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The benefits of crowdfunding for early-stage entrepreneurs: Between finance gap and democratic involvement

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Crowdfunding has fundamentally impacted the world of entrepreneurial finance by providing a new alternative to equity, debt and bootstrapping which allows entrepreneurs to leverage 'the crowd' in order to generate financial investment and further 'value-added' benefits (Belleflamme et al., 2014; Harrison, 2013; Ordanini et al., 2011) generating £2.7 billion of investment in 2012 (Massolution, 2013). While research has begun to develop understanding of the phenomenon, this has tended to focus on the dynamics of investment platform activity, rather than the experiences of the entrepreneurs who engage in this activity. This paper empirically investigate the perceptions of benefits by early-stage entrepreneurs involved in one of the most common forms of crowdfunding; reward-based.

Through thematic analysis of interviews with a pilot sample of 2 experts and 5 early-stage entrepreneurs, benefits were identified, explored and contrasted with the literature and an existing conceptual framework before being explained. This resulted in a new empirically contextualised 'benefits' conceptual framework. Some of the anticipated benefits in the literature including overcoming finance difficulties and providing a basis for future finance were supported. Whilst the literature emphasises democratic investor involvement through financing decisions, the results of interviews indicated that investor involvement was more wide ranging and diverse, from simple investment to continuous engagement in the development of the business, supporting an understanding of how democratic involvement of the 'crowd' actually occurs. Furthermore, a number of drawbacks to crowdfunding are identified, such as the onerous time commitments of engaging in crowdfunding. Overall, the approach of each entrepreneur, their engagement with investors and the benefits they realised was found to be influenced by their personal ambitions and approach.

The empirically informed framework of benefits in crowdfunding from this study fills a gap in crowdfunding research and provides the basis for new enquiries. This adds value by illustrating the potential of crowdfunding research to go beyond a concern with platform activity to a better understanding of the impact on small business development and entrepreneurial learning when deciding on funding sources. The paper highlights that the issues relating to crowdfunding go beyond simple access to project finance to seeing crowdfunding as one aspect of a broader resource development strategy for early-stage projects. Furthermore, it illustrates how the entrepreneurs' own ambitions and approaches to venture development inform how they engage with crowdfunding investors. Finally, the framework suggests that the concept of democratic 'crowd' involvement may go beyond platform investment dynamics, through beginning to outline the process through which a new form of community stakeholder engagement in early-stage projects may be emerging. As a pilot study there is an opportunity to develop this study further by conducting international

cross-case analysis to further refine and contextualise the benefits framework and extend through further exploring the issues identified.

1. Introduction

'We are witness to the rise of a new kind of investor, a new kind of entrepreneur, and a new kind of intermediary, who are all coming together in novel ways of channelling funds to innovative projects and SMEs.' (Klaes, quoted by De Buysere et al., 2012, pp. 5).

The fundamental principle that a business cannot begin or survive without cash is difficult to dispute (Van Auken and Neeley, 1996; Cassar, 2004; Axelson and Martinovic, 2013). Yet, for many new and early-stage businesses, funding is difficult to acquire. Whilst there are many reasons for this, including knowledge asymmetries and lack of a track record (Ebben and Johnson, 2005), it remains a serious concern in a world where the creation and growth of SMEs have long been considered fundamental to a thriving economy (Macht and Robinson, 2014; OECD, 2014; Lam, 2010; Grilo and Irigoyen, 2006; Cassar, 2004).

Crowdfunding is a recent phenomenon whose novelty, openness and exponential growth have attracted the interest of millions of people around the world (Mollick, 2014). This is particularly true of reward-based crowdfunding, such as the campaigns made famous by Kickstarter (2014). Millions of dollars are raised every year, occasionally by single projects, but a key question is whether this can help to overcome the difficulties faced by the entrepreneurs behind early-stage businesses?

In addressing this question, this paper considers the literature regarding entrepreneurial finance. The difficulties faced by early-stage entrepreneurs are considered, and their primary coping mechanisms analysed. Then, we introduce Macht and Weatherston's (2014) theoretical framework of crowdfunding benefits, and identify the limitations of this work and empirically interrogate this framework through interviews with experts and entrepreneurs.

This culminates in the presentation of a new empirically-based framework depicting the benefits of reward-based crowdfunding as perceived by the interviewees, in the context of early-stage businesses. In this context, the term 'early-stage entrepreneur' is used to describe anyone who has used business creation as a vehicle with which to create or exploit an opportunity, and has not raised external financing for their current project outside of crowdfunding.

2. Factors influencing the rise of crowdfunding

2.1. Entrepreneurial financing

Procurement of financial capital has long been accepted as one of the main difficulties encountered by those starting new business ventures, and there exists a wealth of literature seeking to understand, analyse and make recommendations for businesses requiring capital (Denis, 2004; Ho and Wong, 2006; Klein et al., 2014; Macht and Robinson, 2009; Wong, 2002; Kerr et al., 2011; Kerr, 2010; Lam, 2010).

