Accountability and governance of crowdfunding

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Project Description:

Crowdfunding has been receiving considerable attention in academic literature since it came to limelight in the late 2000s with the rise of social media and online crowdfunding platforms. However, as a relatively new phenomenon, academic research in this area is still in its infancy.

Access to finance has traditionally been a challenge for start-up businesses; especially the innovative, high risk businesses during the initial phase of the start-up. Crowdfunding has revolutionised this process and is now widely regarded as a key growth area for funding for new and small companies and creative projects. It has become a large industry with the total transaction value in the crowdfunding segment amounting to over $6 billion (USD) in 2019. Not surprisingly, there has also been a surge in the number of online crowdfunding platforms, most of which have become household names, such as Seedrs, Kickstarter or GoFundME. Such platforms act as intermediaries facilitating the transactions between the “crowd” of potential investors and the entrepreneurs. Despite its popularity and rising influence, research into accountability and investor protection has only just started (Cumming et al., 2016). As the market matures, issues such as the accountability for completing the project or using the funds for what they intended to get used for will gain importance.

In the last two decades, especially since the financial crises of 2008, the concept of accountability has become popular within both the public and private sector. Stakeholders demand for more transparency and disclosure and see it as a panacea for most ills that confronts society. Corporations are expected to explain, justify and take responsibility for their actions.

This doctorate project seeks to provide a better understanding of the role of accountability and governance in crowdfunded businesses. Monitoring, transparency, and accountability ensures proper information exchange between the business and investors, prevents fraud, reduces the likelihood of corruption and ineligible use of funds. Accounting, governance and accountability of crowdfunding is an important area of research that has not received much consideration in academic literature. As we expect more demand for accountability and transparency from public, it is important to see how it affects the crowdfunding industry.

In the context of accountability and governance, crowdfunded projects are entrusted with certain expectations and responsibilities from the investors. In the absence of effective accountability, how do these entrepreneurs account to investors as to the discharge of these responsibilities? Moreover, since investors usually have no economic incentive to undertake due diligence or monitor the risks because of the small amounts they are risking, accountability becomes even more necessary. To this end, the research may also shed light on the mechanisms of accountability in crowdfunded businesses to achieve better information dissemination as well as role of crowdfunding platforms in ensuring and advocating for increased accountability. A proper accountability relationship may help reduce the information asymmetry between the business and crowd members.

It is hoped that this project will present a new understanding of the importance of accountability and governance in crowdfunded businesses and explore the potential incentives for crowdfunded projects to engage in any form of accountability. Another potential avenue of investigation could be an examination of whether higher levels of accountability and transparency may encourage more backers funding projects or exploring the influences and
factors investors undertake into their decision-making process when deciding to allocate capital to crowdfunded projects.

We envisage the research project to be flexible according to the interests and background of the PhD candidate. However, the research proposal should relate directly to this theme and the doctorate is expected to develop more specific research questions within this area.

Applicant Specification

The candidate must express a keen interest in accountability and crowdfunding related research. Prior knowledge and experience in both qualitative and quantitative research methodologies is highly desirable. Strong econometrics skills and knowledge of financial market databases would be an advantage.

About the Supervisors:

Anwar’s current research interests are in the area of finance, with a particular focus on the market efficiency in countries with predominantly Muslim population. His recent work was published in the British Accounting Review that investigated calendar anomalies within the Islamic and Gregorian calendars and whether there is an interaction effect when anomalies from both calendars coincide. Anwar also wrote a piece on Sharia-compliant leases arguing that UK auto lenders are missing a valuable business opportunity and that Islamic financial products are not fundamentally different from their conventional counterparts. Other areas of research Anwar is currently working on include corporate governance, fair value accounting, impact investing, political ties and firm value and risk.

Henry is a Senior Lecturer in Finance. His research is on entrepreneurial finance and the link between early-stage financing and innovation. He has published papers on financing activities of innovative firms and the consequences of venture capital and private equity financing in small and large enterprises. Some of his most recent work involves accelerators and incubators in the UK, as well as financing decisions of business angels.

References / readings:


