model:

- (1) *Group Purchase + Pre-orders model.* In this model, farming activities come first, followed by crowdfunding, after which investors receive the agricultural products. Products are posted on the platforms for products such as local specialty agrarian products or healthy green foods. At that point, the investors can choose the product that they want to invest.
- (2) *Customized Production model.* The objective of this model is to raise funds for agricultural farms or products to increase farmers' income. In return, investors can have a leasing right of the farm, or ownership of some targeted agrarian products (e.g., fruit trees, farm animals), within a specific timeframe. If the project successfully funded, then the farmers do the planting or breeding activities based on the needs of the investors and then deliver the products to the investors after the harvest. The investors can also visit the farms to experience or observe the farming or breeding process.

As stated by [Chen and Wang \(2018b\)](#), the growth of agriculture crowdfunding is relatively slow, largely because of factors such as:

- long production cycle of agriculture products;
- farming or breeding can easily be affected by natural calamities;
- difficulties in transportation and logistics;
- limited scope of the target investors or consumers; and
- product scope is typically restricted to local specialties.

*5.5.3 Automobile crowdfunding.* Automobile crowdfunding is considered one of the most popular crowdfunding in China ([Chen and Wang, 2018b](#)). The types of vehicles sold are used cars, imported cars and new cars from channels other than the general auto dealers. In China, it is not easy for these dealers to avail external loans. As a consequence, these dealers have to explore alternative ways of financing including P2P online lending and automobile crowdfunding. Some characteristics of automobile crowdfunding are:

- the investors can get the return for a short time;
- the platforms provide a guarantee of buy-back from investors and sellers; and

- high-yields of investment (above amount minus the returns paid to the platforms and dealers).

The typical business model of this crowdfunding is the Bid-Ask Spread. Under this model, the investors purchase vehicles for resale through crowdfunding and make a profit through the price difference when the cars are later sold.

As of September 2016, there were 87 automobile crowdfunding platforms with 14,713 successful projects. The majority of the platforms are located in Shandong which accounts for 54 per cent of the total platforms, followed by Jiangsu, Guangdong, Hebei, Shanghai and Anhui. The total amount raised by automotive crowdfunding platforms reached RMB6.313bn of which sedans and SUVs jointly account for nearly 90 per cent. The project tends to attract brands like Mercedes Benz, BMW, Audi (top three brands), followed by Porsche, Land Rover, Volkswagen and Toyota. For example, in 2014, Sino-French carmaker DS leveraged the WeChat social commerce platform as the key driver for the first automotive crowdfunding campaign. As a result, a total of 2,500 DS 5LS models were sold across China in three months by 15,850 fundraisers and 250,000 supporters (De Carayon, 2014).

*5.5.4 Physical store crowdfunding.* In this business model, investors can assist the project initiator to establish or expand the business, and in return, they can obtain equity shares via dividends, profit sharing, physical rewards. This model is ideally suited for service type businesses in such market segments as; leisure, entertainment, catering, accommodations, physical wellness and education. There were 61 physical store crowdfunding sites as of September 2016 of which those located in Beijing, Guangdong, Zhejiang and Shanghai account for 78.69 per cent. The amount of funding raised by the physical store Crowdfunding in Beijing alone accounts for RMB1.358bn, over 70 per cent of the total amount of funds raised.

*5.5.5 Real-estate crowdfunding.* There are three business models in real estate crowdfunding in China as stated by Chen and Wang (2018b):

- (1) *Cooperative Building Model* – This type of real estate crowdfunding focuses solely on residential properties. The investors must be identified and confirmed; before the land can be acquired. The investors can participate in the in-house development, designs and interior decorations.
- (2) *Marketing and Sales Model* – These real estate projects are also solely used for residential properties. To promote sales of the houses, the real estate companies use fixed yield, lottery or auction of houses with discounted prices.
- (3) *Wealth Management* – These real estate projects cover both residential and commercial properties, and this model is the mainstream one adopted by real estate crowdfunding in China. Most housing properties listed on the real-estate crowdfunding platforms are non-performing assets obtained through auctions.