Despite the attention this area receives both academically and in practice, there remains a gap. New venture businesses, requiring early-stage or 'seed' funding are often left with two options: self-financing or external forms of capital. External finance in particular, including debt and equity, has attracted significant research attention in understanding their unique benefits and drawbacks (e.g. Baeyens and Manigart, 2006; Brettel, 2003; BVCA, 2009; Cassar, 2005; David, 2012; Denis, 2004; Fried and Ganor, 2006; Harding and Corwling, 2006; Howorth and Moro, 2006; Hsu, 2002; Mahmud, 2013; Mason and Harrison, 1999; Stiglitz and Weiss, 1981; Van Osnabrugge and Robinson, 2000; Wong, 2009), yet often there lacks the sufficient amount of either (Lam 2010).

2.2. The 'funding gap'

In the 42 countries assessed by The Global Entrepreneurship Monitor, over 90% ($600m) of start-up capital was raised from sources other than banks and venture capitalists, with just 5.8% of that coming from BAs, and over 60% being invested by the founders themselves (GEM, 2006; Lam, 2009). Moreover, it is estimated that fewer than 0.5% of new ventures are created with business angel (BA) or venture capitalist (VC) investment (Bygrave et al., 2003, pp. 114). With an average of $65,000 start-up capital required for a business (GEM, 2006), a shortage of funding can significantly restrict business start-up activity, As a result, access to finance has become a priority of governments, business owners and subsequent research (Hill et al, 2006; Department for Business, Innovation and Skills, 2012).

Whilst it is difficult to identify the exact demand for entrepreneurial finance at any given time, it is widely agreed that there is a considerable discrepancy between the supply and demand for such finance (GEM, 2006; Winborg, 2005 cited in Winborg, 2009; Lam, 2010; Macht and Weatherston, 2014). The Breedon Report (2012) estimates that in the UK, the difference between supply and demand of bank lending to early-stage and small businesses totalled £27 billion in 2007-2012, predicted to increase to £106 billion by 2017. This phenomenon is often referred to as the ‘funding gap’, and is cited as the primary reason that many entrepreneurs attempt to succeed with little or no external funding at all (Ebben and Johnson, 2006), requiring a range of activities on behalf of the entrepreneur, referred to as ‘bootstrapping’ (Carter and Van Auken, 2005; Winborg and Landstrom, 2000).

3. Crowdfunding as an alternative

Crowdfunding is a recent paradigm in the field of capital acquisition, whereby start-up and established businesses, charities and other initiatives may seek to generate funds publicly online amongst a range of potential private investors. The aim is to utilise this ‘crowd’ by raising small amounts of money from a large number of people.

At a time when the market for SME financing is in decline, crowdfunding is in a state of consistent growth. 2012 saw an increase of 81% up to $2.7 billion of funding being raised via online crowdfunding platforms, distributed amongst over one million projects. This reached $5.1 billion globally in 2013; up from $530 million in 2009 (Massolution, 2013). Whilst these figures are all-inclusive, comprising three types of crowdfunding and a range of global platforms, it is reasonable to assume that reward-based crowdfunding for early-stage businesses has also enjoyed considerable growth.

It is clear that new ventures rely on financial capital in order to succeed, and that those who don’t receive funding from more traditional sources seek alternative options, often with suboptimal results (Mosey and Wright, 2007). The issue of access to finance for early-stage and small businesses has also been exacerbated by the post-2008 global recessions (Harrison, 2013), and the ‘funding gap’ very much remains.

Yet, the post-2008 economies have also seen the rise of crowdfunding as a legitimate source of finance for businesses of all sizes, stages and industries (Schweinbacher and Larralde, 2012). Essentially the financial aspect of the broader crowdsourcing movement (Kleeman et al., 2008; Cumming, 2012), it can be said that:

‘[Crowdfunding] involves an open call, mostly through the Internet, for the provision of financial resources either in the form of donation or in exchange for the future product or some form of reward to support initiatives for specific purposes.*’* (Belleflamme et al., 2014, pp. 588).

The ‘reward’ here can be any of the three modes of crowdfunding: equity, debt and donation or reward (i.e. no financial or ownership rights) which, individually and as a collective, are fundamentally affecting traditional forms of entrepreneurial finance (Belleflamme et al., 2014; Harrison, 2013; Ordanini et al., 2011). In terms of volume, 2012 saw the total of crowdfunding raised globally reach $2.7 billion – a growth of 81% on 2011, which itself saw growth of 64% (Massolution, 2013). Donation and reward-based crowdfunding, henceforth referred to as ‘reward crowdfunding', contributed $1.4 billion of this total, demonstrating the particular strength of this crowdfunding mode.

Whilst crowdfunding as a concept is far from new – the Statue of Liberty's pedestal was reward-crowdfunded in 1885 (Harrison, 2013) – its current form as an online financial platform came into popularity in 2009 with the launch of Kickstarter, and has seen over 1.1 million projects and ventures successfully funded by 2012 (Massolution, 2013).

As crowdfunding is a relatively recent phenomenon, research is understandably lacking, certainly in terms of empirical studies. The most directly relevant study in this area is that of Macht and Weatherston (2014), which comprises a review of the crowdfunding literature in order to discern the potential benefits and drawbacks which fund-seeking businesses might experience. They develop a framework of theoretical benefits, building on Macht's prior empirical work regarding those of business angel (BA) investment (Macht and Robinson, 2009; Figure 2). The paper considers all three types of crowdfunding.

The framework is built upon Macht and Robinson's 2008 review of BA benefits, and the four broad advantages of BA and VC funding are presented as potentially applicable to crowdfunding, with important differences added.

