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**Equity Crowdfunding and Early Stage Entrepreneurial
Finance: Damaging or Disruptive?**

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Abstract

Equity crowdfunding (ECF) offers founders of new ventures an online social media marketplace where they can access a large number of investors who, in exchange for an ownership stake, provide finance for business opportunities that they find attractive. In this paper, we first quantify the evolution of the ECF market in the UK, the world leader, as well as the benign regulatory environment. ECF already represents more than 15% of British early stage entrepreneurial finance. We then use qualitative methods to explore three research questions. First, do these large financial flows via ECF platforms supplement or merely divert more traditional forms of funding for entrepreneurs? Second, do investors understand and appropriately evaluate the risks that they are bearing by investing in this new asset class? Finally, does ECF finance bring with it the spillovers, e.g. advice and guidance critical to entrepreneurial success, associated with other sources of funding such as Venture Capital? Our study is based on extensive interviews with investors, entrepreneurs (including some who chose not to use ECF in favour of traditional funding sources) and regulators. We conclude that ECF provides real additionality to the sources of entrepreneurial finance while not bringing major new risks for investors. This suggests other jurisdictions might consider implementing the British “principles based” regulatory framework.

Keywords: equity crowdfunding, early stage entrepreneurial finance, financial regulation, investor choices

JEL: G3; G21; L26; M21

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1. Introduction

The literature has long identified the potential relevance of entrepreneurship for innovation, economic growth and employment creation (Schumpeter, 1934; Baumol, and Strom, 2007; Carree and Thurik, 2003; Braunerhjelm, Acs, Audretsch, and Carlsson, 2010). However, there are also acknowledged deficiencies in the market for early stage entrepreneurial finance (HMSO, 1971; 1991; Denis, 2004; Parker 2009), which may limit exploitation of these opportunities. Entrepreneurs have traditionally financed their new ventures in steps, often starting with personal savings, investments from friends and family, and then turning to private angel investors, before seeking professional investors (Cosh, Cumming, Hughes, 2009; Hellman, Schure and Vo, 2013). In the early stages especially, asymmetries of information between entrepreneurs and investors typically make it difficult for new ventures to raise external finance through equity (Jensen and Meckling, 1976; Gompers, 1995; Manigart and Wright, 2013). This is due to the standard information asymmetry and adverse selection problems because entrepreneurs usually have better information about their capabilities and their ventures than do external investors (Stiglitz and Weiss, 1981). Moreover,, the transactions costs of collecting accurate information are high for investors, the results are unpredictable and , true risks anyway only unfold over time, usually after the investment is made.

In this paper, we explore the potential of equity crowdfunding, ECF, as a new instrument to provide finance to early stage entrepreneurs. We follow Estrin and Khavul (2016) in defining equity crowdfunding as “an open marketplace for entrepreneurial finance that takes place on a two-sided online platform and operates within a social media environment”. ECF platforms provide entrepreneurs and investors access to an online social media marketplace where they can trade equity finance for ownership stakes (Cummings and Zhang, 2016; Rossi and Vismara, 2017). The platform is the market-maker, regulated by the relevant financial services authority, and each offering of shares by entrepreneurs (of fixed duration) is denoted a *pitch*. There is a rapidly burgeoning literature about equity crowdfunding, focused on its economic potential (Mollick, 2014; McKenny, Allion, Ketchen, Short and Ireland, 2017; Courtney, Dutta and Li, 2017), risks (Agrawal, Catalini, & Goldfarb, 2013; Ahlers, Cummings, Guenther and Schweitzer, 2015) and a variety of specific issues (e.g. Bruton, Khavul, Siegel, and Wright, 2015; Vismara, 2016; Hornuf and Neuenkirch, 2016; Mohammadi and Shafi, 2017; Hornuf and Schwiendbacher, 2017; Guenther, Johan and Schweitzer, 2017). However, unlike in this paper, few researchers have had direct access to pitch process data or been able to interview actual entrepreneurs and investors.

We anchor our study in in the largest ECF marketplace, which is in the UK. Though many other countries including Australia, and much of the European Union have permitted ECF platforms to operate since 2010 (Kshetri, 2015), with the United States formalising its rules federally through the JOBS (Jumpstart Our Business Startups) Act in 2012, the UK market remains by far the largest.³ We argue that the main contributory factors to the UK's success in this financial innovation are likely the depth of the British entrepreneurial finance ecosystem and the emergence of a sympathetic tax and regulatory regime (Estrin, Gozman, Khavul, 2016; Drover et al, 2017). In particular, the UK regulatory environment has been more open to ECF than have regulators in much of continental Europe and the US (Hornuf and Schwienbacher, 2017), though differences have now narrowed (Dusnitsky, Guerini, Piva, Rossi-Lamastra, 2016).

Our approach is to use primarily qualitative research methods on actors in the UK equity crowdfunding to explore three research questions. First, are the significant financial flows via ECF platforms additional to more traditional forms of funding for entrepreneurs or are they merely a diversion of previous flows into a new medium? Second, do investors understand and appropriately evaluate the risks that they are bearing by investing in this new form of equity asset. Finally, does ECF finance brings with it the advice and guidance critical to entrepreneurial success which has in the past been associated with other sources of funding such as Venture Capital? Our study is based on extensive interviews over several years with investors, entrepreneurs (including some who chose not to use ECF in favour of traditional funding sources) and regulators.

The paper is organised in four further sections. We first briefly summarise the architecture of equity crowdfunding platforms and the role of regulation in their rapid development in the UK market, as well as providing unique data characterising the evolution of the UK sector. We are especially interested in evidence about market broadening and deepening. We then go on to analyse the views of entrepreneurs, and investors drawing on a systematic structure of interviews. We find that ECF does provide some real additionality to the sources of entrepreneurial finance while not appearing to bring unanticipated new risks for investors. There is rather less evidence that the equity crowdfunding process provides guidance of value to the entrepreneurial ventures. We conclude with a discussion of the policy implications of these findings, in the light of alternative regulatory stances in the United States and the European Union.

³ To quote the Nesta Report (2016), “Excluding real estate crowdfunding (£87 million), equity-based crowdfunding contributed £245 million worth of venture financing in 2015, which we estimate is equivalent to 15.6% of total UK seed and venture-stage equity investment.”

2. The Evolution and Characteristics of Equity Crowdfunding in the UK

In this section, we first briefly summarise how the literature has proposed that ECF might address the weaknesses in early stage entrepreneurial finance. We go on to analyse the UK regulatory and tax environment to specify the institutional and policy environment in which the entrepreneurs and investors, whose interviews we report below, operate. We then present the mechanics of equity crowdfunding, before providing new data to consider the key economic characteristics of the UK sector; its scale and growth, market structure, and evidence concerning its broadening and deepening.

2.1 ECF and Early Stage Entrepreneurial Finance

ECF platforms introduce a variety of new mechanisms for entrepreneurs to establish their reputations to investors, as well as for investors to pool their information (Evans and Schmalansee, 2016; Short et al, 2017). An interesting example of this is how equity crowdfunding has allowed the matching of demand and supply of early stage finance across a wider geographical area (Agrawal et al, 2011; Kim & Hann, 2014); because traditional early stage financing tends to be relational, its range and impact may be quite narrow and contain hidden biases (Mollick and Robb, 2015).

The literature has proposed three ways in which equity crowdfunding might be able to provide information to improve the matching between investors and entrepreneurs (Estrin and Khavul, 2016). First there is *a priori* information provided by the entrepreneur as part of the pitch process. This includes a valuation of business and financial information about the company, usually following a standard format, including data about themselves and their business experience and an explanation of their business idea (Nesta, 2015; Estrin, Gozman, Khavul, 2016). Entrepreneurs often provide a video of themselves outlining their pitch to potential investors. These messages are provided within a fairly standard format, and the investor has the knowledge that the proposal has faced a screening by experts within the platform that weeds out many of the original investment proposals⁴. Perhaps most importantly, all this information is freely available to the entire social network, which is to say to all potential investors. The open access characteristics of the platform (Evans and Schmalansee, 2016) provide entrepreneurs with an interesting balancing act. They are incentivised to reveal as much information as they can and as accurately as they can in order to improve their chances of reaching their

⁴ In the case of one of the UK platforms, [Platform A], only around 10% of entrepreneurs proposal actually get forward to be pitched. The remainder are screened out by the platform itself. The proportions are reported verbally to be similar in other platforms.

investment target without giving away core information to potential competitors (Belleflamme, Omrani & Peitz, 2015). In general, the provision of this information is likely to affect the willingness to pay of the investor, and thereby improve matching between investors and entrepreneurial projects (Courtney, Dutta, Li, 2017).

However, a priori information also raises the danger of disclosure risk. This arises when entrepreneurs are led through the demands of the platform, and behind that the potential investors, to reveal details of their plans to competitors (Belleflamme, Lambert, Schwienbacher, 2014). This danger perhaps means that entrepreneurs whose business models are easily open to imitation or face strong barriers to entry would be less likely to choose equity crowdfunding (Belleflamme, Omrani & Peitz, 2015). In less serious cases of disclosure risk, the IPR and imitation problems may be counterbalanced by the opportunity for the entrepreneur to develop their business model and product offering on the basis of comment and reaction from investors, other entrepreneurs and potential customers (Short et al, 2017).

Second, information flows are generated through the *dynamics of the pitch process* because the platform pools together the knowledge of a network of investors with skills, and experience about particular sectors, technologies and financing arrangement (Estrin and Khavul, 2016). During the period of the pitch, potential investors receive additional information from the network itself, which generates an enormous amount of discussion and exchanges concerning each pitch. From the opening of the pitch, potential investors are invited to comment on any and every aspect of the pitch – the valuation, the product, the business plan, the market, the entrepreneur and the management team, financial forecasts and the entire business model (Ahlers, Cummings, Gunther & Schweitzer, 2015). The investor network is an informed group, which includes people who are entrepreneurs themselves, as well as potential consumers, specialists in finance and marketing and business angels (Vismara, 2016). The ECF platforms are structured to facilitate the posting of comments from investors and responses from entrepreneurs, in an accessible and easy to manipulate format (Dishnitsky et al, 2016). Hence the platforms may allow the enhancement of knowledge about the pitch through the open exchange of information between investors and entrepreneurs with the possibility for all members of the network to freely participate.

Finally, network participants can watch the investment decisions of other investors. Investors reveal to others on the network their willingness to pay for equity in the business by publicly pledging sums towards the target (Estrin and Khavul, 2016). The network is informed about the amount invested and the timing of the investment (early in the process, late, in a large single sum or in a number of smaller amounts). This may encourage others also to invest, in the knowledge that some investors have already taken the plunge. One might

argue that this brings a disincentive because, when one person makes a financial pledge, it reduces the incentives for others to do so. However, the “target or nothing” character of the bidding process means that free riding is not possible until the target is reached (Cummings, Leboeuf & Schwienbacher, 2014).

2.2 Regulatory and Tax Environment in the UK

Equity crowdfunding is an international phenomenon (Massolution, 2015, Kshetri, 2015; Terry et al., 2015) and, albeit to varying degrees, a regulated activity⁵. Each financial regulator has a remit, regulatory framework and statutory obligations but concerning ECF they are all focused to the protection of investors who do not have the expertise fully to understand the nature of the investments in relation to their own risk appetite and attitude to losing their investment. Hence, it is usually the regulator that requires the ECF platforms to undertake due diligence on each pitch. They also mandate written warnings reminding potential investors about the risks involved in early stage investing. Risk levels are high in ECF because the firms whose assets are traded are private and illiquid. Regulators around the world have responded to these challenges in a number of ways, including limiting the types of investors ECF platforms are able to attract, as well as how they are solicited to; by limiting the amount investors can invest in one period; or by limiting the total value sought by entrepreneurs at one time. Exemptions may exist for investors deemed more sophisticated and knowledgeable, so called “accredited investors”⁶.

However, already prior to the financial crisis, the UK Regulator (the Financial Conduct Authority (FCA)), adopted a principle based or ‘*light-touch*’ approach. These principles set high-level desired outcomes but were underpinned by relatively few rules. This approach⁷ allowed firms to “...*have increased flexibility in how they deliver the outcomes [the Regulator] require*” and focused on, “...*moving away from dictating through detailed, prescriptive rules and supervisory actions how firms should operate their business.*” (FSA 2007).⁸ The newly formed FCA (April 2013) continued to acknowledge the need to foster innovation and competition in the interests of consumers, alongside the protection of financial markets and consumers⁹.

⁵ The US Jobs Act came into force in 2016 and EU countries have implemented regulations nationally since 2011 within limits set by EU legislation. In the UK, the Regulator initially adapted existing regulations to allow equity crowdfunding and then introduced formal rules in 2014.

⁶ The definition of accredited investor varies between countries but usually include institutional investors and high net worth individuals.

⁷The approach was for a short while stepped back from during the financial crisis of 2008 and its immediate aftermath (Sants, 2009a; Ashby & Waite, 2009; Turner, 2009).

⁸ In contrast, the two key US regulators, the SEC and CFTC, have always been predominately rules-focused.

⁹ Christopher Woolard (Woolard, 2015a, 2015b), director of strategy and competition at the FCA commented that, “*Disruption - particularly disruptive new entry – is a key part of promoting competition. But financial*

In this vein, the FCA introduced *Project Innovate* to help disruptive fintech firms, including crowdfunding platforms, to receive the required regulatory authorizations, while helping the Regulator to learn more about the nature and risks associated with these non-traditional business models¹⁰. The FCA (FCA, 2015a) website states the Innovation Hub, “...aim[s] to offer support to innovator businesses that are looking to introduce ground-breaking or significantly different financial products or services to the market, including when they need assistance with an application for authorisation or a variation of permission. This helps new or non-regulated businesses understand more about our regulatory framework and what it means for them, as well as firms that are already regulated. We are also looking to add more flexibility to our regulatory framework and remove barriers to entry, to encourage and support innovation where it will not erode consumer protection or the integrity of the financial system.”

An example of the innovative approach was the UK Regulator’s approach to equity crowdfunding; they simply required investors to self-certify that they understood the risks and made no restrictions on the type of investors to which the platform could market (FCA, 2015b). This contrast with most other jurisdictions in which there were greater restrictions on investors often including external validation of certification. In 2014, the FCA issued a policy statement regarding equity crowdfunding platforms (FCA, 2014, 2017) to articulate to investors the risks it identified, summarized in the Appendix Table 1. The regulations remain outcomes and principles based; placing requirements on the platforms to maintain appropriate levels of solvency (capital adequacy) and also to screen investors (see Appendix) and to market to investors appropriately¹¹. Consumer protection has been interpreted in terms of informing investors of potential losses. The responsibility for providing this information

regulation can be complex, and deeply traditional in its approach... Whilst regulators rightly focus on the risk of bad things happening in the system, we have to be conscious this can be at the cost of stifling the chance of good things emerging. We run the risk of seeing the problems and challenges of technology and innovation without valuing sufficiently the benefits they can bring. We may be potentially too risk averse. [A further] danger is we ignore the needs of consumers and those firms that could bring the disruptive innovation we need in markets.”

¹⁰ A key element of *Project Innovate* is the regulatory sandbox; “...a regulator-driven initiative which allows businesses to test innovative products, services, business models and delivery mechanisms in a live environment.” (Global FinTech Hubs Federation, 2017).

¹¹ In a review in 2015, the FCA described its supervisory approach as, “*Supervising investment-based crowdfunding platforms in 2014 included engaging with firms’ senior management, monitoring their websites and reviewing monthly management information (MI). This approach has resulted in a number of regulatory interventions that have been mainly to ensure the proper protection of consumers. For example, this means ensuring that only appropriate types of customers were allowed to invest, and that financial promotions are clear, fair and not misleading, with regards to both the nature and performance of the assets invested in and the exit opportunities for investors. In addition, there have been a small number of reactive prudential events where firms were not meeting the expected capital requirements.*” - (FCA, 2015b)

is placed on the platform, and it is currently implemented as a series of pop-up windows¹². Hence ultimately the platform (as the regulated entity) is to some extent liable for the behaviour of the entrepreneur, a point that has been picked up by investors as we note below. Thus, the UK Regulator, because of its remit to encourage competition and its principles and outcomes focussed approach, has taken a flexible approach to ECF, in contrast to a focus on prescriptive rules, as in some of continental Europe and the USA. This has allowed ECF to develop and expand, resulting in the UK becoming a global leader in crowdfunding (Vulcan, Asterbro, Sierra, 2016)¹³.