On March 18, 2016, Shenzhen Internet Finance Association issued the Notice on Prohibition of Speculative Crowdfunding in the Real Estate Industry and Control of Financial Risks, requiring all Shenzhen internet financial firms through crowdfunding to stop financing activities in the “bubbled” real estate market (Wang et al., 2018). It was followed by another prohibition in Guangzhou. Guangzhou Association of Financial Industry, Guangzhou Internet Finance Association and Guangzhou Real Estate Agents Association jointly issued the Notice on Prohibition of Down Payment Loan and Speculative Crowdfunding in Real Estate Market, requiring all members of these organizations to stop the down payment loans and crowdfunding for real estate property purchases (Wang et al., 2018). As a result, there is

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a decrease in real estate crowdfunding platforms registered in Shenzhen and Guangzhou, some closed their businesses or completely ceased operations of real estate related activities. In other parts of China, real estate developers have adopted crowdfunding with online promotional campaigns to attract homebuyers by providing them with incentives, guarantee returns and price cuts.

## 6. Crowdfunding participants and the success of projects in China

The crowdfunding business ecosystem enables the demand and supply side of the investment process to interact directly without the intermediary functions that were provided by many financial institutions (Wang *et al.*, 2018). The goal is to collect small amounts from many members of the community in order to realize the project (Egger *et al.*, 2016). This process involves three types of participants: fundraisers as entrepreneurs or capital-seekers who provide the idea/project, crowdfunding platforms as an intermediary and investors as funders or backers.

### 6.1 Capital seekers

Capital seekers on crowdfunding portals present creative and innovative products or services. These portals or platforms provide an appropriate channel through which investors are able to invest and provide financing for the un-served and underserved capital-seekers seeking to raise funds. The portals offer assistance to seed-stage ventures as well as early-stage start-ups and micro-entrepreneurs who have only a basic foundation of business operations as well as those who need a small amount of funding and low cost, fast funding.

In the past, novice entrepreneurs' business ideas were generally self-funded or funded by their family and friends (Cumming, 2012; Dushnitsky and Shapira, 2010; Irwin and Scott, 2010). If the founders sought funding from bank, then they would need assets, usually real property to obtain a mortgage. Seeking venture capital through institutions requires that they have a perfect business project plan or a breakthrough idea. Less significant innovations may not be able even to get a chance to be born because they cannot get financial support from those conventional financial institutions (Yang and Zhang, 2016). Crowdfunding as alternative financing offers those entrepreneurs the needed funding with little due diligence (Agrawal *et al.*, 2013).

The types of crowdfunding projects in China are mainly in the areas of film, publications, music, technology, service, IT, energy, education, travel, design, food and games. There are also some crowd funders that target social problems or the not-for-profit sector. For example, Zhongchou.com is the first crowdfunding platform with an independent channel only for crowdfunding journalism. Crowdfunding journalism refers to the way to finance reporting by fundraising from ordinary people (Liu, 2016). Based on this channel, some news content that is hard to be published via traditional media can get financial support.

Crowdfunding can also help entrepreneurs gain feedback on their projects or products that have not yet been manufactured and may provide them with positive net cash flow. Some entrepreneurs might want to start large business projects, which require more financial support, crowdfunding offers them opportunities to make a small pilot or test studies, even experiments or pre-sales before they actually have to manage their own businesses. Crowdfunding provides an ideal testing ground for those projects (Yang and Zhang, 2016). Entrepreneurs can often get benefits of pre-sales, word-of-mouth promotion and market research. The information they collect from the life cycle of crowdfunding projects can help them adjust their strategies and products at the lowest costs in both time and money (De Buysere *et al.*, 2012).