As an initial investigation, Macht and Wetherston's conceptual framework is developed from a literature review, yet lacks any empirical evidence. In addition, the framework's focus on the firm, rather than the entrepreneur, as the unit of analysis is a further limitation. Especially in small, young companies, it is likely to be the entrepreneur who makes the decisions regarding financial capital (Winborg, 2009) and as a result it is important to understand the perceptions of the individuals involved.

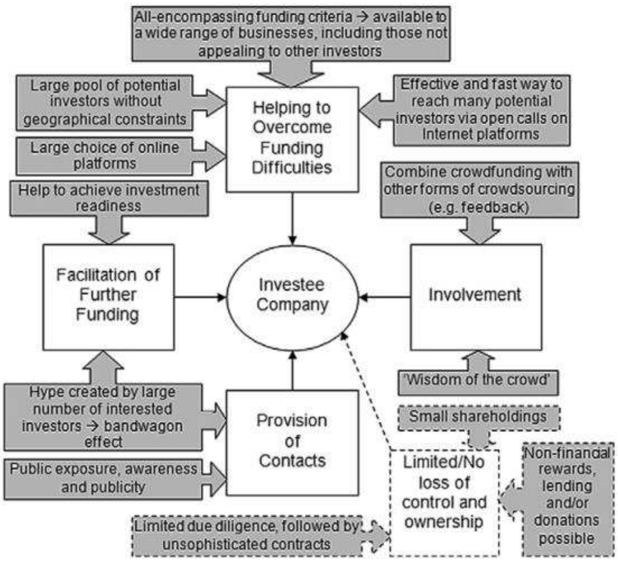

Figure 1. Framework of crowdfunding benefits (Macht and Weatherston, 2014).

4. Methodology

In order to investigate the research question an initial pilot study was conducted. Initially, we conducted semi-structured interviews with two experts in the field of reward-based crowdfunding: Foxtrot, the Chief Software Officer of a UK-based reward crowdfunding platform and Golf, a co-founder of a UK-based equity crowdfunding platform.

The experts confirmed many of the features discussed in the literature. They both emphasised the unrestricted nature of crowdfunding in terms of business industry and stage and the publicity benefits for fundraisers generated through this medium's link with social media.

Golf, whose own platform enables equity, debt and reward crowdfunding, put a particular emphasis on the speed with which entrepreneurs can generate capital:

> ‘The main benefit, without a doubt, is that...you can raise the money quickly…As soon as the money is raised, it’s yours.’ (Golf)

Foxtrot also acknowledged the speed and relative ease with which a business can obtain crowdfunding, mostly owing to the limited due diligence involved. A key concern for this respondent was that these two features were suggested to enable the entrepreneur to acquire funds without a plan or post-investment monitoring . Whilst this is considered a benefit in the literature (Schwienbacher and Larralde, 2012), Foxtrot suggested this somewhat removed the responsibility of the entrepreneur to leverage the finance optimally. This was suggested to be exaggerated in the case of reward crowdfunding, where repayments need not be made at all.

Interestingly, neither expert mentioned the involvement of the crowd in the ways discussed by Macht and Weatherston (2014), other than their potential use as form of market research to validate a market offering before launch. Both respondent instead preferred to focus on the ease for entrepreneurs of raising finance.

As the first stage of the pilot study, the discrepancies between the experts’ perceptions and extant literature helped to informed subsequent interviews with the entrepreneurs. However, it is acknowledged that neither the experts had first-hand experience of crowdfunding a business themselves. And whilst academic research regarding the platforms, industry and the ‘crowd’, along with expert opinions, are useful in addressing the research question, there is a lack of understanding of the individuals at the centre of the movement: the entrepreneurs themselves. As a result the next stage of the pilot study involved direct interviews with entrepreneurs.

5. Perceptions of the entrepreneurs

This stage of the empirical study involved conducting 5 interviews with entrepreneurs around their experience of reward-based crowdfunding campaigns for early-stage startups. These participants are referred to as Alpha, Beta, Delta, Epsilon and Gamma. Early-stage firms were chosen as a focus as these were considered to be more likely to involve critical startup development issues than those faced by established small firms seeking funding for new product lines. Four key themes emerged, two related to the procurement of entrepreneurial finance directly, and two surrounding the involvement of the ‘crowd’ and the ownership benefits of reward crowdfunding specifically.

5.1. Overcoming funding difficulties

The entrepreneur’s ability to obtain finance has long been cited as one of the key determinants of a new venture’s success (Van Auken and Neeley, 1996; Mosey and Wright, 2007). Based on their literature review, Macht and Weatherston (2014) anticipated that crowdfunding would offer unique opportunities in this area including, importantly, a lack of restrictions regarding the nature of the firm involved.

Type of firm

Whilst all of the entrepreneurs ran early-stage businesses, four were for-profit, limited liability firms with one a non-profit community interest company (Alpha). Of the for-profit firms, Gamma and Delta were considered to be lifestyle firms, whilst Beta and Delta pursue modest growth. In addition, each business operates in a different industry. Whilst equity investors typically pursue high growth technology firms, and debt finance typically requires asset consideration, the results show that crowdfunding was available to these entrepreneurs, all of different industries and varying ambitions, as anticipated by Schwienbacher and Larralde (2012) and Lambert and Schwienbacher (2010).