2.3 The UK Equity Crowdfunding Sector

The literature has noted that new platforms have been created each year at a fairly steady rate (Massolution 2015; Dushnitsky, Guerini, Piva, Rossi-Lamastra, 2016), with a significant and rapidly growing contribution to the needs for early stage finance. The UK sector is characterised in Table 1, which reports data from the platforms' own websites to provide information about the currently active firms. Over the past five years, the UK equity crowdfunding market has seen the number of platforms increase from four in 2010 to 13 in June 2017. In the seven years since its inception, the sector, for the platforms covered, had by June 2017 provided equity funds of almost £500 million for 1538 entrepreneurial pitches, and on the basis of more than 400,000 registered potential investors. This data indicates a strong possibility that ECF has generated a significant infusion of new investments and investors to the early stage entrepreneurial finance market.

In contrast to others forms of crowdfunding, donation and reward, which are built around the model of a large social network generating funds, but with each participant only providing small amounts to the project (Mollick, 2014), the average number of investors in each successful ECF pitch is relatively small and the average size of each individual investment is quite large. Thus, on the basis of the platforms providing this information, there are between 200 and 250 investors per successful pitch on average, and the average individual investment size in the largest platforms is around £2000. There is considerable variation in the average size of each entrepreneurial pitch for funds, but the amounts are not insignificant, ranging from around £110,000 to almost £2 million. The average pitch in the market leader site ([Platform A]) is £642,000. However very few

¹² This does create moral hazards; for example, if investors seek advice from entrepreneurs about how to complete the pop-up form so entrepreneurs seeking to raise funds are advising individuals on how to navigate the processes involved to screen unsuitable investors.

¹³ UK policymakers have also supported ECF via two tax incentives. The first is the the Enterprise Investment Scheme (EIS) which helps small higher-risk trading companies to raise finance by offering tax relief to investors (HM Revenue and Customs, 2013a) . The second is the Seed Enterprise Investment Scheme (SEIS), which is designed to help small, early-stage companies raise equity finance by offering tax relief at a higher rate to individual investors who purchase new shares in those companies.

sites have yet developed secondary markets to bring liquidity to investors and for regulatory reasons discussed above, most platforms are only UK based.

The UK equity crowdfunding market is already very concentrated; there are only three major players at the moment: Crowdcube, Seedrs, and Syndicate Room.¹⁴ Based on Beauhurst data, we estimate these platforms from the data in Table 2 to account for around 95% of the UK equity crowdfunding market in 2016 (www.beauhurst.com). An important indicator of the growth of the sector comes from the number of investors who have joined one or more of the platforms. The figures are dizzying; for example, in [Platform A] the size of the investor network increased exponentially from around 10,000 at the start of 2012 to 30,000 at the start of 2013; 50,000 at the start of 2014; more than 100,000 at the start of 2015; more than 200,000 at the start of 2016 and more than 400,000 by June 2017. Though precise data are not available, interviews suggest that the other major platforms have seen similar growth rates, though their business models are less reliant on the scale of the crowd (Estrin et al., 2016; Vulkan, Asterbro, and Sierra, 2016). It seems unlikely that significant proportions of these network members were previously investors in privately held new ventures, a hypothesis supported in our interviews below.

Figures 1 and 2 each provide further evidence of the deepening of the investor network over time. In Figure 1 we show for one of the platforms ([Platform A]) the changing geographical distribution of companies seeking equity investment over time. We see that the early entrepreneurial pitches were concentrated in London and near the company's home base in the West Country. The increase in deal flow brought a gradual widening of the geographical base, with entrepreneurs from all over the country seeking investors through this channel by 2016. Figure 2 illustrates the growth in the social network and the process whereby such networks generate network externalities (Evans and Schmalensee, 2106). In the early period of ECF, the figure indicates that investors joined primarily to invest in a particular pitch; perhaps friends and family or investors concerned with a particular sector or location. However, the twin sided network has meant that investors who joined for one purpose have been enticed to invest in other projects, so that within a few years the figure shows that the network has become far more integrated and linked.

¹⁴ Each platform has a different business model, see Estrin, Gozman and Khavul (2016). An important geographic note: Crowdcube was originally based in Exeter, Seedrs conceived in Oxford, and Syndicate Room in Cambridge. But each also has now a base in London.

In Table 2, we report the equity raised by each platform and the total by year since 2011¹⁵. The Table shows a steady increase in the funds available through equity crowdfunding in support of early stage entrepreneurship in the UK. We observe rapidly increasing supplies of funds through this investment channel, though of course they may be being diverted from other channels, for example from angel investors. We investigate this issue using interviews below. Table 2 also suggests that the pace of increase of equity raised is decelerating in 2016; this maturation of the market is also noted in our interviews. When we consider the characteristics of the pitch process, an interesting phenomenon which has not been greatly researched concerns the overfunding of successful pitches. In Figure 3 we use data from [Platform A] to illustrate the average path of funding during the pitch process, as a percentage of the amount that the entrepreneur seeks to raise. We note that there are rarely “near misses”; pitches are either funded in full or they get nowhere near their funding target; on average failed pitches only receive some 20% of the sums that entrepreneurs sought. However, interestingly for pitches that do meet their target, we find that most are overfunded, that is they receive more than the amounts that were originally requested¹⁶. This result runs counter to the interview evidence below that pitches are often over-valued.

There is also some empirical evidence that, in addition to widening, the UK equity crowdfunding market is deepening to some extent. This is not in terms of the number of pitches being funded; we note in Table 3 that for the three largest platforms the number of pitches peaked in 2015 and fell back slightly in 2016. However, for these platforms that represent the bulk of the market, ECF is able to bring increasing funds to bear: the average investment per pitch has been rising steadily, from £99,000 in 2012; £243,000 in 2013; £357,000 in 2014; £508,000 in 2015; to £551,000 in 2016. This along with the growth in the number of investors suggests growing investor confidence in the investment class.

ECF activity is concentrated in raising equity finance for firms in the service sector. As suggested above, firms heavily reliant on IPR in the manufacturing sector may be nervous of the informational requirements of the platforms (Ahlers, Cummings, Gunther, Schweitzer, 2016). Thus, we see in Table 3 that there have been very few pitches in the primary sector and the balance comprises around 30% in manufacturing and the remainder in services. There seem to have been no systematic trends in the sectoral distribution of

¹⁵ The figures are less than those reported in Table 1 because the former include debt as well as equity crowdfunding. Also there are differences in the accounting periods because of the length of time taken for each pitch.

¹⁶ The incentives to overfund differ by platform. In Crowdcube’s pitch process, both the entrepreneur and the investors are diluted but in Seedrs’ the entrepreneur must allocate more equity to the investors at the same price.

pitches over time. Moreover, in further evidence of deepening, we observe from Table 4 that the number of firms coming to the (major) platforms for repeat rounds of funding is rising; for example, 38 returned to the network for a second round in 2014, 11 for a third round and 4 for a fourth round. There have even been a few examples of firms returning for more than four rounds of equity crowdfunding. However, 2016 saw a significant decline in repeat financing, perhaps a consequence of the platforms ability to raise larger amounts of equity finance and therefore attracting a different category of entrepreneurial venture. It is perhaps therefore unsurprising that the proportion of firms¹⁷ that have returned to the equity crowdfunding market for second and more rounds of funding is not increasing. Indeed, we find that more than 25% of pitches in 2012 represented a second or higher round of funding, with 17% representing a third or higher. Comparable figures for 2015 were 14% and 3% respectively, and only around 3% of pitches were second round or above in 2016.

Our dataset allows us to provide some of the first evidence concerning risks and returns on ECF platforms, an issue to which we return when considering investor expectations below. Returns remain very hard to calculate because on the websites of the three platforms, only four successful exits can be identified. These are reported by year of pitch and exit in Table 5. We show below that our investors in interview strongly support the view that ECF investment is motivated primarily by financial return, but they also take a very long term view, five to ten years or more, and hence are not necessarily disappointed as yet by these low successful exit figures. There have been a few successful exits by firms that pitched in 2012 and 2014, but none from firms that pitched more recently. This data suggests that investment horizons for ECF do indeed need to be rather long.

Finally, we consider the riskiness of the investments, indicated by the pattern of unsuccessful exits. The three leading platforms also provide data on exits which we report in Table 6 by year of entry (thus the figure for 2011 represents the failure rate for firms created in that year). It can be seen that failure rates average about 8%, which is below the norm for early stage entrepreneurial firms (Ucbasaran, Westhead, Wright, Flores, 2010). However, if we take a longer view, failure rates are still quite high; above 30% over a five year horizon. We plot the data in Figure 3 and the relationship between date of creation of the firm and failure rates is shown to be downward sloping and approximately convex. Thus, for firms in receipt of equity crowdfunding, failure rates are low in the early years after the funding is received; however, it rises after a few years. This delay in the failure rate itself may be a consequence of the receipt of funds through the pitch process. This suggests that the risks associated with ECF, while high compared with more traditional asset classes, are not extravagant when

¹⁷ The reported number of pitches in Table 2 is different to that in Table 3 because the former refers to pitches and the latter to firms.

compared with other forms of investment into entrepreneurial ventures. Of course, business failure is not the only risk borne by ECF investors, and our interviews below also suggest growing concern with issues of corporate governance and potential for fraud.

3. Methodology for the Qualitative Study

Our study is both qualitative and inductive in design while focusing on a relatively new practice and so this positions our paper towards the tradition of discovering new knowledge by generating thematically underpinned concepts and ideas rather than by revisiting and extending theoretical paradigms (Gioia and Pitre, 1990; Gioia, Corley and Hamilton, 2012). To investigate our research questions in more depth, we need to explore the views and attitudes of members of the ECF social network. A multiple (Yin, 2009) or collective (Stake 2013) case method was adopted for our qualitative work. Such an approach allows for inductive building of theory through the selection of various cases which provide rich empirical descriptions of the phenomena under consideration (Eisenhardt, 1989). As Yin (2009 p. 4 and p. 23) notes, a case study approach is appropriate where researchers wish to “*retain the holistic and meaningful characteristics of real-life events,*” This approach is also appropriate where investigators are exploring a phenomenon, such as ECF, which has novelty and where related scholarly literature is sparse (Ordanini et al., 2011).

3.1 Data Sampling and Collection

In order to select research participants, our method was guided by ‘purposive sampling’, which allows researchers to ‘seek out groups, settings and individuals where... the processes being studied are most likely to occur.’ (Denzin and Lincoln, 2000, p. 370). Adoption of a typical case purposive sampling strategy required a search for information-rich cases which were illustrative of ECF usage in London (Patton, 1990). Consequently we interviewed a range of entrepreneurs seeking to invest in products and services focused on a variety of business areas (e.g. ‘cleantech’, ‘education’, ‘software applications’, ‘coffee houses’, ‘chemicals and ‘healthcare’) as well as new and experienced investors who sought either to engage or to avoid investing through the ECF platforms (Golden, 1992; Pettigrew, 1990).

The method employed for primary data collection through interviews was a semi-structured one. This technique allows flexibility to explore new and contemporary issues whilst ensuring important topics are covered (Kvale and Brinkmann, 2009). Emphasis remains on the researcher to frame what is important in understanding the behaviours, events and patterns related to the research topic (Bryman, 2008). Pilot interviews were initially

conducted to ensure all questions were clear and followed a logical flow. Minor changes were made accordingly. Secondary data sources included, research publications from ECF websites, regulatory authorities business angel associations and press reports. These resources aided the development and refinement of interview questions and provided context for interpreting interview responses.

In total, fifty semi-structured interviews were conducted between 2014 – 2017. A longitudinal method is appropriate where studies investigate interconnections between the context, content and processes of change over time (Pettigrew, 1990; Symon and Cassell, 2012). This method allows the investigation of the interplay between the outer context of economic, social, political, and sectoral factors and the inner organizational context, where ECF practices are formulated through internal structural, cultural, and political environments. This approach allowed us to overcome common shortcomings in retrospective research designs limited to snapshot, time-series data, which may result in accidental or purposeful misrepresentation and fail to capture immediate and distant experiences. Instead, our research design allowed us to understand how ‘inner’ ECF practices matured as influencing ‘outer’ institutional industrial and societal contexts emerged and evolved.

3.2 Data Analysis and Validation

To guide our data analysis, we followed the ‘Gioia Methodology’ designed to enhance ‘qualitative rigour’ by deriving first-order, second-order and aggregate concepts (Gioia, Corley, Hamilton, 2012) to systematically analyse our qualitative data. Similar approaches have been applied in studies which address related phenomenon including: a longitudinal studies of technological platforms (Gawer, and Phillips 2013); studies of field configuring events as catalysts of change in policy (Schlussler, Ruling, and Wittnebeb, 2017); and analysing how practices have driven changes in institutionalised banking legal services (Smets, Morris and Greenwood, 2012). Through this approach, researchers are encouraged to impose rigour and discipline on their research design by carrying out open-end interviews on a more narrow range of areas and topics and so avoid some of the methodological challenges faced by qualitative researchers. A common challenge is that qualitative studies create voluminous and varied data sets which are ‘disordered’ and difficult to systematise (Punch 2005). Often qualitative studies may become over-scoped and so the phenomenon (ECF) becomes confused because the contextual boundaries of the study become ill-defined and ‘muddled’ and interviewees refer to out of scope practice and issues. The application of Gioia’s systematic approach to data analysis brought structure and “qualitative rigor” to the development and presentation of our research findings. This method draws upon long established interpretive techniques for analysing data through the recursive identification of patterns, first through categorization and then abstraction (Gibbs 2007; Miles and Huberman 1994; Saldana 2009, Symon and

Cassell 2012). During this process, primary data is closely reviewed to determine points of importance and interest. Common themes are then identified and categories are assigned. Thus, long interviews were simplified through the adoption of simple categories (Punch 2005).

To understand the evolution of views and attitudes towards ECF, we conducted interviews with a large number of people associated with the sector; working for the platforms, regulators, policy makers as well as investors and entrepreneurs, and collated the secondary data, previously outlined. We organised our interviews into a series of key themes assigned descriptive codes to text passages that indicated these issues; one each for entrepreneurs and for investors. A consolidation of these descriptive codes yielded two initial schemes to permit rigorous comparison of topics across data sources (for investors and entrepreneurs respectively). We iterated between data points to capture the most empirically grounded and theoretically interesting issues highlighted in the views of entrepreneurs and investors concerning ECF. This process yielded the two data structures presented in Figure 5 and 6. The first (Figure 5), for investors, contained three second order themes further divided into 28 first order categories while the second (Figure 6), for entrepreneurs, also contained three first order themes but subdivided into 20 first order categories. Each interview was assigned a unique identifier followed by the year the interview was conducted (e.g. I12.2017, see the 'Representative Data' column in Appendixes A and B). Our iterations between data points continued as we added new interview transcripts until 'theoretical saturation' had been reached, that is, "*the phase of qualitative data analysis in which the researcher has continued sampling and analysing data until no new data appear and all concepts in the theory are well-developed*" (Morse 1997). Data saturation is evidenced by the multiple data points supporting our 1st and 2nd order concepts outlined in Appendixes A and B.

External validity was constructed through investigation of multiple cases, across different ECF platforms, thereby allowing 'literal replication' across cases (Stake 2013; Yin 2009). The multi-case research design also allowed for internal validity by allowing close inspection of the context and causes of changes in ECF practices (Leonard-Barton 1990). Internal validity was further achieved by considering different empirical data sources. Scope, depth and consistency were ensured by discussing key concepts, constructs and terminology with each of the informants and triangulating the findings across data points (Flick 1998; Seale 1999). To summarise, the research design employed is inductive (Eisenhardt 1989) and so aims to build concepts that "*capture the qualities that describe the phenomenon of theoretical interest*" (Gioia, Corley and Hamilton., 2012, p. 2).