### 6.2 Crowdfunding investors

Crowdfunding claims to provide a foreseeable financial return with a small-scale of capital inputs at a higher efficiency. So many enthusiastic Chinese investors are induced by the promise of financial gain and are likely to make an irrational investments decision without recognizing the risk involved (Blace and Grubisic, 2017). According to World Bank (2013), the Chinese users' mentality is "more accustomed to the role of the buyer rather than the investor". They are more concerned about the physical products and benefits than supporting the entrepreneurial spirit of the project initiators, which has been a significant element of crowdfunding popularity in the USA (World Bank, 2013). According to Liu, a PR representative of Czurtek, "Chinese backers are more interested in price and deals, whereas backers on international crowdfunding platforms will be interested in the product itself" (Xiao, 2015). Also, crowdfunding project investors frequently do not focus as much on specific business plans, on the core values and ideas of the crowdfunding projects. This increases the success rate for the entrepreneur who has good ideas and marketing campaigns (Ekedahl and Wengstrom, 2010).

The goals of crowdfunding funders can be defined quite simply into three different categories based on motivation: social return, material return and financial return. First, the social return refers to those situations where the funders will be satisfied even if they see a project achieved even if they get nothing else in return. This kind of return is usually combined with donation-based crowdfunding and non-profit organizations. Second, the material return, which is very similar to the normal online shopping; the funders get a service or product as a return for their investment. Sometimes this model is called pre-sales crowdfunding especially if the value of the service or product is close to the amount of the investment. Finally, financial return, where the funders focus more on the perceived value of the investment. In this type of return, the founder's risk is diversified between emotional and financial motivations (De Buysere *et al.*, 2012). From an alternative investment perspective, crowdfunding provided a niche opportunity for a specific segment of investor groups with relatively smaller idle money to invest. Crowdfunding helps improve the efficiency of resource allocation and fund usage in the financial market (Wang *et al.*, 2018).

### 6.3 Crowdfunding platform

In China, many internet financial platforms emerged with the growth of P2P online lending in an unregulated market environment (Wang *et al.*, 2018). The entrance of crowdfunding provided a timely option and an innovative way to integrate internet and finance while at the same time targeting the un-covered and underfinanced groups in the society. Crowdfunding platforms are mainly focused on for-profit-businesses where earning comes from transaction fees, commission fees, management fees and percentage fees of the total amount raised, so they want to attract more high-quality projects and more investors from near or far (Agrawal *et al.*, 2013).

Aside from serving as an intermediary between capital seekers and investors, crowdfunding platforms provide services to facilitate the success of the project including; public relations, social networking, community building, project evaluation, project accreditation, information gathering, video recording, information gathering, project monitoring, project recommendation, promoting project success and start-up coaching and training. Utilizing the informal marketing services inherent in the platform, MSMEs can foster stronger relationships with investors that can result in the long-term support and loyalty of the investors (Gerber *et al.*, 2012). Also, receiving investors' feedback and suggestions can better identify what customers value (Schwienbacher and Larralde, 2010; Agrawal *et al.*, 2013).

The Chinese crowdfunding platforms have adopted a very different business model than standard crowdfunding platforms in the West. China crowdfunding platforms are interconnected with e-commerce platforms (e.g. Alibaba Group Holding Ltd., Jing Dong Holding Ltd.) and with virtual payment platforms (e.g. with Alipay and Tenpay). This drives innovations in China's financial market. And provides the capability to involve larger numbers of internet users, thereby increasing the potential for the online financing of loans, investments and other financial products via smartphone. The Chinese Crowdfunding Platforms Rating Report (Zhongchoujia, 2017), as presented in Table V shows the scores for 25 crowdfunding platforms indexed according to various indicators system which are then divided into four levels: A+, A, B+ and B.

### 7. Antecedents of successful crowdfunding projects in China

A Crowdfunding project is successful if the funding goal has been met or exceeded the target amount within the set period. It is a failure if the funding goal is not met and the investors receive their investments back and the project can therefore not be realized and is scrapped (Babich *et al.*, 2017). Hou *et al.* (2015) determined the common antecedents of a successful project using a dataset from Demohour. The results show that project duration, goal, initiator participation and experience, the number and source of followers and the number of visitors affect the success of the projects in China. Yip (2014) highlighted four feasible strategies for Chinese Social and Environmental Small and Growing Businesses (SESGBs) to use US-based crowdfunding platforms to gain access to financing:

- (1) personal and professional network;
- (2) marketing contributes to campaign success;
- (3) positioning their campaign; and
- (4) invest time commitment.