The 'funding gap'

The funding gap is demonstrably an important issue for small, early-stage firms seeking a relatively modest amount of capital (Bygrave et al., 2003). As the aim of the study was to empirically explore the benefits and drawbacks of reward-based crowdfunding, the data sample selected comprised only entrepreneurs who had raised capital in this way. Each participant raised a relatively moderate amount; considerably less than would be expected of a BA, VC or debt capital (Barrow et al., 2005; BVCA, 2009). The largest amount raised was £11,023 (Beta), with the highest target being £10,000 (Beta). It is perhaps for this reason that VC finance was never considered an option by any of the five participants.

Although the sample in this study does not preclude the acquisition of higher amounts, it shows that smaller finance, largely unobtainable through other external means (Ebben and Johnson, 2006; Baeyens and Manigart, 2006), can be acquired in this way.

For four participants, crowdfunding was their first experience of raising external finance (Alpha, Beta, Delta and Epsilon). Three of the entrepreneurs stated explicitly that alternative financial vehicles were unavailable for them (Alpha, Beta, Epsilon).

> '[Personal debt] meant that I couldn't go to the bank; they would have laughed me out of the lobby...and I don't buy things on credit, I always use cash.' (Epsilon)

> 'At that stage, it wasn't necessarily an investable business.' (Beta)

Interestingly, however, only one of the participants (Gamma) attempted to acquire external funding and, although it is unlikely that they would have acquired such funding (Lam, 2010; GEM, 2006), it demonstrates that the so-called funding gap might be exaggerated in mind of the entrepreneurs studied. As such, whilst Macht and Weatherston (2014) anticipate that crowdfunding is useful for those firms lacking 'investment readiness' (pp. 4), findings indicated that the firm was only considered unready by four of the entrepreneurs interviewed. Alternatively, as has been shown with bootstrapping techniques (Winborg, 2009), the entrepreneurs may have made an active decision to pursue crowdfunding due to the unique benefits attached:

> 'We were only raising $15,000, and whilst we could have raised that from individuals, we looked more from a donor perspective than from investment.' (Delta)

There are a number of benefits unique to reward crowdfunding, as perceived by the entrepreneurs interviewed. One of these is the speed with which capital can be acquired.

Speed of capital acquisition

All of the participants' online campaigns ran for 30 days or less, and the funds took no more than 5 days to be transferred to the entrepreneur. For two participants, speed of capital acquisition was crucial, as it enabled one to monetise an existing service before a competitor emerges (Beta), and the other to set up a business within a month of losing their prior employment and avoid personal financial difficulties (Epsilon):

> 'We were in a major hurry. I got fired [from my previous job] at the end of June and we had the shop open by the end of October.' (Epsilon)

One participant, who crowdfunded in 2011, was actively pursuing BA investment; a process which had been running for two months and was not yet complete (Beta).

This benefit of crowdfunding has been overlooked in the literature. This is possibly as reward crowdfunding has previously been considered alongside debt and equity, which are likely to involve time-consuming legal complexities.

Cost of capital acquisition

Many entrepreneurs consider the repayment costs and longevity of traditional funding deals to be too high a price for financial capital (Winton and Yerramilli, 2008). As such, they often seek alternatives. Reward crowdfunding is one such alternative, and has three primary costs: the commission taken by the online platform, the money transfer (third-party) fees and the cost of issuing the rewards. The platforms used here are Indiegogo and Crowdfunder, which collect 4% and 5% of the total raised, respectively. Only two participants (Alpha and Beta) knew the commission rate, suggesting that either the rate seems insignificantly low or is simply factored in when selecting a target amount. Using the reward scheme as a prepayment on sales enabled Gamma to circumvent sales tax (circa 8%), and one participant considered it to be ‘free money’ (Epsilon).

> ‘I don’t remember what the percentage was. It’s free money. I will gratefully pay a percentage for that.’ (Epsilon).

Prior research has overlooked this comparatively low cost of capital, presumably as debt and equity crowdfunding, previously analysed alongside reward crowdfunding, holds a similar financial cost to traditional debt, BA and VC finance (Golf). Beta, however, who had experience of raising crowdfunding and BA finance, highlighted that whilst crowdfunding was considerably cheaper, a significant other associated cost was time.

Time considerations

Four participants stated their surprise at how much of their time their crowdfunding campaigns required (Alpha, Beta, Delta and Gamma). Prior to the campaign, they saw crowdfunding as a relatively simple financial vehicle, but two significant time factors emerged. Firstly, as the crowdfunding platforms operate an ‘all or nothing’ policy, the entrepreneurs had to ensure the target was achieved. This caused significant effort on the part of the entrepreneur, the extent of which was unexpected:

> ‘It takes considerably longer, and considerably more attention than you originally expect. I gave up everything else for 6 weeks.’ (Alpha)

Beta, who is currently seeking BA finance, explained the differences in the process and how, in his experience, crowdfunding required much more time input to achieve much smaller amounts.

> ‘People probably underestimate how hard work it is...because founders tend to have [a] disproportionate interest in their sector and [a] belief that people should back them, but often the public doesn’t have time or interest.’ (Beta)

The participants indicated that the time commitments required would be a serious consideration for the four entrepreneurs, when considering whether to take part again. However, it would seem that crowdfunding has innate benefits in this area.

5.2 Facilitate further funding

As with BA and VC investment, it is anticipated that the publicity generated by a successful crowdfunding campaign can result in further contributors to the campaign (Van Wingerden and Ryan, 2011). Concurrently, in overcoming the ‘funding gap’ and progressing along the stages of development, it may receive interest from traditional funding vehicles as it becomes perceived as being ‘investment ready’ (Mason and Harrison, 2004).

Interviews revealed three distinct examples of this phenomenon, each seemingly related to the motivations and ambitions of the entrepreneurs. Three of the entrepreneurs used crowdfunding as a way to achieve self-sufficiency for their ‘lifestyle’ firms. Two entrepreneurs in growth firms, felt better able to seek further funding via traditional means. In addition, there also emerged examples examples of crowdfunding’s unique nature as publicity generated further crowdfunding within the same campaign.

Facilitation of further crowdfunding

A discrepancy with the literature-based expectations was that publicity served as a direct benefit for the business, other than in financial terms (Macht and Weatherston, 2014). For the early-stage businesses in this study, the publicity generated by the crowdfunding campaign, served principally to increase the funding received during the campaign itself:

'I got a lot of support from the local press and the local MP which helped to get pledges in. The Chamber of Commerce supported it, and I got money from the police authority, the fire authority, businesses and individuals...this wouldn't have happened using a traditional route.' (Alpha)

This was particularly prevalent with two firms based in the UK (Alpha and Beta), for which the novelty of crowdfunding proved particularly beneficial:

'In our area, Eastbourne, [crowdfunding] is very unusual, so it had the novelty value for news coverage and interest.' (Alpha)

Additional direct benefits of publicity were not cited by any of the participants. This is potentially as the businesses involved have a strong community-based element, with a limited geographical potential. As such, it is possible that the wider 'public' were simply uninterested in engaging with a business which they are unlikely to encounter, or merely unable to contribute further than a simple online payment. Considering Macht and Weatherston's (2014) benefits framework, in the case of reward crowdfunding for early-stage businesses, these findings suggest that the 'publicity' element should be removed from 'provision of contacts' and restricted to being an element of 'facilitation of further funding'.

Facilitation of traditional funding

The focus of the entrepreneurs interviewed in this study was largely on becoming self-sufficient, with just one participant seeing crowdfunding as a direct step towards further finance (Alpha):

'The fact that we exceeded the target gives the people we approach the confidence that there is support for what we're doing, and confidence that we are a capable team. They can trust their funding with us.' (Alpha)

Alpha operated a social enterprise and, in terms of external funding, sought government and private grants. Crowdfunding, in this instance, provided Alpha with perceived validation from the crowd that the service they offer was necessary to the people they targeted, and that the public were willing to financially support the enterprise. Alpha confirmed that these two features were particularly important considerations for grant providers, and had previously been difficult to illustrate as a regular grant applicant.

Clearly, Alpha's case is significantly distinct from the rest of the sample, for whom further funding was likely to be either generated by the business itself (self-sufficiency), or procured from more traditional funding vehicles, and might somewhat explain this difference in crowdfunding experience.

Two participants planned to receive further investment in the near future (Beta and Delta), with both parties claiming that crowdfunding had no direct impact on either their likeliness to receive the funding, or their desire to apply. Yet, Beta did acknowledge an indirect benefit:

'I wouldn't say that crowdfunding has been directly instrumental in enabling us to do that, but it has in an indirect way: people support the idea...it built a narrative of proven support.' (Beta)

This 'narrative of proven support', much like with Alpha, generated confidence with future funders. As is well documented in the literature, investors often provide and seek market-confidence in the form of prior investment in the venture (Denis, 2004; Munck and Saublens, 2005), and it is possible that this phenomenon operates across funding vehicles; a group which now includes crowdfunding.

Whilst Beta was in the process of seeking BA investment, Delta planned to pursue external funding in the next two-to-three years, giving both participants a three-year gap between crowdfunding and traditional external finance.

Interestingly, of the respondents these were the two with growth ambitions. This aligns with the equity investment literature which demonstrates that BAs only target growth firms (Denis, 2004; Macht and Robinson, 2009), but also the reverse is true: only growth firms, in this sample, are seeking BA investment. For both parties, crowdfunding enabled them to be self-sufficient until they decided to significantly grow the business further.

Self-sufficiency

Two participants saw crowdfunding as enabling them to develop the business into a self-sustaining entity (Gamma and Epsilon), and held no ambitions to expand:

‘We just sell stuff now, and that’s okay for us.’ (Epsilon)

This approach aligned with their ‘lifestyle’ ambitions for the business and reluctance to take on equity and debt obligations; ambitions which are unlikely to be attractive to investors (Collins and Pierrakis, 2012).

This benefit is closely related with the issue of the funding gap, as investors are typically reluctant to fund lifestyle businesses (Denis, 2004). It is possible that reward crowdfunding begins to substitute or heavily supplement bootstrap financing for entrepreneurs who seek early-stage funding for lifestyle businesses.

Each entrepreneur undoubtedly received further funding as a result of their crowdfunding campaigns. Be it the publicity generated by the novelty of the process increasing the contributions to the campaign, the pursuit of external funding by the entrepreneur at a later stage, or simply elevating the business to a position of self-sufficiency, the facilitation of further funding was cited by the entrepreneurs as a important feature of their crowdfunding experience.

This benefit of crowdfunding is anticipated by Macht and Weatherston (2014, pp. 9), as they ‘tentatively’ proposed a potential bandwagon effect (further crowdfunding) and elevation to ‘investment readiness’ (further external funding). The experiences of the early-stage entrepreneurs here, however, seem to be directly related to their personal ambitions for the business and, as a result, ‘self-sufficiency’ emerges as a category within this theme.

5.3 Involving the crowd

Previous research has identified ‘value added’ components for each of the main sources of entrepreneurial finance, such as the personal networks of BAs (Kelly, 2007) and the growth and exit expertise of VCs (Denis, 2004). In their review of the crowdfunding literature, Macht and Weatherston (2014) anticipate that firms might benefit from investor involvement in multiple ways, namely through ‘wisdom’ (skills and knowledge), custom, product testing and specific feedback.

In the case of reward crowdfunding for the early-stage entrepreneurs in this study, three distinct relationships with the crowd were highlighted.

Custom and community

It seems reasonable to anticipate that those donating money to a business in return for no equity or debt might be motivated by the product or service on offer, should the business launch or expand. And, indeed, this is anticipated in the literature (Macht and Weatherston, 2014). Four of the entrepreneurs interviewed received direct custom from at least a portion of their pledgers (Alpha, Beta, Gamma and Epsilon).

With reward crowdfunding, as the name suggests, those who pledge receive a reward (a non-financial gift), pre-selected by the entrepreneur and linked to the value of donation. The application of this scheme is unique to reward crowdfunding as a finance vehicle, and two participants utilised it to their direct advantage (Gamma and Epsilon). Whilst Gamma offered discounted annual gym membership as a reward in order to guarantee custom prior to opening and circumvent sales tax (helping the business become self-sufficient), Epsilon used the reward scheme to create a community amongst her customers.

> ‘The people that donated the money, they come in with their ‘mug club’ mugs or wearing their t-shirts, and I can say, “You guys are extra special because you helped me most when I needed it most”. It’s like we’ve created a club...I actually refer to my shop as the Clubhouse.’ (Epsilon)

This ‘crowdfunder to customer’ process has so far received minimal attention in the literature. However, this process was not always about generating new customers as the vast majority of pledgers in this example, already used the entrepreneurs’ service in a different context. For example, Beta was operating a popular page on a social media platform, and utilised crowdfunding to develop a website as a place to collate information and monetise a popular concept.

One participant's prior employment as a fitness instructor enabled them to develop a large network of customers in an industry where personal relationships are highly valued (Gamma). As such, many of the crowdfunding pledgers were existing customers, very familiar with the service being offered.

> 'If people wanted to come to the gym because they knew me and I was their trainer for so long, it would be doubly beneficial for them to donate...[the donors] were a mixture of people I'd had for a long time, and then just friends and family.' (Gamma)

It was clear that Gamma recognised this unique element of reward crowdfunding and, much like Beta and Epsilon, utilised the vehicle as a way in which to convert existing support and relationships into financial capital for the business. Interestingly, these are examples of bootstrapping techniques at work (Winborg and Landstrom, 2000), with reward crowdfunding providing the platform from which to organise and leverage existing networks.

Alpha, however, was surprised to realise that the vast majority of pledges came not from those who sought to utilise the service, but from those motivated by altruism:

> 'It's surprising...only a very small percentage of people who pledged have used the website… probably because the topic [support for women] touched a nerve with people.' (Alpha)

This was perhaps because Alpha operated a social enterprise which offers a specific service to a specific group of people. This sense of altruism went further, as a number of individuals contacted Alpha not only to pledge, but to make suggestions for the developing enterprise.

Intellectual and network contributions

One participant received significant intellectual contributions from the 'crowd', fundamentally affecting the business and service offered (Alpha).

> '[The business] changed enormously. It is grown from just being an online resource, to considerably more than that...[Pledgers] have got in touch to ask if I've got in touch with particular organisations and suggesting potential service users.' (Alpha)

Interestingly, Alpha's experience in terms of the crowd offering their contacts and demonstrating industry knowledge is similar to what Macht and Robinson (2009) found to be important benefits of BA financing (but without the equity and monitoring commitments). In this manner, the vast quantity of potential 'investors' becomes a significant benefit, as different members of the 'crowd' offer their own unique networks and ideas. Although this was anticipated by Schweinbacher and Larralde (2012), the focus was primarily on product development and specific feedback, rather than fundamental business development considerations. Macht and Robinson (2014), however, anticipate that 'provision of contacts' might benefit the crowdfunding firms. Yet, only one participant cited this as an example, and so it is more appropriate to include contacts as part of an overall 'intellectual and network contribution'.

The intellectual contributions did not end when the crowdfunding campaign finished. Medium- and long-term developments have arisen, which the entrepreneur attributed entirely to the use of a crowdfunding platform:

> 'We have [a local] University's Marketing and PR students doing reports for us for 3 years. We're also putting a 5 year plan together to expand way beyond the original crowdfunding application. It's grown enormously as a result of [the crowdfunding platform].' (Alpha)

Whilst only one participant experienced this (Alpha), it highlights a potentially very important benefit of reward crowdfunding for early-stage entrepreneurs or, at least, early-stage social entrepreneurs. This was not the only type of crowd involvement benefit.

Labour contributions

Two participants discussed their experience of pledgers to their crowdfunding campaigns subsequently working for their businesses, in both paid and voluntary capacities (Alpha and Epsilon). Whilst other sources of finance, for example BAs, often contribute networks, contacts and expertise (Kelly, 2007; Van Osnabrugge and Robinson, 2000), the pledgers for the two participants here contributed directly to the day-to-day operations of the business.

> 'I've had people volunteering to become involved and support the development of [the business]. I've got a chartered accountant, a healthy and specialist and an IT specialist, all coming in as a result of [the crowdfunding platform]. And it's all free.' (Alpha)

One participant, for whom numerous people volunteered and one pledger now works, suggested that the act of pledging commits people to the business, and they want to see it succeed.

> 'When you extend the invitation to people to be part of your business, they run with it. They're not only Mug Club members, they do weed-whacking round the back of the shop, change the furnace filter every couple of months...they're invested.' (Epsilon)

Even though the entrepreneurs attributed the involvement of the crowd to the crowdfunding campaign, it is not known whether or not alternatives would have been readily available, should they have decided to use an alternative funding vehicle. However, it is interesting to note that two entrepreneurs involved were a social enterprise, for whom altruistic motivations have already been established, and a business owner who used crowdfunding as a way in which to develop a community. It is possible that the motivations of these entrepreneurs cultivated an environment whereby the labour contributions of the crowd became almost inevitable.

Whilst the literature suggests that not-for-profit firms are likely to be more successful raising capital (Lambert and Schwienbacher, 2010), it makes no such comparison regarding crowd involvement. Yet, whilst this research only includes one social entrepreneur, the differences between the experiences and perceptions with profit-seeking entrepreneurs suggests that there might exist an innate trend. Perhaps, whilst social entrepreneurs benefit primarily from intellectual and physical contributions, for-profit business can leverage reward crowdfunding for businesses. Clearly, this suggestion requires further research.

5.4 Maintain ownership and control

The nature of this form of crowdfunding enabled the entrepreneurs to retain full ownership and control of their businesses. The majority of crowdfunding contributions are reward-based, with 22% of pledges being donations, comprising no reward, cash or otherwise (Lambert and Schweinbacher, 2010). This was experienced by each of the research participants.

Supplement alternative sources

Two participants received other forms of capital in addition to crowdfunding; one a loan from a relative (Epsilon), the other BA investment (Gamma). Interestingly, both entrepreneurs raised significantly more finance in this way, each tripling their overall capital influx. As such, they have taken on debt and equity repayments, respectively. Crowdfunding, in both cases, was intended to supplement the debt and equity in a way to minimise the financial costs of capital. However, their willingness to take on debt and equity, respectively, suggests that both entrepreneurs believed crowdfunding to be unable to provide the full amounts required; and this was indeed confirmed. It is possible that a more experienced campaigner would have targeted a higher amount, as other research suggests that firms of any industry and of any size can generate capital from crowdfunding (Schwienbacher and Larradle, 2012).

Trial without obligation

For two participants, part of the motivation for running a crowdfunding campaign was to seek validation of the business and test the extent to which people were willing to pay for the service. Reward crowdfunding enabled them to do that with no obligations (Beta and Gamma).

> 'We had an existing audience...so we wanted to crowdfund from them to see if they would pay for the benefit we were promising them.' (Beta)

'It was a huge, necessary part of our development, because we wouldn't have known if we had any clients at all, had we not signed people up through that website.' (Gamma)

Whilst, at first, this benefit could reasonably be part of overcoming the funding gap, the two citing participants were the two with an existing customer base. Reward crowdfunding, as such, was considered an excellent platform for them to test support to ensure the sustainability of their business.

Macht and Weatherston (2014) anticipated that retaining ownership and control would prove to be an influential benefit for crowdfunding entrepreneurs, whilst other literature cites these issues as important reasons for rejecting alternative funding (Winton and Yerramilli, 2008). Yet, this is the only reward crowdfunding-specific benefit depicted by Macht and Weatherston in their framework of crowdfunding benefits. As such, a new framework, specific to the context of the interviewees, has been developed.

6. A new benefits framework

In order to outline the results of this pilot study, the style of framework developed here is based on Macht and Weatherston's (2014) framework of crowdfunding benefits, with significantly different content.

Similar to Macht and Weatherston's framework, four participants opted to use crowdfunding having decided that their business was fundamentally 'uninvestable'. Whilst the availability of traditional funding cannot be known, it is significant that reward crowdfunding was successfully utilised to **overcome funding difficulties** as perceived in the mind of the entrepreneurs.

For early-stage entrepreneurs, there emerged three primary experiences of crowd involvement, which went beyond traditional notions of democratic finance. It is likely that the ambitions of the entrepreneur and the type of firm involved could significantly influence the extent and nature of ways in which to **involve the crowd** as a form of community development and engagement, ranging from the sharing of contacts, through voluntary work to actively developing the business in previously unforeseen ways.

It is also important to note how the novelty of crowdfunding, and its subsequent publicity, can have an effect similar to the 'certification' effect of BA and VC investment, whereby investment preceeds investment – an impact which can be termed 'compound crowdfunding'. In addition, the entrepreneurs' ambitions in this study related directly to their wishes to **acquire further finance**, be it through traditional means or a business made profitable by the crowdfunding campaign.

Finally, innate to reward crowdfunding was the entrepreneur's aims to **maintain ownership and control**, within which significant benefits were discovered. Reward crowdfunding was shown to be used as a method to supplement external funding, thus acting to reduce the ownership given or debt acquired, whilst it can also circumvent debt and equity and enable the entrepreneur to trial a concept without committing to any of the financial and monitoring obligations expected from other funding sources.

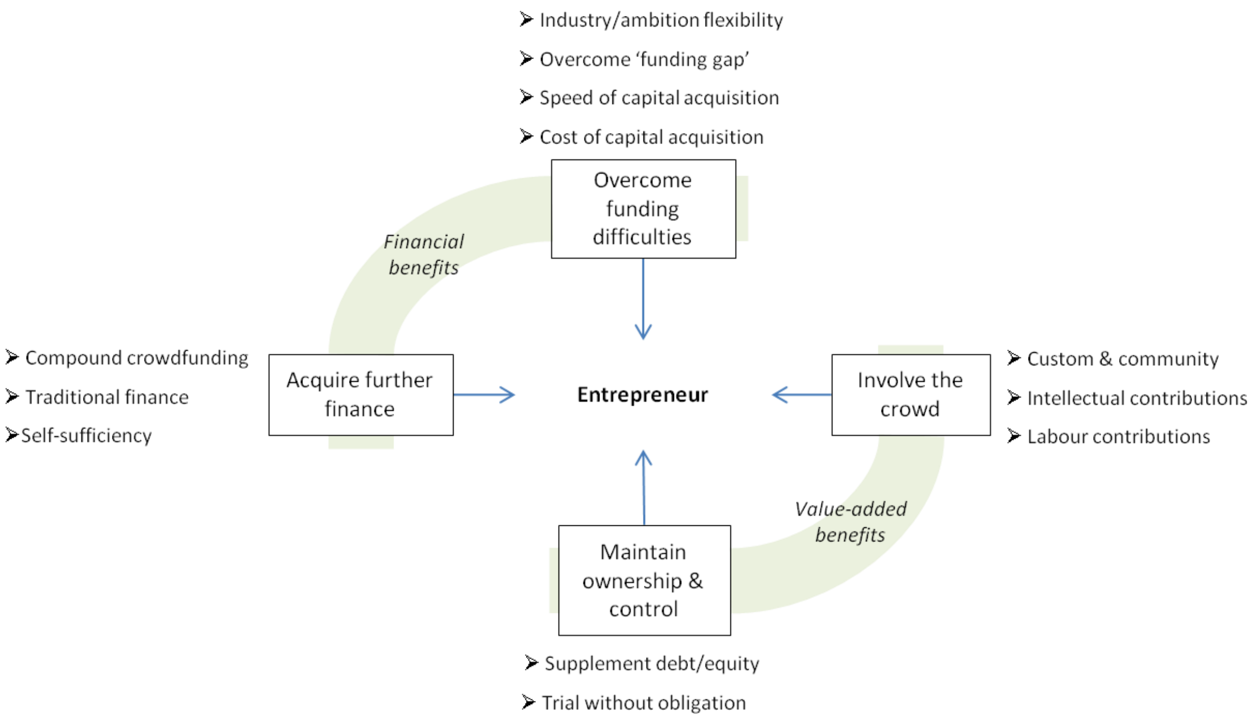

Figure 2. A New Benefits Framework.

7. Conclusions

As we have seen, the perceptions and experiences of crowdfunding entrepreneurs can differ from those anticipated. Four key themes emerged in the interviews:

1. Overcome funding difficulties.
2. Acquire further finance.
3. Involve the crowd.
4. Maintain ownership and control.

As themes from a pilot study, these represent further areas for investigation and do not have any intended weightings of importance or impact. A number of experiences and benefits within each theme were perceived by the entrepreneurs, and the potential reasons for this were explored and are explained through the framework. The framework is a generalisation of benefits for the entrepreneurs interviewed but each individual's experience was different. Through the study it has been illustrated that personal motivations, business ambition, the context moving into entrepreneurship, as well as perception of such phenomena of financial limitations and community affected benefit outcomes. Many of these supplemented the work of Macht and Weatherston (2014), but also contradicted their framework and demonstrated that reward crowdfunding for these early-stage entrepreneurs was not experienced quite as previous literature anticipates. While the focus of this paper was on benefits, some drawbacks were also identified, in particular the time commitments necessary to execute a successful campaign, which not only contradict the literature, but the prior perceptions of the entrepreneurs themselves.

It should be recognised, however, that this is an introductory study designed to encourage further research and validation. Further research could include cross-case studies comparing for-profit vs. social early-stage enterprises, as well as comparing experiences in different countries. This paper has also tentatively highlighted new themes for further investigation including drawbacks of crowdfunding, democratic community engagement and entrepreneur motivations and learning. Such studies will serve to enhance our understanding of the impact of crowdfunding as a form of entrepreneurial finance.

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