4. Entrepreneur and Investor Perspectives

4.1 Investors' Motivations for ECF Avoidance and Adoption

This section outlines the results of 30 interviews (2014: 3 interviews, 2015: 13 interviews, 2017: 14 interviews) conducted with investors who have engaged or have consciously chosen not to engage with ECF. Selected evidence regarding these interviews and the related themes and concepts identified are available in Appendix A. We draw from the concepts and aggregate dimensions, outlined in Figure 5, to structure this section and Appendix A.

4.1.1. Reasons for Investing Through ECF

All the investors interviewed cited financial motivations as either the primary or a very important motivation for their engagement with ECF (*“at the bottom line, it is financial”*).

The primary reason cited was the potential for high returns, with one interviewee explicitly saying they were hoping for a 1000% return. Most investors see ECF investments as an element in a broader portfolio, and one which raised both the riskiness and the expected return. Most hoped to find a *“golden unicorn”* but recognised that such outstanding financial performance was likely to be extremely rare. The specific expectations of returns were rather varied, but usually high and often framed in venture capital terms, for example expectations of *“3X to 5X”* or *“10X”* (*“I would say that 10 times is an acceptable return”*), though with combined with a realisation that many investments might fail. Most investors accepted that they needed to make a number of investments in the hope that one or a few might generate returns and the rest would probably fail.

Thus, expectations for high returns was balanced in, most cases, with a high tolerance for loss and strong risk appetite overall. The attitude to risk was associated with medium to long time horizons; with expected time horizons for anticipated returns ranging from *“three to five years”* to *“five to ten years”*. All of our interviewees understood that losing their entire investment was very possible. Yet this is ascribed to the nature of investing in smaller start-ups rather than any additional risk created by the platforms themselves. Some of the investors we interviewed had previous experience investing in equities and start-up firms with several having been entrepreneurs themselves. One investor commented,

“Essentially the money I’ve put in I am assuming am not going to get it back. So, if I do get anything back that’s a bonus or if I do get my principal sum back that’s fine. But I had a small amount of money that I wasn’t doing anything with. I have never done anything with saving previously and interest rates are

ridiculously low it's not really much profit in stuffing cash into a savings fund. And because its small amounts of money and I have worked on the assumptions if I lost it, it's fine."

In addition to achieving high returns, interviewees from 2014-16 also cited low interest rates as another motivational factor. Faced with a choice of leaving spare funds in a bank account or investing them in ECF, many of the investors we spoke to choose to direct some of their spare cash towards ECF to offset the low interest accrued. Correspondingly, the cited opportunity costs of the investments included not investing at all and just keeping the money in the bank or paying off a proportion of a mortgage. This issue was not cited in the 2017 interviews, suggesting that motivations had changed as the ECF market has matured.

For the majority of the interviewees, ECF constituted a minor part of their overall portfolio with few of the people we interviewed investing more than £15,000 in one campaign. Thus, almost all the investors referred to their ECF investments as "*small*" and most viewed them as an element of a portfolio. In fact, one of the reasons cited for engaging and investing with ECF platforms was the ability to invest small sums. A further reason cited by our interviewees for investing through ECF platforms was the tax relief provided by the UK government. Some of our investors viewed the tax relief as offsetting the high-risk of total loss, to some degree. However, some of our interviewees were not UK residents or domiciled in the UK and so could not benefit from the tax breaks. The fact that ECF platforms are regulated was also considered to be important by many of our interviewees. Many felt that regulation offered some level of guarantee that funds would be returned, should the firms succeed, and also ensured a degree of oversight towards the platform. Some spoke about how regulation made them feel safer and increased their level of trust in the platforms and the overall investment process. However, the interviews of 2017 suggested some increasing mistrust with the platforms also, with concerns being expressed about returns, valuations and the governance arrangements, perhaps more so with more experienced investors.

In addition, to the financial motivations for investing with ECF platforms, outlined above, our study revealed important (secondary) non-financial motivations for investors choosing to participate. Many ECF investors enjoyed the ECF experience; the vicarious benefits of engaging in ECF- for example stating, "*its nice to be part of a project*" or wishing to "*help young entrepreneurs*". As one says, "*I did it to be part of the journey*". This was a quite common motivation in the interviews undertaken in 2014-2016, but perhaps rather less so in the more mature market of 2017, where financial returns were emphasized. Investors also frequently commented on how liking the product was an important consideration; for example, interest in biotech, zero carbon food or beer. Thus, investors talked about being passionate about certain industries and wanting to

support related innovations. Some of the interviewees cited medical and energy-saving innovations as examples. Others talked about feeling “*part of the entrepreneurs’ journey.*” Additional non-financial motivations for engaging in the investment process included using ECF as a way to learn about the investment process and as a way to access start-up communities, thereby helping the investor in the development of their own professional networks.

A further non-financial reason given was that the platforms allowed individuals to invest without engaging in a time consuming due diligence and lengthy research process. Other participants, suggested they would only spend a couple of hours researching materials (valuations, pitch videos etc.) provided on the platform and what further information on the firm was available on the Internet. Some of the interviewees equated the little time they spent in researching the new venture with the relatively small amounts of money they invested, suggesting much more due diligence would be required if greater sums were involved. Furthermore, some investors commented on how investing through ECF platforms created less “*friction*” in the investment process.

Turning to whether the investment undertaken represented additional funds to the market for early stage entrepreneurial capital, our interviews provide considerable evidence that this is the case. The interviews suggest that ECF represents primarily a mechanism for bringing entirely new financial resources to help finance new ventures. Thus, almost none of the interviewees had previous experience of investing in new ventures, though many had some prior investment experience and held portfolios of assets. Thus, there is considerable diversity of financial experience amongst our interviewees, with some being experienced investors in public equity and bonds though only a few with a prior record of investing in private firms. However, others either had no previous investment experience, or had saved only through banks and more traditional financial products. Hence one Investor said “*I have been investing probably for 5 years or so.... predominantly regular stocks*” while another reported “*I’m very new to the world of investing*”. There is thus evidence that some investors are experienced while others are not, but in our interviews the latter characteristic predominated.

Indeed, the interviews of 2017 which primarily represented relatively small investors suggested that, though many had tested the waters, ECF did not represent a very interesting vehicle for investors experienced in early stage entrepreneurial finance. There are a number of reasons for this; the equity shares available were too small (and therefore valuations were seen as too high); the ownership shares too diluted (it was hard to obtain large stakes in the company that would provide effective leverage over the entrepreneur) and the effectiveness of outside governance was not sufficiently strong. Thus, one long term experienced investor states: “*Usually the moment you see anything on the crowdfunding platform, either that means all the professional investors have*

turned it down or the professional investors already tried to capitalise on a prior investment round. It raises warning signals for me. Also, your co-investors are usually relatively inexperienced and uneducated investors. Equity crowdfunding is not the sweet spot for me”.

4.1.2. Investment Decision Making Practices

Our data analysis revealed insights into the investment decision making practices our interviewees undertook and what approaches and factors were important to them in making those decisions. There was considerable variation in the amount of time that investors spent evaluating alternative pitches and making investment decisions. This depended on the sums being invested; rather little time was typically spent for very modest investments. Also important was the experience of the investor. Typically, more experienced investors focused on the traditional bundle of factors driving early stage venture investment: the entrepreneurial group, the concept and business model, the technology. The less experienced investors tended to focus more on unidimensional factors, often related to the product or the entrepreneur. However, it is important to stress that our interviews reveal that ECF generates a learning process for the investor, who may start by responding to an advert or the desire to buy into the producers of the favourite beer but who quickly get a taste for the investment process itself. Thus, most of the 2017 investors had invested in between three and ten projects, and their reasoning related to their portfolio more than the characteristics of any particular investment. Direct access and knowledge of the new ventures and entrepreneurs prior to the funding round were cited as important factors as was having previous working knowledge of the industry, related to the investment. Some of the investors we interviewed had previously been customers of the firms and had used their products and services. This underlines how some entrepreneurs have been successful in leveraging their existing customer base to raise funds within the crowdfunding environment (see.4.2.2); consequently, first-hand experience of product and brand recognition was cited as an important factor.

Investors highlighted the need to be convinced that the entrepreneurs understood the product and business environment. One experienced investor suggests that often entrepreneurs understand the products very well, they may have even designed and built them, but may not be familiar enough with the operational, accounting and legal aspects of running a business. Correspondingly, our investors highlighted the need to review the experience and “*track record*” of the founders and whether they had run similar businesses successfully before. Acknowledging that “*no one knows everything*” some investors looked to see if inexperienced entrepreneurs had the awareness to know they did not understand some aspects of running a business and so were partnering with the right people or seeking help in appropriate places. Many of our

investors also explained that they did not always trust the investment valuations provided through the platform. One investor suggested that he “*trusted the crowd to do the corrective work*” since if the valuations were wrong then he felt this would be revealed through the crowd’s response. Some investors commented on how they sometimes were enticed into investing by the exuberance and passion of other investors even if they knew little about the industry or product. One investor commented,

“I rely on is how enthusiastic others are, so if basically a project is overfunding – then I may invest some money even if I don’t particularly care about the project or the company. I just throw some extra money in the pot. [...] I think they know something and the plan may be successful. The ones I invest more in I try to understand more the business and the potential.”

In addition to being guided by the enthusiasm of other investors, the majority of our interviewees highlighted the importance of learning from the expertise of other investors by engaging with the online discussion groups, facilitated by the platform. One investor described this as a big part of his due diligence process, to see what other people are thinking and what their thought process was and how others responded to different perspectives and investment rationalisations. In addition to communicating with fellow investors online prior to the investment, some of our investors described how they were keen to contact other investors “*in similar situations*” post-investment, with some seeing this as a good opportunity to further develop their professional network.

Communications amongst investors was also clearly an important factor in the investment decision-making process as was the ability to interact and communicate with the entrepreneurs. Some suggested that the enthusiasm of the entrepreneurs and their willingness to engage in response to questions on the online forums is a good indicator of their likelihood to remain engaged with the investor community post funding. The ability to learn and communicate with both investors and entrepreneurs was seen by many as motivational factor for investment.

4.1.3. Reasons for Avoiding Investing Through ECF

Previous sections have outlined the reasons cited by our investors for engaging with ECF investments and the investment decision making practices for selecting in which campaigns to participate. However, we also interviewed a few investors who would not consider ECF in the first instance or have used it and would not do so again. Some felt that the platforms offered insufficient protection should the new venture become insolvent. Consequently, the risk profile for investing on or off ECF platforms was the same and so the platforms’ design in no way mitigated the major risks. One reason for disengagement, cited by our interviewees, was the poor

reviews by bloggers as well as the low success rate of equity crowdfunding to date, discussed above. One individual explained that a blog critical of the lack of guidance provided by the platforms and effective due diligence had deterred him from further investment. Other concerns included the view that the platform providers had a conflict of interest with the investors in that they benefited from getting as many successful campaigns funded as possible and recruiting as many investors as possible in order to attract entrepreneurs to seek funding; the platform business model in the UK typically relies on receiving a fee (percentage of funds raised) from entrepreneurs whose pitches are successful. Some more experienced investors were also critical of ECF suggesting that if the firm wasn't good enough to attract professional investment then it was too high risk. Furthermore, while some of the investors felt encouraged to follow the crowd, others felt that enthusiasm and exuberance regarding a product were poor determinants of whether to invest. One experienced investor commented,

“ECF is almost like shopping. You're online, you don't talk to anyone, you look at a sales pitch. It is just about the idea. You look at beer and you think, oh that is cool. I think the psychological edge that the company has is quite immense. It is a relative indirect way of pitching something, almost like Amazon or Ebay. Overall, it is far too easy. Even though there are warnings – if you are excited about a project, you decide to buy it – without really looking at valuations. People make the wrong decisions based on incomplete information. There is the golden rule in finance ‘don't get emotional’ when making investments. I think emotion is the only thing driving equity crowdfunding. It is tempting to invest, and tempting to let go of all caution. Most people probably spend more time buying something for 25 pounds – by comparing prices – than for a couple of thousand pounds into illiquid investments like this. While it is so likely to fail...”

Investors' Summary

Our interviews suggest that ECF development has been largely based on the rapid growth of a large new enthusiastic investor pool, often interested in supplying relatively small tranches of capital (a few thousand pounds) to a number of projects. To quote an investor: *“yeah, definitely a new channel and ... it gives you access to an area that wasn't available before”*. Thus, most ECF investors interviewed were not previously investors in company equity at all, and were usually attracted by the social network aspect of ECF, as well as the highly visible marketing campaigns for particular pitches through for example social media, advertisements on the London Underground and through the sales outlets of the firms seeking funding. This indicates that ECF has probably added significant new funding to the UK entrepreneurial capital market.

4.2. Entrepreneurs' Motivations for Use (Or Avoidance) of ECF

This section outlines the results of 20 interviews (2015: 5 interviews, 2016: 15 interviews) conducted with entrepreneurs who either have engaged or have consciously chosen not to engage with ECF. Selected evidence regarding these interviews and the related themes and concepts identified are available in Appendix B. We draw from the concepts and aggregate dimensions, outlined in Figure 6, to structure this section and Appendix B.

4.2.1 Reasons for Bypassing Institutional Funding Models

Why do entrepreneurs seek capital through ECF rather than through more traditional means? One major reason given was a lack of alternative funding sources, with some interviewees suggesting that potential investment funds were being held back until existing portfolios proved profitable and that banks have become very risk adverse. A further reason for bypassing other funding routes highlighted by those interviewed was that while there was an availability of seed money through angel investors in the UK, further capital for growth and funds for day-to-day liquidity were harder to obtain compared to the US. An entrepreneur highlighted the difficulties faced in raising additional funding,

“The options for raising further funds are to ring up the chairman, he owns 35% of the company and is worth 100s of millions of pounds. He is rightly reluctant to keep being the bank of last resort. The only other resort is crowdfunding: everything else is too much work”

Other reasons given for bypassing the banks and VCs was the ability to self-fund or the ability to use an existing customer base to raise funds. For example, one coffee shop simply put a sign up on the till asking if its customers wished to invest in the business.

4.2.2. Reasons for Using ECF for Fund Raising

One of the main reasons cited by our interviewees was that the ECF platforms provided relatively quick access to a large pool of investors. Motivations ranged from a purely commercial decision to raise funds quickly and cheaply, to wanting to be inclusive and not alienate or exclude people even if they were small investors. Consequently, several interviewees cited that they selected their ECF platform based on the number of investors registered on the platforms database. One of our entrepreneurs commented:

“There aren't many professional angel investors. There's a very wide range of angel investor organizations around the UK and of course in America and elsewhere. They range from a very small and informal to very large and national and some of them are international. So [Platform A]'s been going for about

five years (interviewed in: 2014) and it's already, 5 or 10 or 100 times bigger than any other angel organization in Europe."

ECF platforms were seen to offer quick access to significant levels of capital. As we have seen, as the ECF platforms have matured and attracted more investors, the amounts of money entrepreneurs could potentially obtain from this source has risen. Initially many entrepreneurs viewed ECF as only suitable for seed rather than growth stage companies. As the ECF platforms have become more established, they have attracted entrepreneurs seeking larger investors. Interestingly, our interviewees cited that crowdfunding allowed them access to significant amounts of capital without relinquishing the same levels of control than through venture capital investment; perhaps the other side of the coin of the investors' views above that valuations are high (i.e. the amount of equity offered is small and expensive) and that entrepreneurs pay insufficient attention to investors opinions. From the perspective of an entrepreneur, crowdfunding provides an opportunity to raise capital without having a relatively small number of powerful investors to answer to; instead there are a relatively larger number of investors, each with relatively little individual influence.