Zheng *et al.* (2014a) found that reciprocity, obligations to fund other entrepreneurs, social network ties and the shared meaning of the project between the capital-seekers and investors had significant effects on crowdfunding performance in China.

For example, in China, those seeking capital can market their product by telling investors that it is an inexpensive product, an excellent product, good quality or worth the money (Xiao, 2015). Unlike the projects or products posted on Kickstarter or Indiegogo, initiators write a story about the product and the backers tend to care about the details demonstrating knowledge what the project (Xiao, 2015).

Zheng *et al.* (2014a) also compared the cultural differences between China and the USA. Because China is a collectivistic society, the personal relationships play a more critical role than the USA. In this context, social capital is one of the decisive factors in the success of crowdfunded projects in China. It suggests that the crowdfunding platforms motivate

Platform	Service fee	Proportion of initial payment
Taobao crowdfunding	Free	50% of total raised funds
JD crowdfunding	3% of total raised funds	70% of total raised funds after deduction of service fee
Suning crowdfunding	3% of total raised funds	60% of total raised funds after deduction of service fee
Zhongchou	1.5% of total raised funds	70% of total raised funds after deduction of service fee

Source: Yingcan Consulting Company (2017)

**Table V.**  
Charges and initial payments for reward crowdfunding platform

founders to get connected using social media and also to support other founders to increase the success rate of their crowdfunding projects. The founders need to share more information about their projects in the form of images and video rather than only a written description. In this way, the founders are able to tell stories and improve the understanding between investors and themselves which can lead to successfully funded projects.

Zheng *et al.* (2014b) surveyed the sponsors in Demohour and found that team experience played a significant role in improving project success. Zheng *et al.* (2016) indicated that trust management significantly enhanced fundraising performance. Activities such as personal and dynamic message interactions were more effective and gained more support from the backers than static, historical success records via institutional sources, that is, entrepreneur's creditworthiness and peripheral sources, that is, entrepreneur–sponsor interactions. The primary cultural system for Chinese is relation-based in which trust is quite significant. As stated by Li *et al.* (2003), when the public rules are unfair, and the state cannot enforce the laws impartially, investors will, therefore, become more willing to rely on personal relationships.

Wang *et al.* (2015) studied employee signaling theory to explore the factors that influence fundraising success. Factors such as capital seekers' previous experience, backers' comments and capital seekers' positive replies can significantly improve the chance of the fundraising success. Based on the study of Shi and Guan (2016) using 1,557 crowdfunding technology projects from JD platform, results show that the objective of the project and having a promotional video makes a difference in gaining more funding from the backers. Xu *et al.* (2016) pointed out the role of project novelty, project implementation, sponsor participation, entrepreneur activeness and sponsor demographics are the essential variables influencing sponsor satisfaction. For example, in film and TV crowdfunding projects, the projects that use non-monetary returns ranked first in attracting potential investors. Non-monetary benefits refer to visiting crews, playing a part, embedding advertisement, meeting and taking photos with stars and participating in celebration event and free rewards peripheral products, including movie tickets, signed photos, posters and T-shirts.

Gou and Tian (2016) studied public service projects in the Zhongchou crowdfunding network through June 2016 and identified some factors that affect the ability to raise funds successfully. Those factors included; transparency of project information, the way the investors receive the return and the degree of concern of the public service project. Bi *et al.* (2017) found that signals of project quality (e.g. larger introduction word counts and higher video counts), e-word of mouth (e.g. higher "Like" counts and online reviews), have significant effects on investors' investment decisions. Qian and Lin (2017) study showed that the founders' credibility, project description and pictures improved the likelihood of project success. The research of Zhao *et al.* (2017) found that commitment has a positive influence on backers' funding intention of crowdfunding project.

The findings of Wang *et al.* (2018) demonstrate the importance of interaction between creators and backers in crowdfunding success as measured by factors such as; comment quantity, comment sentiment, reply length and reply speed. An empirical investigation of Shahab *et al.* (2018) using Ordinary Least Squares (OLS) reveals that feedback score, project quality (number of updates) and social capital (followers on Weibo project sharing on social media) are all critical factors in project funding success in China.