An additional factor cited by the interviewees was the opportunity to leverage their existing community and transition their user base into investors. We noted this motivation also on the investor side. This has the added benefit of turning these user-investors into more committed and vocal advocates of the firm. This finding suggests that established firms may have an added advantage over start-ups and supports our finding that brand recognition and product recognition are important factors in the investment decision making process. Raising funds in this way was described as being fundamentally "*an easier sell*" as existing customers were felt to have a good understanding of the product and the company's vision. In addition to providing access to significant levels of capital, crowdfunding platforms were also seen by entrepreneurs as a way of raising awareness of the company and its products and services. One company had BBC articles written about them when they raised hundred percent of their target in just 24 hours. So, publicity seeking is identified as yet another motivation. A related motivation that some entrepreneurs identified is the ability to, "manipulate the psychology of the market." Savvy entrepreneurs will aim to create "momentum and buzz" through marketing campaigns and so create excitement. Often, positive press regarding crowdfunding campaigns relates to how quickly a funding round has achieved the desired level of capital. However, this can be manipulated through "*front-running*" where prearranged people put money in to the campaign making it appear to be a "*hot*" investment. Furthermore, others noted how it is possible to set the campaign target to £500,000 for example, while the real intention is to raise £1 million. Buzz is then generated as news spreads of how quickly the campaign reached the

target and so others rush to invest. This underlies the phenomenon of overachieving targets on average noted in the second section. The consequence of this is to ultimately dilute the value of the equity held by those first investors who thought the target was £500,000. Some entrepreneurs acknowledged that this was morally wrong in that they were saying they would do one thing while actually seeking to do another but suggested it was useful in creating a “psychological bubble” regarding the desirability of the investment.

Similar to the investors, the interviews revealed important secondary reasons for entrepreneurs to engage with ECF besides raising capital. As previously mentioned, such platforms also allowed businesses to spread awareness of their products and services. Thus, using ECF platforms to raise capital had an added secondary benefit for entrepreneurs. One felt that the digitization and virtualisation of the investment process removes the need to physically attend numerous pitch events but instead allowed virtual meetings and to upload pitch videos. A further secondary reason cited for adopting ECF, is that a large network of investors may help entrepreneurs to find people with the necessary skill sets and knowledge base needed to grow the business.

4.2.3. Reasons for Avoiding ECF for Fund Raising

Some interviews argue that contrary to popular perception, the potential levels of capital available to entrepreneurs are low. Furthermore, the UK regulator and signal to the platforms that it wasn't comfortable with multiple funding rounds in quick succession from the same firm. Consequently, an entrepreneur was prohibited from conducting a third round 12 month by the platform, commenting,

“We would have done a 3rd round in 12 months, but the feedback we got from our platform, which was [Platform A], was that they had had feedback from the Financial Conduct Authority that these multiple rounds of quick succession, they weren't very comfortable with it. The platform's interpretation of the regulations basically said no. We contest and we don't think it is right, but we are part of this blanket thing and if they don't want to do it, then we can't do it. There really isn't any other platform that will allow us to raise the quantum of money we want.”

Another reason given by our interviewees for avoiding ECF related to their views on the administrative overheads required. Some entrepreneurs suggested as a great deal of due diligence work was required by the platform and that this had increased over time, not least due to regulatory obligations evolving. However, others felt that the administrative overheads were not large compared with other forms of investment though they agreed they had increased. A complementary theme that emerged from our interviews highlighted how several entrepreneurs felt the platforms did not provide enough support in preparing due diligence, understanding the regulatory obligations and promoting the campaign. For example, one entrepreneur admitted that they had no

understanding of the responsibilities placed on them regarding financial investment rules. Luckily, in this case their campaign did not reach its target and so no funds were received from investors.

A common theme that emerged from our interviews was concerns regarding transparency and public nature of crowdfunding. While several entrepreneurs cited crowdfunding campaigns as being able to significantly raise awareness regarding the company and its products, others felt this came at an unacceptable risk should the campaign not reach its target. Traditional funding routes are undertaken behind closed doors and so if an entrepreneur fails to raise funds, the outcome is not widely known. However, if pitch fails to reach its target through crowdfunding, its failure is public. Others felt that having to place past and future financial information and the business plan in the public domain could damage the business. This observation corresponds with the investors' perspectives, previously outlined, that good investment opportunities should not be shared publicly. Furthermore, some interviewees took the view that crowdfunding was viewed as a means of last resort and desperation if VC, angel money or bank loans were not accessible; a view also suggested above by an investor. A related view was that crowdfunding money was too easy to get and so if you were not fundable at the VC/ bank level, then the entrepreneur could still raise funds through crowdfunding loan, again a view echoed by one investor. Consequently, some entrepreneurs felt that by going down the crowdfunding route they were publically signalling to future investors that they were less a less robust and attractive business.

Having to deal with unsophisticated investors was seen by some interviewees as a reason to avoid ECF. Various reasons were given for this, from not wanting to feel that they were responsible for managing other peoples' savings to having to deal with a plethora of questions and concerns. In contrast to the perspective held by some entrepreneurs, that large networks of investors would help them access knowledge and skill sets, some interviewees felt that unsophisticated investors could add very little value as they knew little about the business environment. Other entrepreneurs felt the platforms were not regulated enough, that there were a lot of hidden risks, false projections and over-exuberance which might ultimately lead to a crash in which unsophisticated investors lose might their money. Some of our interviewees concurred, suggesting that the majority of crowdfunded businesses would fail in the next five years. One entrepreneur gave an example of an unsophisticated investor who invested £500 and then rang their office to ask what he would get for his money. He wasn't worried about losing his money. He thought the company was great. He just didn't understand if it was a gift or an investment. Platforms are required to provide pop-up windows with questionnaires designed to screen out unsuitable investors. One of our interviewees described this as a "bozo multiple-choice questionnaire that a three-year-old could do." His firm had a number of unsophisticated investors calling them to ask for

coaching on how to complete the questionnaire in order to be able to invest. Clearly this creates a moral hazard, where the entrepreneurs seeking to raise the funds are advising individuals on how to navigate the processes involved screening unsuitable investors¹⁸.

Entrepreneurs' Summary

In summary, ECF appears from our interviews to have provided a new and additional form of funding to entrepreneurs in the development of their ventures. The platforms offer many advantages; of cost, ease, availability. They also provide some spillovers in the form of product and market testing and development. Nonetheless, there remains some suspicion of this innovation amongst entrepreneurs as well, with fears paralleling those of investors in terms of the additional risks generated by reliance on the crowd as a source of equity funding.

5. Conclusions

The ECF sector in the UK has grown very rapidly in the past six years, under the benign gaze of a “light touch” regulatory regime. This paper draws on unique and novel quantitative and interview material to provide considerable evidence that this financial innovation has generated significant additional sums for early stage entrepreneurs, and more recently also to assist them in scaling up their businesses. The ECF market in the UK has become larger, deeper and broader, and has matured considerably in this period.

Our paper has been concerned to address three research questions. First, are the significant financial flows via ECF platforms additional to more traditional forms of funding for entrepreneurs or are they merely a diversion of previous flows into a new medium? Both the quantitative and the qualitative evidence support the view that the funds for entrepreneurs via ECF are largely new, rather than diverted from other channels such as angel investment or venture capital. The evidence for this includes the extraordinarily rapid growth in the investor base and the funds generated, and the interviews which indicate that many investors are entirely new to this type of activity. Furthermore, entrepreneurs clearly for the most part appreciate this form of funding, and view it as differentiated as well as additional to what was available to them previously.

¹⁸ By coaching investors through the screening process, entrepreneurs may be breaking the platforms terms and conditions. From the regulator’s perspective, this would be unacceptable but it would hold the platform rather than the firm as responsible since it is the regulated entity. Some felt that the platforms should have more responsibility placed on them to help give full informed advice and educate both the investors and the entrepreneurs who may see nothing wrong in ‘helping’ investors through the process.

Our second issue concerned whether investors understand and appropriately evaluate the risks that they are bearing by investing in this new form of equity asset. There is a priori evidence for this in the growing evidence of repeated investments, and the awareness of the evidence about business failure as well as successes. The investor interviews also reveal a clear understanding of this risks and returns entailed in this asset class. Investors are very engaged in the evaluation process of new ventures, and are undertaking their investment primarily for financial reasons. They have a medium to long time horizon and seek one or a few “golden unicorn” successes to offset the fact they realise the bulk of their investments will either fail or provide at best lacklustre returns.

Finally, there is the issue of additionality in terms of knowledge and skills and advice from the investor to the fledgling enterprise. This is an important element of the other forms of early stage investment such as venture capital and angel investment. The evidence here from our interviews is more mixed. The crowd contains many members who do not have the relevant skills and expertise to assist entrepreneurs, or are not willing to share their knowledge in such a public forum. At the same time, the platforms do offer mechanisms for the transfer of knowledge quickly and cheaply through the social networks- posts, followers and comments- and we have evidence that these are widely used and noted, especially by other investors in making their investment choices. Moreover, ECF offer possibilities for entrepreneurs not available through other funding mechanisms; to test their products, to develop their brand, to build a loyal customer base, to turn customers into investors. Nonetheless, on both the investor and entrepreneur side, our interviews suggest these factors are not always adequate compensation for the absence of expert guidance provided by traditional early stage financiers, and this may limit the attractiveness of ECF into the future.

The UK has therefore seen especially rapid growth and maturation of the ECF market. We have argued that this is likely due to a combination of favourable circumstances including principles based regulation and attractive tax benefits for early stage entrepreneurial investors. The sector has been operating, at growing scale, for more than six years and has seen increasing concentration, market deepening in terms of the number of investors, the amount invested and sums raised for new ventures. Though there have been relatively few successful exits to date, and a significant number of failures, these appear to have been broadly in line with the expectations of market participants and not to have greatly dented the appeal of ECF for investors or entrepreneurs. Even so, as the market settles down and becomes better understood, it is unsurprising that some potential participants are becoming wary of continued engagement. These developments have not been accompanied by any dramatic frauds, failures or scandals which might have undermined the credibility of ECF,

and it is fair to say that the UK sector is now relatively established and mature. More importantly, it is delivering on its potential of supplying significant and probably largely incremental funds to early stage entrepreneurial ventures, though the “quality” of the investments relative to the depth of advice and knowledge provided by venture capital is more open to question.

This rapid expansion of ECF in the UK, the very considerable flows of funds to entrepreneurial firms, and the significant number of projects that have been successfully supported through the pitch process, stands in stark contrast to the much more modest growth of equity crowdfunding in other jurisdictions. We noted at the outset of this paper that entrepreneurial ventures are an important source of innovation, economic growth and job creation, and that many countries are probably underachieving relative to this potential perhaps because of deficiencies in the supply of finance. Our evidence suggests that regulatory authorities in much of continental Europe and North America may have judged the balance between competition and innovation from new financial innovations such as ECF, as against the needs for strict investor protection, inappropriately. The UK experience indicates that that equity crowdfunding will quickly thrive in a more benign regulatory environment, and that in doing so it may relax the financial constraints on the creation and growth of new entrepreneurial ventures.

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Table 1: Description of the UK Equity Crowdfunding Sector

Name	Active	Industry Focus	Global Launch	UK Operations Launch	Equity Operations Launch	Projects Funded	Total Equity Raised (£M)	Total Monies Raised (£M)	Registered Users	Avg. No. Investors per Funded Project	Average Funding Round Size (£)	Average Investment Size (£)	Secondary Market	International Operations
AngelList	Y	General	2010	2015	2015	6	1,44	1.44			240,000		N	UK
Angels Den	Y	General	2013	2013	2013	60*	11*	19.8	13.00		190,000*	20.000*	N	Mexico
Crowdcube	Y	General	2011	2011		531	315	315	405.2	238	642,000	1,789	N	
Funding Tree	N	General	2014	2014		3		1			350,000		N	
Invesdor	Y	General	2012	2016	2016	5		0.58			116,200		N	United Kingdom, Denmark, Norway
Property Moose	Y	Real Estate	2014	2014		90	10,3	10.3	23.30		114,000		Y	
Property Partner	Y	Real Estate	2014	2014	2014	300	43,0	43.0	9.000		143,000		Y	
Seedrs	Y	General	2012	2012	2012	375	171*	171*		203°		1,902°	Y	Portugal, USA, Netherlands, Germany
Trillion Fund	N	Renewables	2015	2015		100		4			40,000		N	
Venture Founders Syndicate	Y	General	2014	2014	2014	22	42.6	42.6		42,0	1,936,000	46,095	N	
Room	Y	General	2013	2013	2013	100	86.3	86.3			860,000	15,000	N	
Crowd for Angels	Y	General	2012	2012									N	
Eureeca	Y	General	2013	2015	2015				14.10				N	UK, Malaysia, Netherlands

Notes: **Industry Focus:** Focus on particular industry projects. **Global Launch:** Year operations were launched in country of origin (not company foundation). **UK Operations launch:** Year operations were launched in the UK (not company foundation). **Equity Operations Launch:** Year UK equity crowdfunding operations were launched. **Projects Funded:** Number of projects that succeed in completing funding round (since launch). **Total Equity Raised (£M):** Total Equity raised for projects (since launch). **Total Monies Raised (£M):** Total Funding raised for projects (since launch). Includes forms other than equity. For only-equity platforms this is assumed to be equal with total equity raised. **Registered Users:** Number of registered users on the platform. **Avg. No. Investors per Funded Project:** Average number of investors funding projects that successfully completed funding round (since launch). **Average Funding Round Size (£):** Average total amount (all kind of funding) requested by projects allowed to pitch on the platform (since launch). **Average Investment Size (£):** Average amount invested by single investor in funding round (all kind of funding, since launch). **Secondary Market:** Presence of a platform integrated secondary market for investments (Y/N). **International Operations:** Countries where the platform has established crowdfunding operations (other than country of origin).

Table 2: Equity Crowdfunding; Amounts raised by Year in Principal Platforms in millions of GBP

Year	Crowdcube	Seedrs	Syndicate Room	Total
2011	2.48			2.48
2012	1.98	0.33		2.31
2013	10.72	8.26	0.76	19.73
2014	33.91	20.48	15.86	70.24
2015	73.20	33.70	23.88	130.78
2016	65.02	71.10	20.59	156.72
2017*	31.29	14.59	17.85	63.73
Total	218.59	148.46	78.93	445.99

**2017 data covers first five months for Crowdcube, first quarter for Seedrs and first two quarters for Syndicate Room. +Seedrs data is self-reported by fundraising firms*

Table 3: Number of Pitches by Sector

Year	Primary	Secondary	Tertiary	Total
2011	0	2	8	10
2012	0	7	24	31
2013	9	22	67	98
2014	3	64	161	228
2015	3	91	229	323
2016	1	87	187	275
2017*	0	36	44	80
Total	16	309	720	1045

**2017 data covers first five months for Crowdcube, first quarter for Seedrs and first two quarters for Syndicate Room.*

Table 4: Number of Fundraising Companies by Number of Funding Rounds Undertaken

Year	1 Round	2 Rounds	3 Rounds	4 Rounds	4+ Rounds
2011	3	2	1	1	0
2012	20	3	3	2	1
2013	43	19	4	2	2
2014	136	38	11	4	0
2015	229	29	7	2	0
2016	207	5	0	0	0
Total	638	96	26	11	3

Table 5: Successful Exits by year of First Funding Round

		Fundraising Year						
		2011	2012	2013	2014	2015	2016	2017
Exit Year	2011	0	0	0	0	0	0	0
	2012	0	0	0	0	0	0	0
	2013	0	0	0	0	0	0	0
	2014	0	0	0	0	0	0	0
	2015	0	1	0	0	1	0	0
	2016	0	0	0	1	0	0	0
	2017	0	1	0	0	0	0	0

Table 6: Proportion of Pitches Belonging to Now Failed Companies

Year	Proportion of Failures
2011	40%
2012	32%
2013	29%
2014	11%
2015	4%
2016	1%
2017	0%
Total	8%