## 8. Conclusion, implications, limitations and further research

### 8.1 Conclusions and implications

With the innovation of the various emerging alternative finance models like crowdfunding, this study has sought to understand the institutional environment of crowdfunding industry in China, given it is largely unregulated regulatory frameworks, uncover patterns of

development, profiling crowdfunding platforms and analyzing the regulatory landscape. We used this framework to develop an initial understanding of crowdfunding environment in China that will be the basis for further scholarly effort on the said topic. Several trends and patterns can be deduced from the data and information presented in this paper. Readers will find different points value depending on their perspectives and roles. Venture capitalists and investors, those seeking funding, those with social aims and casual or individual investors may all find this research of value and for very different reasons. What we can surmise are the following points:

- Crowdfunding in China has grown to be a major force in a relatively short period of time.
- The vast majority of businesses accessing crowdfunding channels in China are MSMEs because the crowdfunding platforms are much more individually driven and direct investment model.
- The legal and regulatory system in China has responded both regionally and at the national level as a means to promote economic development within the highly structured legal framework, discouraging questionable business practices, while at the same time in a way that supports and encourages crowdfunding.
- There are several, in fact, many variations of crowdfunding in China, depending on the aims and goals of those parties providing the funding as well as of those seeking funding. The variations differ, and care should be taken by both funders and fund seekers to focus their efforts on the appropriate variation for their projects and goals.
- Like the majority of business activities in China, in crowdfunding Chinese tend to rely on personal relations to govern their interests. Thus, there tends to build higher levels of trust for people who conform. It is an important part of Chinese culture and commercial as well as other activities. It is an online extension of traditional financing by friends, family and communities. Care should be given to understand and include this concept in both funding and fund-seeking activities, especially by non-Chinese.
- The institutional ownership of Chinese crowdfunding sector is high with major companies such as Alibaba, JD and Tencent playing increasingly influential roles.

It is apparent that crowdfunding is an important driver of innovation and entrepreneurial-based economic development. It is crucial that policy-makers and stakeholders are informed by up-to-date studies on the development of the said industry to best harness the industry's full potential. There is a substantial reservoir of entrepreneurial talents, activity and capital lay dormant in many emerging economies. So developing a regulatory framework that leverages advances of online financing technology can create an early-stage funding marketplace. This will facilitate capital formation while providing investor protections through education and training. The risk of online financing requires regulatory protection and collaboration with other entrepreneurial activities such as private sectors, incubators, accelerators and universities to build the culture of trust which is essential to promote web-based interactions. So it is necessary to analyze the nature of crowdfunding in developing countries to improve its regulatory system and support and promote entrepreneurial projects with real potential.

### *8.2 Limitation and further research*

Drawing upon recently completed research on a topic is considered good practice for researchers in many fields and for many reasons, including the increased likelihood that the findings sourced will be relevant. In the case of this paper, there is no option but to rely on recent research because of the fairly recent emergence of the concept of crowdfunding in China. However, there are instances where drawing upon research from a longer timeline

has merit. The downside to reliance on more recent research is that there is not a baseline or historical situation to compare to.

This benchmarking study invites academic researchers to carry out more empirical studies on crowdfunding. For instance, study on the factors and measures that can realize the full potential of alternative finance across Asia Pacific region. It will be interesting to profile the stakeholders of crowdfunding models to understand their behavior and motivations and key driving elements when utilizing crowdfunding channels. How do crowdfunding platforms do due diligence to the stakeholders utilizing their services? In terms of success rate, do capital seekers that raise funds via crowdfunding platforms perform better in terms of financial performance than funds raise from traditional financial channels? Can crowdfunding harness poverty, promote entrepreneurship and sustainable development?

For this reason, there is a need for further research in two specific areas. First, longitudinal research following up on the existing research would help identify trends in the area of crowdfunding in Asia Pacific region. Second, because of the relatively few sources of information and data on the existing situation, replicative research on the existing research would be prudent in seeking to validate what information is available and help serve to build a solid foundation on knowledge in the area of crowdfunding in China and in the Asia Pacific region.

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