Figure 1: Geographical deepening of Equity Crowdfunding Network

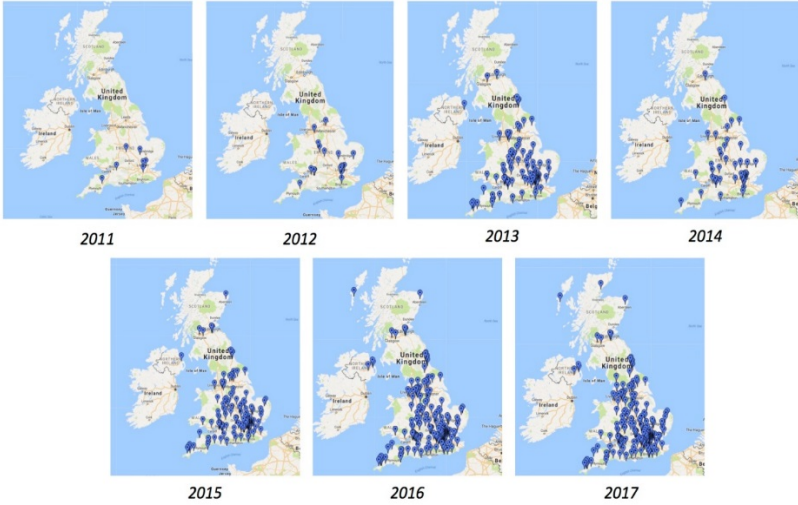


Figure 2: Deepening of equity crowdfunding social networks

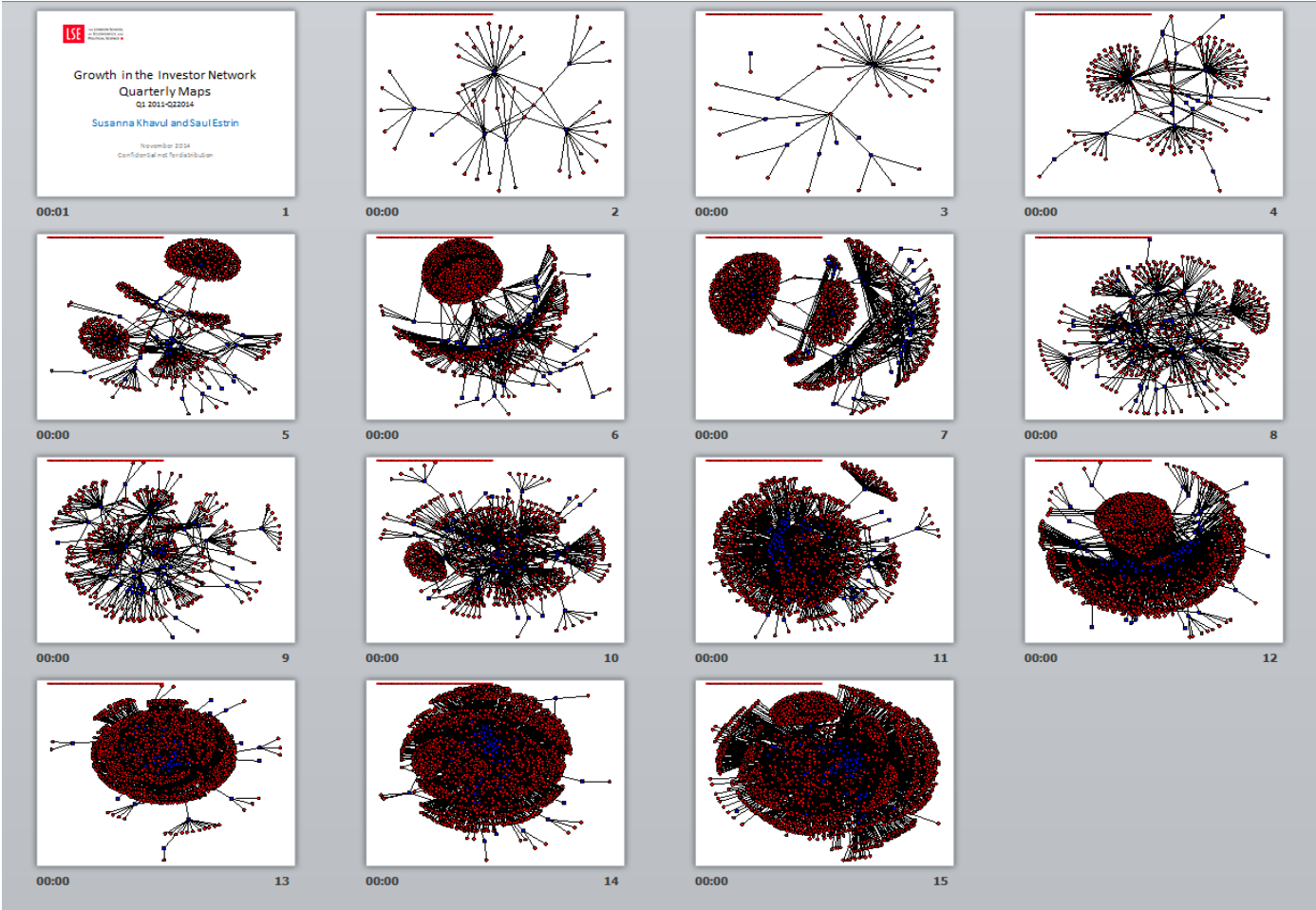


Figure 3: Inside the pitch process

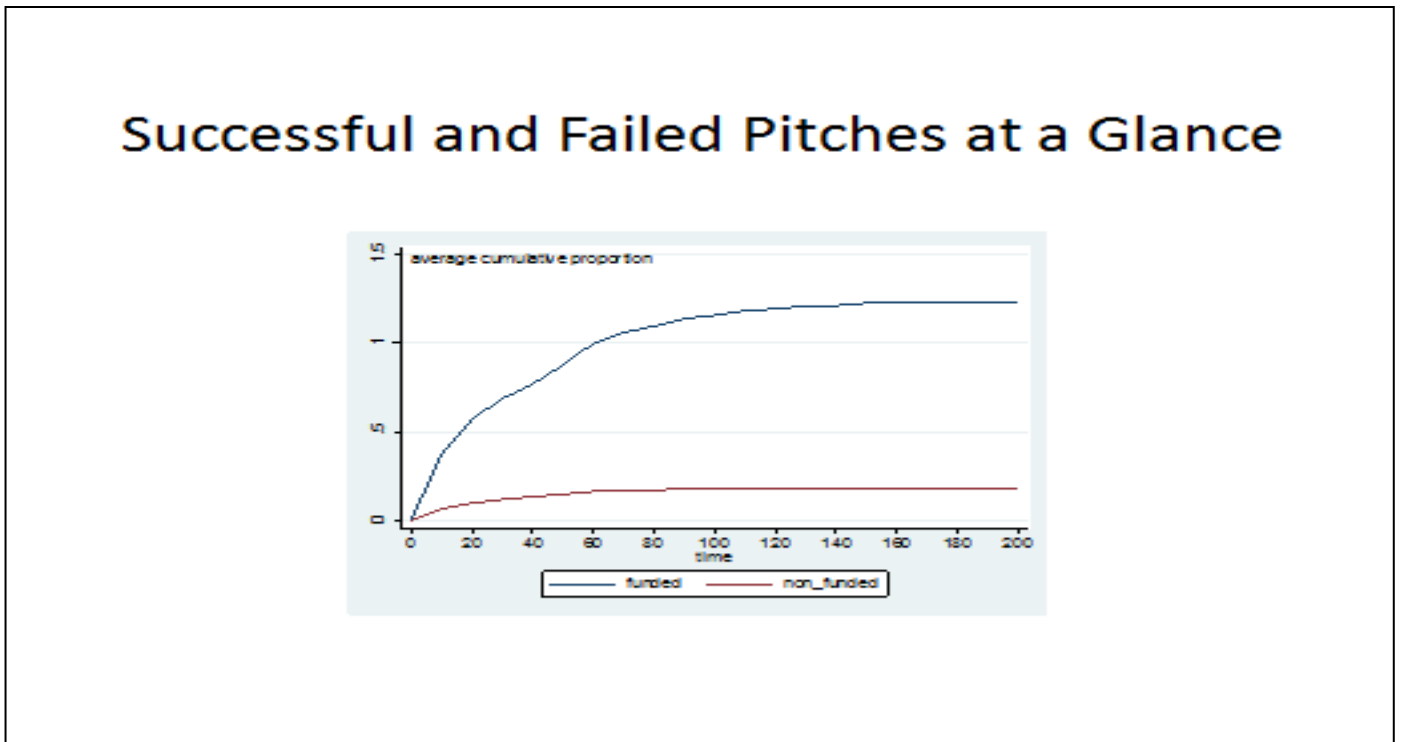


Figure 4: Failure Rates



Figure 5: Investor Data Structure

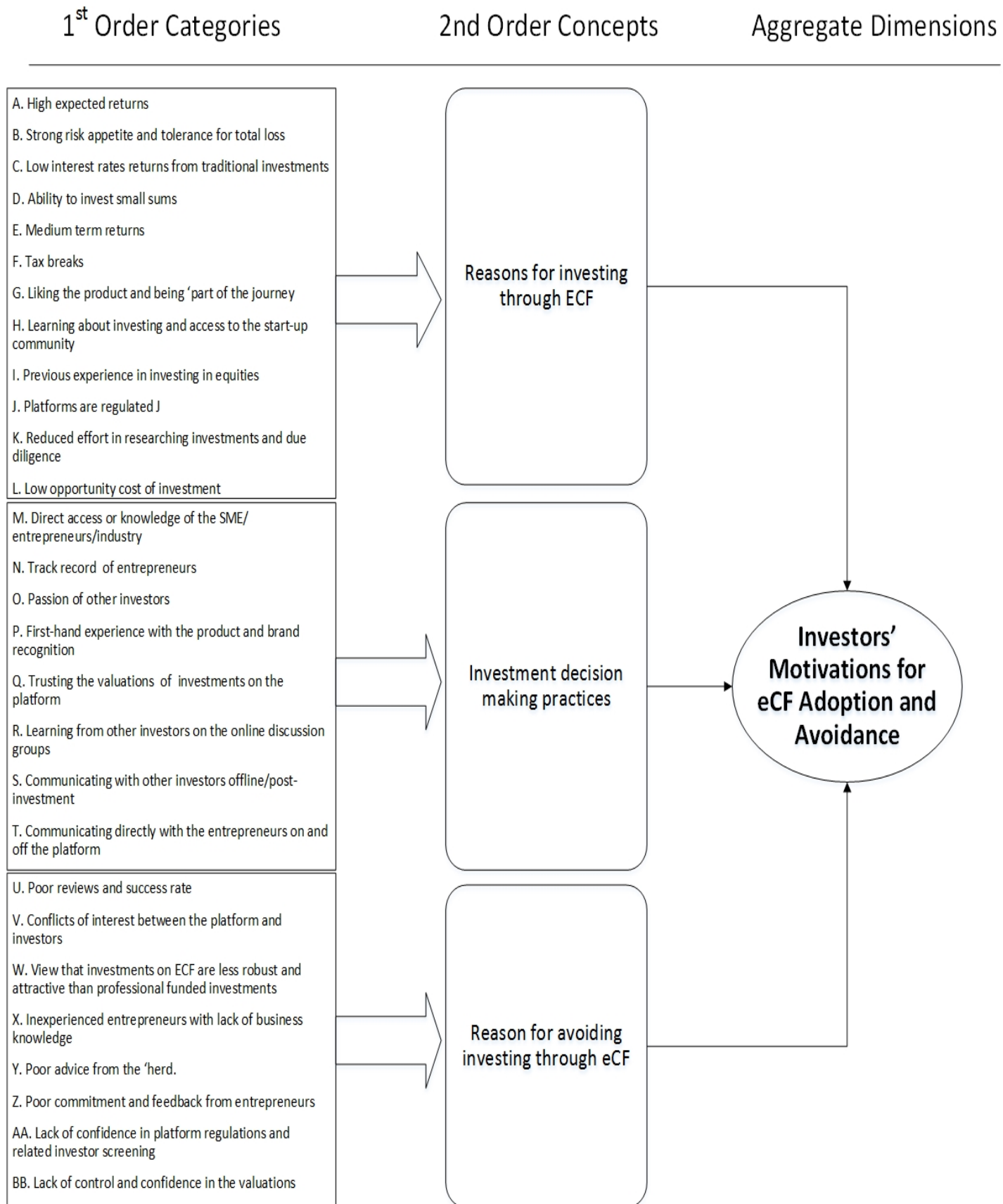
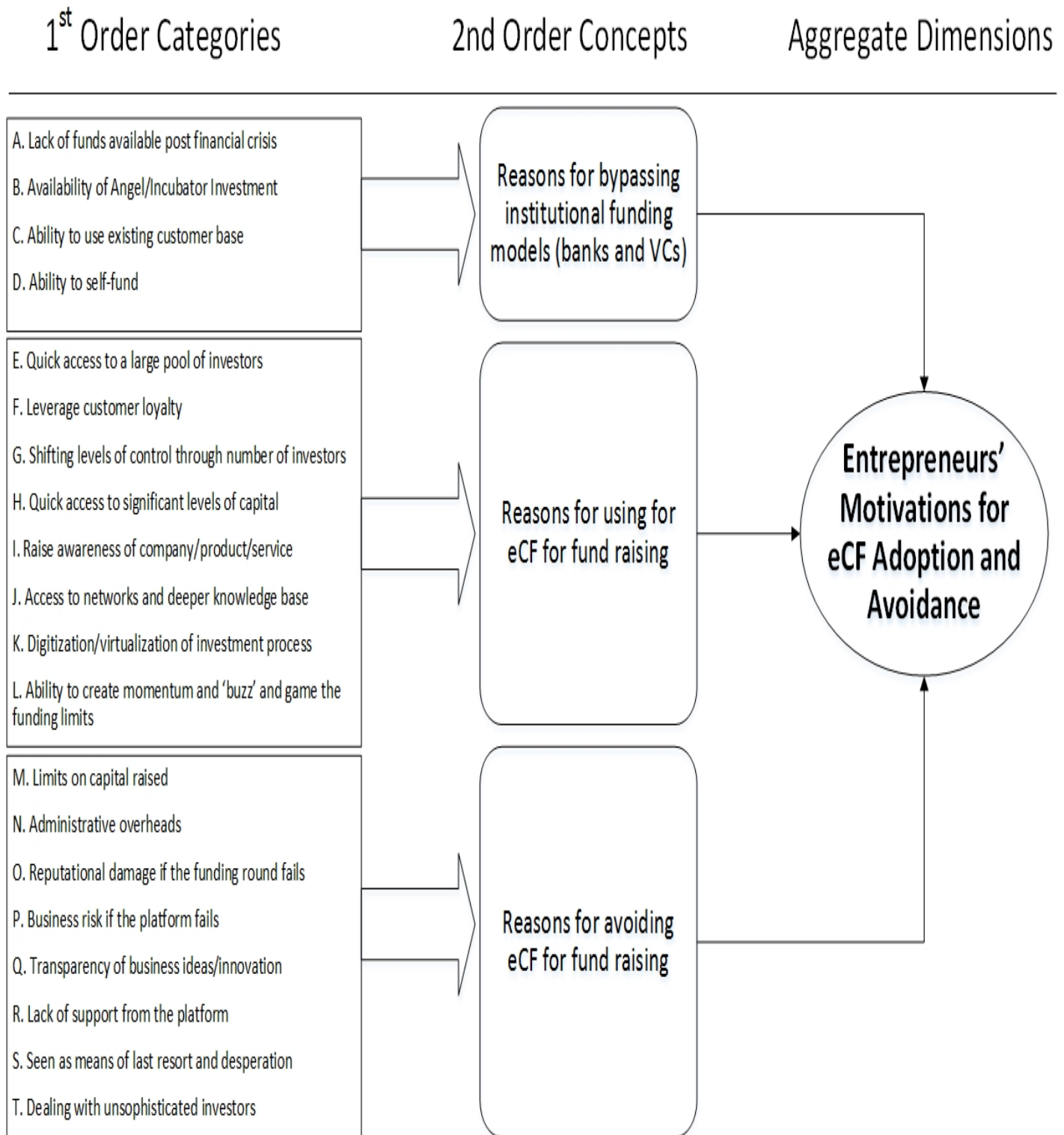


Figure 6: Entrepreneur Data Structure



Appendix A: Investors' Motivations - Selected Evidence

First-Order Categories	Second-Order Concepts	Representative Data
Aggregate Dimension: Investor Motivations for ECF Adoption and Avoidance		
1. Reasons for investing through ECF	A. High expected returns	A.1 I usually invest in the 1st or 2nd round, so I would say that 10 times is an acceptable return. If you look, for example, to one of the projects I invested in through crowdfunding is food related, called [company x]. I don't expect a 10 times return on that one, but I see 5 to 8 times if they do well, because food is harder to get a high return on. Whereas if you go for high-tech it is easier, such as PaveGen is another one I invested in (pavement of generation of electricity). (I1.2017)
		A.2 On the whole, my portfolio, in 5 years if it doubles or triples it is okay. (I3.2017)
		A.3 I would say 10 times. About a 1000%. (I5.2017)
		A.4 A 100% return on a 10.000 investment would be very good, but it depends how long it takes. (I8.2017).
		A.5 If you have an X amount – if you can develop it in 5 years, and you get a 20% return – that is actually very good. (I9.2017)
		A.6 So in terms of success – if it can cover your kind of admin costs. You have to do due diligence before you invest, you have to kind of be in touch with the platform, you do some fraud checks, there is obviously the financial stake, and you put time in the EIS claims and the rest of it – so it does all sort of add up. So a double of the investment you put in would be what I deem a success, as a minimum. I think it would be doubling your investment. That would be a very good outcome.(I10.2017)
	B. Strong risk appetite and tolerance for total loss	B.1 No – in terms of portfolio thinking – the money I invest in equity crowdfunding I consider as lost. I prefer to not put all my money being lost so ECF is not a significant part of my overall portfolio. When I invest on a crowdfunding platform, I mentally consider my money gone. What I hope to see is the company to survive and grow past the initial phases. If I happen to have some return down the line, I'll be very happy because that shows the company actually made it and the idea was viable. But I don't put a number on the return I expect from these investments. I think I will probably do that when I have more experience of how they work out, but I would be very surprised – out of the number investments that I have made now – that one would start generating something that I would call a return on investment. I expect them to fail, but I don't hope they do. (I2.2017)
		B.2 It is an opportunity to invest in something new and innovative. I mean a share in Apple is nice, but where is the risk? (I3.2017)

		B.3 I prefer investing in something, knowing that I will get some return – so I try to look for relatively safe things. If I get a good feeling about projects I invest. (I4.2017)
		B.4 I prefer investing in something, knowing that I will get some return – so I try to look for relatively safe things. If I get a good feeling about projects I invest. At some point I got some money, and for me investing was a way of thinking more about the future. During the last 6 years I've been a student with a scholarship, so I didn't have any kind of funding or pension etc. So now I am starting to work, and I'm like wow I'm starting my professional career at the age of 36/37, and I have about 16 years in which I didn't have anything – so how can I increase that. So that's how I decided – okay I want to start with investing. (I4.2017)
		B.5 Obviously I don't want to throw it away, but it's not money that I can't live without. If you disregard my pension, it's probably about 10 percent (I5.2017)
		B.6 When you are talking about smaller start-up companies, at the end of the day there are a number of volatile factors you need to take into consideration. Through the crowdfunding platform, should the company go bust, it's going to be very difficult or expensive for an international investor to get all the money back. So more or less the risk profile is the same.(I2.B.2015)
		B.7 Because of my age and the capital I have built over time, my ability to take risks with that money is greatly enhanced, so a portion of my wealth is allocated towards more risk taking ventures. Because of my background I am inherently more comfortable considering this type of investment and taking that risk. (I2.G.2015.)
		B.8 I bought a house as well and taken investment property, so it is kind of trying to balance a portfolio with high risk and sort of more – dependable investments. So there is a financial stake of – there is a small amount that I am willing to invest in higher risk projects that are of interest (I10.2017)_
		B.9 You expect 7 out of 10 to fail, 1 to be going along nicely, and 2 to be quite good. (I11.2017)
		B. 10 At the moment my portfolio is more or less 50/50, in more stable/risky investments (I7.2017)
		B. 11 If I had 10, let's say, I would expect at least 2 or 3 to fail. At the moment, because I have five, I would say maybe one will fail. If you put money into a crowdfunding business it is a possibility that you lose all your money. It is a really possibility (I12.2017).
		B. 12 ECF is something like 10/15% of my overall equity portfolio. I like the idea, and I have money I don't mind losing, I invest in ECF. I understand the risk, I understand the upsides and downsides. So as long as it is money that I don't miss, I am happy to invest. That is my philosophy. (I13.2017)
	C. Low interest rates returns from traditional investments	C. 1 I had some expendable income and decided that it would be a good idea to diversify what I am putting my money into rather than just sticking it into a mutual fund. Instead I could take a small portion of my savings and put them into something higher risk and more exciting. (2.C.2014)
		C.2 I have a considerable amount of spare cash in the bank. My interest [in equity based crowdfunding] was how I could invest and receive a good rate of return. (2.D.2015)

		C.3 I am interested in the potential benefit [of equity based crowdfunding] if you find the right company, of the gains from that but at the same time I am pretty aware of the fact there are high risks with small companies. (2.E.2015)
		C.4 I have capital to put to work. There aren't a lot of opportunities to invest that money by more traditional routes to get a return and certainly you can't sit on the money in the bank, it just doesn't feel very comfortable doing that. (2.G.2015)
		C. 5 Interest rates are really low. At the moment leaving the money in the bank doesn't really do you much good. (2.H.2015)
		C.6 I was attracted by the higher potential returns from crowdfunding in comparison to listed investment opportunities. (2.F.2015)
		C. 7 With equity crowdfunding I find more interesting than the stock market in the sense that you get in at a very early stage, and you actually have a chance to have a higher level of the equity than you would do on the normal stock market. (I1.2017)
		C. 8 Compared to venture capital fund [crowdfunding] is more flexible in the selection and choice of the type and size of company that one could invest in, whilst providing similar tax relief and governance. (2.I.2015)
	D. Ability to invest small sums	D. 1 Ah, most of these were what I would call small investments. In pounds that would be between 500 and 1500 pounds for most of them, some a little larger – so small investments. (I2.2017)
		D. 2 In all cases I only put in 1000 or 2000 pounds. In other investments I did I put in more money than that. In total about 5000 pounds. (I3.2017)
		D. 3 At the moment I do relatively small investments, I don't particularly think or care about that. I mean, I understand my vote would be just a tiny fraction on the whole and not that important. I trust the entrepreneurs to share the company. (I1.2017)
		D. 4 I am starting to build that portfolio of around 5000 pounds (I4.2017)
		D. 5 The first one I put was about 1500 pounds into easy property. And then Ive had a few around a thousand, one of 500, and a few on 250. Overall they averaged out at about a 1000 each (I5.2017)
		D. 6 My investments were usually minority investments between 10-15000 pounds. (I6.2017)
		D. 7 One was 10.000 and one was 5000 pounds. (I8.2017)

		D. 8 I have made perhaps only half a dozen investments. I thought I would make many more, but I have become somewhat sceptical after having started a couple of years ago – I have largely stopped now. So yeah, my largest initial investment was maybe 5000 (I11.2017)
		D. 9 ECF offers something more accessible. For people who have the interest, but maybe don't have the huge capital – maybe quite as much experience, as other more established investment schemes, like stock market or hedge funds or VC and stuff. I think I invested 2000 then, and since I have done other small investments – for 1100, and that is probably the limit for me in high risk investment.(I10.2017)
		D. 10 I am not investing 84000 pounds, I am investing smaller chunks of money. So if you like, I'm crowding the risk all the time. So I wouldn't put 50.000 pounds into [the platform]. I put in 15000, but for that business. Generally I invest no more than 5000 pounds in these kinds of businesses. Because if I lose 5000 pounds, it is not the end of the world. I don't like it, but it's not the end of the world and it's not going to affect my life, and my lifestyle, or my wife's lifestyle, or my children's lifestyle. If I lost 50.000 pounds, that would hurt quite a lot. More than that, I wouldn't want to go there (I12.2017)
		D. 11 At first, I wanted to invest it through the VC where I worked, but they didn't want my money as the transaction costs for investments were relatively high for the amount that I wanted to invest. That is how I got to (platform]. (I7.2017)
		D. 12 It is very small, in three projects, very small amounts.(I9.2017)
	E. Medium/Long term returns	E. 1 As you know, the risk of failing is fairly high. The average of returns in both tech and biotech, it would be 7 or 8 years. It is not something I expect to be paid back by tomorrow. I see it as a bet or a lottery ticket, but with higher chances. (I1.2017)
		E.2 My thinking is that within 3 years from now, I will know if any of the investments are at the level whether they will give return. The crowdfunding platform is the one that is doing that the most and will turn towards the direction of IPO at some point. So that would be the time where I will expect to see some kind of return, for the rest I think it is more long term – if ever. (I2 .2017)
		E. 3 We're talking about 3-5 years as a horizon – so 2x would not be so spectacular. It would be OK but a bit disappointing. 3-5 X would be expected, per individual company to say that it was a success. Beyond that it is not great, but of course overall I realize that some companies may not return anything. (I3.2017)
		E.4 I think one normally hopes these companies exit or becomes tradable within 5 years. (I8.2017)
		E. 5 I am investing in the ones, mostly, that have the tax relief available – so you can't claim that in three to five years. I would pay back the relief. So its five years minimum, but I think that a lot of these, the pace that they are going in in further rounds and selling outs, you might be expecting some to be sooner than that – 5 years – but I think probably around 7 to 10 would be what you might expect.(I10.2017)
		E. 6 I am very conscious the returns happen over a scale of many years. So, that one fails and that one fails, and then finally in year 6 years this one may become big. So even by now I might not expect it to be positive return (I11.2017)

		E. 7 Certainly not less than 5 to 10 years, I have other investment which I had for 25 years. . On something like an ECF investment, I would be disappointed if I didn't get 50% back in 5 years (return). (I12.2017)
	F. Tax breaks	F. 1 Tax Relief messes up the market in the UK. So it is not necessarily a good thing for the market as a whole, but it is good for the individual. Since only companies that are willing/or able to get an EIS/SEIS – they will have a much higher chance to get funded. So companies not able to do that, because of how they work, or how they are, will be affected. It creates a broken market. Moreover, it also disincentives UK investors to invest elsewhere. They would rather have their company within the UK to fall under EIS/SEIS. (I1.2017)
		F.2 There something to learn from the UK – not just in terms of oversight, but also in combining it with actual tax incentives and making it more integrated into a normal investment portfolio. It is still more seen as a hobby, a fun thing on the side. I mean right now I cannot use the tax reliefs that are offered in the UK, as I don't have income in the UK. In Denmark it's not possible and same thing in Sweden. But if there was tax relief, it would be an incentive to invest much more. (I2.2017)
		F. 3 So, of the six I have done, I think only two of them were eligible. So certainly, my two main 'hoppers' weren't eligible for it, so it's certainly an attraction but it's not the defining reason. (I5.2017)
		F. 4 It was an indulgence. 10.000 pounds investment into a business that looked very interesting with a very good management team cost me 6000 pounds, initially, because of the 40% return on the SEIS investment. Then if it goes belly up the risk is 2800, which is not worth worrying about really. Tax reliefs mean you can slightly indulge yourself. (I8.2017)
		F. 5 Tax relief – EIS. It definitely helps to de-risk it to a certain degree. And you know that if the company makes losses or goes bust, you get some of that back – you get some of it back immediately – so it does make it very attractive.(I10.2017)
		F. 6 Yes, I like to have it. I claimed it as well. (I9.2017)
		F.7 With the tax advantages of EIS/SEIS, you would not even have to be that right on average. If you believe the business plan, and the numbers, you would only have to get 1 out of 10 and you would come out ahead. But as I said, I have probably revised those probabilities (I11.2017)
		F.8 When I was working, EIS was quite important. Now, it's not, to me. But for some people it is, and it should be. Sometimes I talk to friends and they tell me they do not always sign off their EIS – and I ask them 'why not, you are mad – you must be' Yeah people can't be bothered. Even if they know about it. It's just a piece of paper. So I think it's a under used tool. (I12.2017)
		F.9 From my perspective I wasn't counting on tax relief when I started, but then when it is time to submit your tax returns, it brings down your tax considerably. It is a win-win. It definitely encourages more people to invest (I13.2017).
	G. Liking the product and being 'part of the journey	G.1 I did it to become part of the journey. (I1.2017)
		G.2 The projects that the entrepreneurs describe, when I feel passionate about them, and I can feel these are a good team that have a great idea. They basically show you the light and if you think they deserve to be successful and where I think they can be successful – these are the projects that interest me and that I like to go for. (I2.2017)

		G. 3 Sometimes there are products that I think is worth backing even if there is no great financial chance of success or financial upside – but it’s a great project, I may invest in it as well. Medical devices are a good example. In that case, being part of the project is important. Like I said, I don’t care that much about the financial reward in that case. It is about the project succeeding, entrepreneurs building what they are intended to build. So for some cases it is more important than for others. With energy it would be somewhere in the middle, financial and the product itself – the new modes of gaining energy. (I3.2017)
		G.4 Basically I have been more attracted to equity, also with normal listed companies. I find it more fun to be a part owner, even if it is in a very ‘small way’. (I4.2017)
		G. 5 I can make a very small amount of investment feel like I am being part of something and potentially make some money back on it. (2.A.2014)
		G. 6 I put in money because I enjoy the idea and I want just to follow it or their success other investments I take financially more seriously. (2.M.2014)
		G. 7 No I didn’t feel part of the journey. You couldn’t expect to feel part of the project when you only invest 10.000 and they raised three-quarters of a million. (I8.2017).
		G. 8 I wasn’t really thinking that I would set out to make some money. I liked the idea of some of the things that were there and I thought I want to invest in this. It’s a good thing that should be invested in. (2.A.2014)
		G. 9 Let’s say, I see a project and I think it is a terrible idea – but if people seem to be investing in it – I will put in 10 pounds just so I can follow it to check if my theory was correct or not. (I10.2017)
		G.10 I just enjoy investing. It’s a bit like a chase, it’s not about making lots of money really, but more about finding things that you believe in and might be successful.(I12.2017)
		G.11 I would look at what could be a fun company which is probably a bad way to invest. You think ‘ah it would be cool if I could tell my mates that I’m investing in this company’, so for example the dating app that I just told you about, that was cool to be part of. There is also a TV channel that’s cool to be a part of, you know ‘I own part of a TV channel’. (I11.2017)
		G.12 I am basically an engineer at a regular job, but I always wanted to invest and try to help any new inventions – so that I am part of the new invention. There are many ideas that never make it because of lack of funds. So if 10 people can come and sponsor the idea, it is good for the investor and for the guy who invented it, isn’t it? (I9.2017)
		G.13 I remember thinking ‘oh, I am a consumer, I like that product, I would give them a tenner’. I would give them something to make that product happen and get the product and be part of it, and a lot of people did that (I10.2017)
	H. Learning about investing and access to the start-up community	H.1 In the end, I only put in a small amount of money. I’m not going to become rich out of it. But I did it to personally see what the experience [of equity based crowdfunding] was like. (2.K.2014)

		H.2 I don't invest very much. I am not a massive investor in so it's kind of away for me to learn. It's a form of self-improvement in terms of being to become a better investor in the future. (2.K.2014)
		H.3 I still see myself as playing with it. Because I invested very small sums, but for, so far, it's a way of understanding and practice in how it works. (I4.2017)
		H.4 The [crowdfunding platforms] allow me to see more opportunities, seeing sectors where I don't have networks. (2.J.2015)
		H.5 For me, it was a part of using 'free capital' that I have for my normal business, and to become a part of the start-up scene that I was working with in other ways. The dialogue between the founders and the investors is a very appealing part of the crowdfunding investment.(I2.2017)
		H.6 It is more me learning what is happening, expensive learning [laughs]. It is a fun thing that I am doing. I want to know what is happening in this start up arena, to know all the interesting stuff that is happening, and this is one way to be connected with it. You look at one of the platforms and then you get to know that. You know a lot more is happening in the food and drinks sector, and on technology, and to get more insights. To be part of that is one of the motivations (I13.2017)
	I. Previous experience in investing in equities	I.1 I invested in a few start-ups in Iceland. So I started out there with a company called DOHOP.com – flight search engine – and some internet based games, and that was the time I started my own pharma company as well. I have always invested in very early stage companies, at the earliest parts of its life – with high risk profiles – rather than going into stock marketing. (I.20171)
		I.2 I'm an experienced professional. I have been working in corporate businesses in most of my career doing business development and building up companies and subsidiaries, setting up business. 5 or 6 years ago I started looking into the whole start up scene, to follow what was going on in that area. So I started working as a venture for start-ups and took an interest in the whole – let's say – community around start-ups. (I2.2017)
		I.3 I had done some conventional investments in life insurance products with additional stock fund investments and some products from my local bank that are index funds. (I3.2017)
		I.4 I have dabbled with stocks and shares. (I5.2017).
		I.5 I've been investing for a very long time, mainly in regularly listed equity – probably for about 25 years or so. And then as the market evolved, the equity market at the time was underdeveloped, but became more sophisticated over time. Then is started fairly regular private equity, and also some purely private transactions (loans). I'm quite familiar with a broad range of investments. In the last couple of years I have also been looking into the sort of crowdfunding space.(I6.2017)
		I.6 Since my late 50s, I have started two business, invested in them, and raised funds for them (I8.2017)
		I.7 Having worked and run a small business, and now working with startups, it's the idea that attracts me more than anything. It's not really the business plan or the financials, but the concept of the product and the business that is the biggest sort of motivator in making the decision whether or not to invest (I10.2017)

		I.8 I have been investing probably for 5 or so years. My portfolio is predominantly regular stocks. I manage my own portfolio and that of family members as well. I am also quite active in peer to peer lending, this may be the second largest thing. And then crowdfunding and equity crowdfunding would be the third string to that (I11.2017)
		I.9 I've been an investor since I was a graduate trainee in advertising. I bought my first shares. The reason I did was because another friend of mine wanted to work in the city and he got me interested in equity, so then I started investing in equity. Very early on. So I've been investing a lot over many years. (I12.2017)
		I.10 Before I invested in the stock market, investing with things like mutual funds and stuff, and in the past 4/5 years I have been investing in crowdfunding platforms. I think of the most big ones I have invested through and I am currently invested in (I13.2017)
	J. Platforms are regulated	J.1 I think regulation matters. I have invested through different platforms and in different countries. The UK is very strong, I mainly used [Platform A] in the UK, and I think that specific level of 'guarantee' and 'oversight' is quite strong in the UK, whereas other countries are still lagging behind on that. Many countries are still not as big and mature, maybe Sweden is mature, but Denmark is far behind. But there is to learn from the UK – not just in terms of oversight, but also in combining it with actual tax incentives and making it more integrated into a normal investment portfolio. It is still more seen as a hobby, a fun thing on the side. (I2.2017)
		J.2 Yes, of course, regulation provides some level of trust. But also, [Platform A], reviews the pitches so that also gives additional confidence as well. So besides oversight, the company [Platform A] has its own reputation at stake that is related to its own financial success. (I3.2017)
		J.3 I remember that when I read the platforms were regulated in an email, it made it feel much safer. Also from within the firm they gave some liability that a firm would go busted, that was also useful since I want to play more on the safe side. Knowing that there are actors looking at this makes it safer. Also I remember reading a lot of articles that discussed ECF as a grey area, in legal terms. It felt much safer when regulations got extended to them, and that makes me feel better about it. (I4.2017)
		J.4 I wouldn't buy anything other than through a regulated site. (I8.2017)
		J.5 Yes. There must be a strict regulation (I9.2017)
		J.6 Yeah I think that it's a regulated industry is a kind of mark of quality and security. I don't think I would be investing if it wasn't a regulated industry.(I10.2017)
		J.7 Yes, definitely. I think it should be regulated, because you don't want people to come and disappear overnight. This is where the reputation of the platform comes into play.(I13.2017)
	K. Reduced effort in researching investments and due diligence	K.1 Not much time is spent. 3, 4, 5 hours – for small investments. For larger investments probably more. (I1.2017)
		K.2 I review all the material that the firms put on the crowdfunding platform. Try to get an impression of the idea, but also the team and what they want to do. Then I try to see if there is something similar in the market, or if it something that appears to be very new. So about 10 hours all in all each, to get around the different aspects. (I2.2017)

		K.3 I would look into what kind of companies already exist, try to do a bit of research on the company, probably not too much, about a couple of hours. Obviously I would check out the product as well – if it is already online. (I5.2017)
		K.4 Yes. It gives you less friction in making the investment. It takes you less time, if you will. And it does not require as much commitment in money. If you have to go and meet a company to invest in it, it takes a lot of time on behalf of both the funder and the funded – so you feel an obligation to put in money that is ‘worthwhile’ (if you were going to put in money anyway). So you are not going to put in 500 quid if it was a personal meeting, but on ECF you can put anything ranging from 50 to 50.000 quid. (I1.2017).
		K.5 I cannot spend my own time, on for instance doing research, because I am tied to family life (I9.2017)
	L. Opportunity cost of investment	L.1 I would not have invested the funds at all if not through ECF (I1.2017).
		L.2 If I hadn’t invested I would have kept the money in the bank. I don’t know anyone who has invested anything. In my family, all the money used to go to the pension fund or the bank. For me, I was thinking like that, until I got frustrated with the very low returns. (I4.2017)
		L.3 If I hadn’t invested I might have paid off more of my mortgage or put it on listed shares (I5.2017)
		L.4 ECF is not currently a significant part of my portfolio, but it is in the trial phase for me to see how it works My alternative was peer to peer lending. Because you can expect return even though it is risky.(I9.2017)
		L.5 If I wouldn’t have invested my money in this firm I think I would’ve put it in bonds or funds. (I7.2017)
		L.6 That money would have gone to one of the listed companies. Either to a index funds, or directly to a LSE listed company. There’s definitely an additionality. You do feel the buzz about start-ups everywhere. I guess it gives you an opportunity to be part of that, part of that buzz. Which means that – I’m sure there is additional money flowing. Purely from that perspective, people would have kept it in their bank accounts – with 0% interest, almost. (I13.2017).
2. Investment decision making practices	M. Direct access or knowledge of the SME/entrepreneurs/industry	M. 1 They are just in my interest. I mean my background is accounting, but currently I am working in one of the companies I invested in. I invested 20000-25000 pounds and I ended up working in it. (I1.2017)
		M.2 I knew the management teams in each case and I thought they were very good. (I8.2017)
		M.3 At the bottom it is financial, I was convinced of each potential to become much larger and to grow its value. Well there are several industries that I am interested, so I follow those. I check [Platform A] to see what investments that are open at the moment, and whether they are in those industries.(I3.2017)

		M.4 The most important thing is the product or their offering, but even if they have that, you need the whole package. Do they have the right business mind-set, are they familiar enough with operational, legal, technological, and financial aspects, et cetera. Sometimes it takes as little as awareness, so they can get the right people to look at it. No one knows everything but you need the awareness that you need everything to succeed. (I6.2017)
	N. Track record of entrepreneurs	N.1 The experience of the founders is very important. Have they done something like this before, do they have experience, are they feasible to pull this through. Stuff like that. (I1.2017)
		N.2 Seeing the guys on the team, they know what they are doing. They have very experienced guys and they have different fields of expertise.(I7.2017)
		N.3 One criteria is the management, what their background is and what they do. The second is the nature of its product and scalability (I12.2017)
		N.4 I look at the idea, the founders, have they got attraction with customers, do they have a proper plan, a plan we can look into. More often than not I am looking at the pitches and the individuals that are involved.(I13.2017)
	O. Passion of other investors	O.1 I rely on is how enthusiastic others are, so if basically a project is overfunding – then I may invest some money even if I don't particularly care about the project or the company. I just throw some extra money in the pot. [...] I think they know something and the plan may be successful. The ones I invest more in I try to understand more the business and the potential (I3.2017)
		O.2 Initially it was going with the crowd, you know, looking at the investment that was getting a lot of attraction with investors. And then you think – maybe this is interesting, everybody seems to be interested in this. (I13.2017)
	P. First-hand experience with the product and brand recognition	P.1 I didn't just do it because it was actually crowdfunding. I did it because I've used [Company X] products in the past, I bought a pack maybe 9 months ago and it's very, very good and I thought that at the moment in the market, it's not very well-known about... Once they start going more mass market, I think the products is strong enough that it will sell very well. I only put in a small amount of money. (2.K.2014)
		P.2 I like the product. It's something that I'm very interested in. I used it and I like. When it became available to be invested in and they want my money as an investor, I'm very happy to be part of them. So it's more about the personal interest in the company and into the product itself. The product is fantastic. I did look at their financials, they look pretty decent. (2.J)
		P.3 I've always been fond of [Brewery X]. So, I think these guys are very distinctive. I think they seem to have a very good acceptance from both, a mainstream consumer and from more, sophisticated beer connoisseurs. You know, the owner is the founder. And I also think that the brand, you know, is an important asset and of course [Brewery X], it's one of the most synchronized places in London. (2.B.2015)
		P.4 [Parking company] I am driving a lot for work it means I am frequently parking in the local carpark and I am thinking this is ridiculous it's very expensive. I've got the app on my phone and I actually use this and it felt like it's a good idea. I think they were about 30% funded when I put my funding in and they were oversubscribed by another like 150% something like that. It was quite bonkers. (2.A.2014)

	Q. Trusting the valuations of investments on the platform	Q.1 Most of them are in early stages still, so I realize the valuations are changing over the years – either decreasing or increasing. [...] So usually I try to see myself if the business has a promise of going, and I trust the crowd to do the corrective work. Entrepreneurs will respond to that. If they see the crowd is not responding they will rethink their evaluations and come up with better numbers that are more attractive. (I3.2017)
		Q.2 Yes, I trust the valuations (I1.2017)
		Q.3 I am satisfied with the [Brewery X] valuations. The other ones are more a bet, a risk. (I4.2017)
		Q. 4 I use the information that is provided. Some financial details, vision, and so on. In some cases I go more into the description, and the market, to value if there is a chance of success, (I3.2017)
		Q.5 I think the two I invested in the valuations were pretty good – good enough. (I8.2017)
		Q.6 I prefer to invest in more tangible projects. Anyone in the virtual space can claim their valuation is so and so on. No one knows. Whereas I can see – for example Skipping Rocks, they have researchers, a small lab and constant costs, so we know what they are doing. That is how I believe in valuations. The rest of the valuations are just numbers. (I9.2017)
		Q.7 I think this is where the platform comes in. you say – it’s a good platform – and it is their task to do due diligence. There are millions of start-ups, and a fraction can come to the crowdfunding platform. This is where some of the platforms are better than the others. There are people there who know about valuations, and know about who comes in – that’s useful. (I13.2017)
	R. Learning from other investors on the online discussion groups	R.1 Online discussion forums are useful to see what others are asking saying about it. This is a big part of due diligence, to see what are other people thinking and why are they thinking they that. As well as the responses of the people that are fundraising. (I1.2017)
		R.2 Yes I follow the online discussions regarding the pitches. I have also followed crowdfunding campaigns, to see when they are successful and when are they not. (I2.2017)
		R.3 It’s funny, in the beginning – yes. Then I didn’t follow them. But after the experience of losing money, when I decided to invest in the mini-bonds, I read tons. The forum was very important to me then, to see if people were trusting it. I started to realize also, that some companies are very good at responding, to anything. Whereas other companies, it may take them days to do so. Perhaps it would have been an amazing company, but I didn’t like that. Sound and solid responses increases the trust. (I4.2017)
		R.4 I do value the others on the forum. There is lots of things people would ask, which I wouldn’t – people with different areas of expertise. So it is very important. I would also read comments that other people put forward. I am not an accountant, but some people raise very good questions in relation to that. (I5.2017)

		R.5 On the online discussions there might be people cropping up who know about the specific industry or the sector that the business is in. I would maybe ask more technical questions about competitors, or viability of the product that someone who is not experienced on, might not think of. They can be very interesting people there – I am not big on the details and finance side of it – but there are people who go through that and sort of poke holes. An example would be [Firm X] where people pointed out the big losses that were made financially – kind of putting that to them and asking direct and insightful questions, about the financials and viability of the product and the market. (I10.2017)
		R.6 I do look at it. I do read some of it. Very often there is a question asked that I would like to know the answer of as well. But I wouldn't say it influences me. I have never come across anything that changed my mind – to put it that way. But I do think it is important, if people ask questions to the guy that is raising the money. What I am most interested in is 'how' they answer it, rather than what they answer. How transparent are they, are they trying to answer the question or are they trying to avoid it. (I12.2017)
		R. 7 I used to follow the crowd, so to speak. But I stopped that now (I13.2017)
	S. Communicating with other investors offline/post-investment	S.1 Not before the investment, but I have subsequently built connections with other investments after the investments – partially through the creation of investor groups by the company. It is a good community for investors (I2.2017)
		S.2 Not really, I have wanted to though. I receive invitations to join activities or events. So far I have been very busy, but I would like to, because I don't know anyone who is doing this type of investing. I would like to get in touch with people who are in a very similar situation to mine. (I4.2017)
		S.3 [The platform] are very good. They do have events, every six months or so. Which you can go along to meet other investors – so yeah I did that (I12.2017)
		S.4 Yeah there are different ways of staying in touch with the investors, and meeting other investors. [Platforms X and Y] had some events, and I go to some of these events just to see what others are doing, what the platform itself is doing. Some of the pitches I go to listen the start-ups. For me it's more about getting to know, and meeting new people – and as I said one of my drivers is looking at – understanding the space, understanding the start-ups, and understanding what is happening, with the founders. For me those kind of events are interesting, so I get to see and understand (I13.2017)
	T. Communicating directly with the entrepreneurs on and off the platform	T.1 I just email them and ask how it is going. Most of them have a monthly newsletter, and a lot of it seems about advertising the products to get early backers. So it is also a marketing tool, next to an investment tool – to spread the message. (I1.2017)
		T.2 Yes, I communicate with the entrepreneurs' pre and post investment. The most successful ones are the ones that are most engaged with communication platforms, Facebook for instance. Here they share about good and bad, how they are doing, new things about their projects – that is part of the joy (I4.2017).
		T.3 Yes, I like to have contact. Most of them provide some regular updates. I also try to connect with them, especially if it is a somewhat larger amount or if I care about their project in particular. I try to connect with them on LinkedIn, and if I have a tip to offer or something that I think would help the project then I try to share it. So, yes it is important. I have my own business so I understand that it takes a lot of time just concentrating on the business, so I don't expect them to always be willing, even to make a connection or to respond to questions. Overall I am happy, especially if they provide updates regularly to all investors, it's fine. (I3.2017)

		T.4 It is important to see them responding to questions, but I haven't been to any life pitches yet. I did go to an AGM for one of my investments. (I5.2017)
		T.5 I think those platforms are very unsuitable for having any sort of impact on valuations. They act on those platforms and they feel very confident on feeling validated through the platforms. The valuations are very much along the lines of take it or leave it. They would not have a constructive conversation on value, they follow protocols. I found it did not actually reflect the value. (I6.2017)
		T.6 I think the two I invested in were pretty good – good enough. I think a lot of crowdfund investments are poor – in terms of value. They overvalue and offer too little for what their raising. But that's because their dealing with small (retail) investors, who are on the whole not that experienced I think. (I8.2017).
		T.7 I can see that the start-ups that are most active in having a conversation with current and potential investors are the ones that are most likely to be successful in getting their funding and come further. It also seems to make investors more patient, once they have funded, when they feel they have a good conversation with the start-up. That is what I learned, that because of the size of crowdfunding you have the opportunity to engage with the start-up and the founders, whereas if you invest on the normal corporate stock market you are still very distant from the management and you don't have much to say.(I2.2017)
		T. 8 Another firm I invested in was [Firm X], I invested a couple of grants into that one. I've got involved with the guys as well, I kind of meet up with them once a month. I would describe them as nice guys, working very hard (I11.2017)
		T.9 We sent the entrepreneur a list of questions. This happened over the weekend; we sent it on Saturday night and we got very solid and clear responses by Sunday afternoon. So we emailed back and forth, and that gave us a very good impression. (I7.2017)
		T.10 I wanted to meet the management before I put 10 grand in. I emailed them and then they opened an office in London and invited me to meet the team. (I12.2017)
		T.11 On my checklist would be – to have a good google on the directors themselves, to see if they have been naughty at any stage, or involved in companies that are no longer existing, and if so – why. I would also always meet up with at least one of the directors, just to get a feeling for them.(I11.2017)
		T.12 What I've done with some of them, contact the founders and say 'do you have this or that, a plan for instance'. Some of them share it once you are signed in in the platform. Others say, get in contact if you want to know more.(I13.2017)
3. Reason for avoiding investing through ECF.	U. Poor reviews and success rate	U.1 I read this blog, which has shed some light on perhaps some of the guidance and due diligence that is performed – that is not quite up to scratch. So I have pulled back a little bit and not put more money in (I5.2017)
		U.2 The current success rate is quite low – across the board as it were. So I am waiting to see how things go and whether or not they have been regulated or not doesn't seem to make a big difference in success at the moment. (I5.2017)
		U.3 One firm failed completely, declared bankruptcy, but why did it go so quickly? There was no information, so bad. Within one year they went bankrupt, that's not good (I9.2017).

		U.4 Yeah it really does put you off, when you see so many of the stories – I have also seen one of the stories on one of the companies I have invested in myself, which I didn't quite pick upon myself. Afterwards I was like 'oh yeah that is actually true, that was actually not correct, was it'. When you see the full breadth of them. But just to see a lot of companies are not acting properly, shall we say. But a priori – going back 3 years – I would have predicted it to be better than it is now. So I would have definitely have expected more and it is obvious at this stage that the portfolio that I have is very unlikely to give a big return. (I11.2017)
	V. Conflicts of interest between the platform and investors	V.1 I think there is a slight conflict of interest for the platform, as of course they want to get as many raisings as possible ... so they don't necessarily want to be turning everybody away. Uhh. it is a bit of a tricky line. (I5.2017)
		V.2 .Essentially some of the money that was raised via [the platform] I believe, was used to pay back the loans of one of the directors. I think this is not correct. The office space ended up being one of the director's apartments. So I guess the company's money was redistributed to the rent. I think in his mind he felt he could justify both of these things, I don't think he was out to rip anybody off, but it is still not how you expect your money is going to be spent when you first invest your money (I11.2017).
	W. View that investments on ECF are less robust and attractive than professional funded investments	W.1 I found it sort of interesting, but to be honest, the more I look into it I am also put off. Usually the moment you see anything on the crowdfunding platform, either means that all the professional investors have turned it down, or the professional investors already tried to capitalize on a prior investment round. It raises warning signs for me (I6.2017)
		W.2 Equity crowdfunding is not the sweet spot for me, if you get what I mean. It's usually the wrong investors, the wrong situation in terms of either an unproven business model trying to raise funds, or investors cashing in something that may not be as great as they thought – early exits type of thing. It is just, it does not always feel right to me. (I6.2017)
	X. Inexperienced entrepreneurs with lack of business knowledge	X.1 They turned out to be run by people that just didn't seem experienced enough on the business side of things. Maybe on the product side, which they initially founded the company for, but most of them didn't seem to be very business savvy. They didn't know how to do a liquidity forecast, or didn't know how to handle a situation where things didn't develop as they planned. They simply had a lack of technical knowledge, which I sensed from the fact that people didn't have an idea or necessarily had a business background, and I don't think they got the right business people in. they think it is all about the product, but it's not. You have to get the business side of things right. (I5.2017)
		X.2 I am of the view that the reason a significant number of businesses never succeed is because the owners actually won't listen to anybody else. They won't take advice. They know best. Now – arguably, if you're running your own business, you don't want other people telling you how to run it. I can understand that. I ran my own business. In fact, I was in a partnership and that made a difference. It's not my own, there is someone else you had to listen to, because you're both shareholders. So that was slightly different from being a sole entrepreneur, although I have done that myself as well. So, I think a lot of entrepreneurs don't listen to advice. I know, they won't listen, and that's fine. But then you have to say- I would not invest money if it is behind someone like that. Because in any sort of business success, you have to have a team – somewhere along the line. And if you're not want to listen early on, you are probably not going to change your mind (I12.2017).
	Y. Poor advice from the 'herd.	Y.1 Your co-investors are usually relatively unexperienced and uneducated investors. (I6.2017)
		Y.2 ECF is almost like shopping. Your online, you don't talk to anyone, you look at a sales pitch. It is just about the idea. You look at beer and you think oh that is cool. I think the psychological edge that the company has is quite immense. It is a relative indirect way of pitching something, almost like Amazon or Ebay. Overall, it is far too easy. Even though there are warnings – if

		you are excited about a project, you decide to buy it – without really looking at valuations. People make the wrong decisions based on incomplete information. There is the golden rule in finance ‘don’t get emotional’ when making investments. I think emotion is the only thing driving the equity crowdfunding. It is tempting to invest, and tempting to let go of all caution. Most people probably spend more time buying something or 25 pounds – by comparing prices – than for a couple of thousand pounds into illiquid investments like this. While it is so likely to fail. (I6.2017)
		Y.3 No. A good investment is something you discover, keep from others and you try to get the best deal. It’s not in your interest to attract others because it makes everything more expensive. The best time to invest when everyone thinks it’s a bad investment. I don’t believe in the crowd. They’re always wrong. (I14.2014)
		Y.4 Yes, I do look at it. Sometimes they can descend into anything like the YouTube comments or online forums, it can get a bit sort off topic, or snarky, or there is some where clearly naivety is showing. As it is such an open platform, there were some people talking about ‘when do we get this money back’ or ‘when the business exits, give us a brief headline of that’, and then somebody else would come back saying sold when to who?, and they didn’t really understand the concept of long term high risk investment (I10.2017)
		Y.5 I would like to think of myself as being quite independent, and being aware of psychological biases. So even the fact that other people are investing on the website doesn’t really concern me or not. I think that’s a trap that many people fall into. It’s a bit of a game that is being played now – to lower the target you want to make sure to get to the 100%, and then the rest would think ‘oh this must be good because the whole crowd is investing’. (I11.2017)
		Y.6 But no, I wouldn’t rely on someone else’s... it’s my money. Just like what I said about entrepreneurs. I wouldn’t rely on someone else’s opinion – I read chip sheets, and magazines etc, but at the end of the day – it has to be your decision, it has to be your own criteria. And all people have different criteria, which may not be the same as mine. So I don’t. (I13.2017)
	Z. Poor commitment and feedback from entrepreneurs	Z.1 No. Equity crowdfunding not. It is just not ideal for me. The hurdle for a company to be committed is too low. Why would they talk to me if they have 599 other investors? The fact that they don’t shows me it is too easy for them to raise funds. (I6.2017)
		Z.2 I have also found the post-investment phase quite frustrating. Everything that those firms on the threshold promised, in terms of their product offerings, or growth they promised, and communication, and what they did with the funds... I mean you never hear back from them unless you send them an email to ask what they are up to. They promise quarterly or semi-annual updates, but you never receive them. If you ask for one, you get a relatively informal email. (I6.2017).
		Z.3 Part of the problem is that everyone is looking for interesting investments, but the contact through the platform is so unipersonal and almost non-existent. Standardization is necessary (I6.2017).
		Z.4 When you’re invested online you have no influence. Offline you can be involved with the board, have management influence. As part of the crowd you have zero control, being one out of 250 other people is not interesting. These are donations more than investments.
		Z.5 The thing is that many discussions are posted on the online discussion, but what I noticed is that there were very few replies from the guys raising. Very bad. Very bad. They have to be active. Maybe they have to allocate a one week slot to keep on answering. It is very poor. (I9.2017)
		Z.6 I got an email from them a week back, saying ‘the general meeting was held, and there was a majority of votes to changes the articles of the association’. This was news to me because I didn’t see any notification coming around that there would be a meeting, and I don’t know what these articles of association are. So I responded to them ‘would you mind to share them, and by

		the way how did you notify the shareholders?’ That has not been replied to. I know they were having some difficulties, but... It is a bit like you get money from the shareholders and then you don’t care about them anymore.(I11.2017)
		Z.7 I can’t say if I actually had a response to a personal remark I made, I have done it twice. To one, I sent two emails and a phone call to the CEO, but I never got a response.(I10.2017)
	AA. Lack of confidence in platform regulations and related investor screening	AA.1 It does not give me more confidence that it is FCA regulated. That regulatory oversight, I don’t think it means much. Obviously there are certain hurdles or criteria that have to be met, but overall it says very little about the investment being a good one. Secondly, I think it is also under regulated, in the sense that it is far too easy for the regular investor to getting involved on the ECF platform. (I6.2017)
		AA.2 I saw people who buy part of an unquoted company at 10.30 after a night out. They go online, browse the platform, look into it for 5 to 10 minutes and then they purchase. It is far too easy. I don’t know what should or could be done, but it is something that is far too accessible to the average person. (I6.2017)
		AA.3 I think a lot of crowdfund investments are poor – in terms of value. They overvalue and offer too little for what their raising. But that’s because their dealing with small (retail) investors, who are on the whole not that experienced I think. (I8.2017).
		AA.4 I saw people who buy part of an unquoted company at 10.30 after a night out. They go online, browse the platform, look into it for 5 to 10 minutes and then they purchase. It is far too easy. I don’t know what should or could be done, but it is something that is far too accessible to the average person.(I6.2017)
		AA.5 FCA it is just a supervising body, I don’t feel they have any resources to go further and drill down and see the promoters background and valuation.(I9.2017)
		AA.6 For me that the platform itself is regulated by the FCA probably doesn’t concern me, because ultimately if you invest in a small business, to these two directors that are running it – are they eventually going to pay us all or are they going to pay themselves for a nice salary (I11.2017)
	BB. Lack of control and confidence in the valuations	BB.1 I think those platforms are very unsuitable for having any sort of impact on valuations. They act on those platforms and they feel very confident on feeling validated through the platforms. The valuations are very much along the lines of take it or leave it. They would not have a constructive conversation on value, they follow protocols. I found it did not actually reflect the value. (I6.2017)
		BB.2 When you’re invested online you have no influence. Offline you can be involved with the board, have management influence. As part of the crowd you have zero control, being one out of 250 other people is not interesting. These are donations more than investments.(I14.2014)
		BB.3 I do know that on forums there has been a lot of criticism that crowdfunded business valuations are inflated.(I10.2017)
		BB.4 I think many [valuations] border on ridiculous. On the [company X] one – that was taking advantage of unsophisticated investors. A VC company was investing simultaneously. The deal that was presented to the crowd was that you are investing on the same terms and valuation, which was already very high. But, on that one - what I felt was very misleading, all the kind of seniority rights, or whatever they may be, but the VC made their investments much more valuable then what was going to the crowd. I forgot the terminology, but the VC would be paid back first, etc. That was not made obvious on the pitch, so I think that is taking advantage of unsophisticated investors.(I11.2017)

Appendix B: Entrepreneurs' Motivations - Selected Evidence

First-Order Categories	Second-Order Concepts	Representative Data
Aggregate Dimension: Entrepreneurs' Motivations for ECF Adoption and Avoidance		
1. Reasons for bypassing institutional funding models (banks and VCs)	A. Lack of funds available post financial crisis	A.1 It was difficult to raise funds in 2012, but I've been looking at VC funds for many years. In 2012, after the financial crisis, the funds generally were being held until they protected the existing portfolios they already had. Overall the attitude in the UK is risk aversion. The people don't understand it, they don't want to invest in it. It's our job to make them understand it, but then it's too good to be true... (CT1.2016)
		A.2 Simply put [ECF] makes it easier for the smaller enterprises to raise funds, the banks problems are that due to the costs being too high for them to enable them to contemplate smaller transactions. The costs are just too disproportionate. (CT3.2016)
		A.3 They [banks, post crisis] are very risk averse. They almost have a set formula in their minds of the way things should be done. If you try and suggest anything different, they just don't want to know. They also, compared to the US, they look very closely at the technology and the IP protection, and very closely at the business plan. Really they don't seem to be taking into account the expertise, the experience of the management team...we've all been here before, we've all done it, we've raised money, we've had successful businesses, and yet that didn't seem to cut much with them. (CT1.2016)
		A.4 I think angel money, seed money is fairly easy to get, the question is, what comes after that? I think Europe, and then UK, is still undercapitalized in terms of the amount of money that is available to build US companies. I would say the gap comes in 2 areas, first growth capital and then there are some businesses that are good business as a team, but they are running out of cash. (ED3.2016)
	B. Availability of Angel/Incubator Investment	B.1 What's typically happened is that we have had high net worth people who have managed to persuade their high net worth friends to invest in the company. That's kept us going. (CT4.2016)
		B.2 So we got the initial funding from Innovation RCA and same, thanks to the backing, gave us the sort of creditability to get angel investors. So we kicked off the company with over 200,000 pounds, mostly from angels and the incubator. (CT5.2016)
		B.3 So basically we had to go out and get money on the basis of a brilliant concept, but no product. That's not easy and the first one came through a contact of our CEO—an investment of 1 million Canadian dollars. We went round everybody in the UK. We went to all of the VCs—we just didn't want to go to VCs. We all had experiences before and know it's so easy to be ripped off by them

		and that confirmed our experience in all of the ones we approached this time around. We went to high net worth individuals, we went to company foundations, and we spoke in one year to about 80 different organizations, offices or organizations based in the UK. With nothing—no interest whatsoever. (CT1.2016)
		B.4 When the bank said go away and get some of your own funds, I approached two friends of mine, one said, yes and put some money in as well, as a silent partner in the business, so he put 10,000 pounds in, and that helped and a few more savings over time. Helped put me over the edge. (KO2.2016)
		B.5 I think that our business is frankly too boring to be of interest to crowd funders. We simply need professional investors (business angels) that understand what they are investing in. (I1.2017).
	C. Ability to use existing customer base	C.1 I put a little sign on the back of the coffee machine, anyone interested in investing, send me an email. And we were probably two or 3 times oversubscribed...ended up doing that a couple of times. (CO1.2016)
	D. Ability to self-fund	D. 1 Initially, the bulk of the finance that has gone in for the company is from myself—it's all been bootstrapped. I'd previously worked in the city in finance myself...savings and redundancy pay? (IT2.2016)
		D.2 When we started our first shop, we used a credit card to pay for it. (CO1.2016)
2. Reasons for using ECF	E. Quick access to a large pool of investors	E.1. Number one? Larger audience. Fundraising is a sales exercise... you want to increase the numbers at any stage of the sales cycle and [Platform A], I believe has around 180,000 people registered on its database (interviewed in: 2014), so when we launch on [Platform A] we get our message in front of 180,000 people. (3.B.2014)
		E.2. It was a commercial decision. We felt that [Platform A] had a large investor pool more quickly and easily available. (3.A.2014)
		E.3. We didn't want to alienate or exclude people wanting to invest, even if they are at the smaller end. (3.C.2014)
		E.4 You have lots of ripple investors collectively taking stakes in potentially, what could be much larger companies. It was something that could rhetorically capture peoples' imaginations a little bit and therefore in a way that VCs might not think the same way. I thought I might get a decent valuation out of it as well... (IT2.2016)
	F. Leverage customer loyalty	F.1 [Through ECF] we could see when our customers became investors and shareholders. It almost supercharges [customers] advocacy on behalf of the product and the company (3.D.2015)
		F.2 We could see that there was a huge demand from our customers – there are three quarters of a million of them, - to own some of the business and to profit from our success and so once we realised that it was better than plan B. (3.A.2014)
		F.3 So we at a certain stage where we've built up this incredible community, very vibrant and engaged community. (3.D.2015)

		F.4 If you are raising money cold, people who don't know what you are doing or what you are about or don't get it, it takes some time to get them over the curb. Whereas if you are raising money from your customers, they are your customers because they like what you are doing. (CO1.2016)
	G. Shifting levels of control through number of investors	G.1 From the view of someone who is looking for funding [crowdfunding] is a very positive thing. You don't have to worry about funders, as they don't really have influence. If the money is gone, it's gone. If you're with a VC, they might kick you out [as the manager of a venture] and get involved, as they really want to see returns on their investment. (I14.2014)
		G.2 We put a minimum of 100 pounds rather than 10 (how it was on the platform). We didn't want to deal with those 10 pound investors and only wanted serious investors. Even the 100-1000 investors, which made up probably 500 of the 1000 investors, the percentage of the total amount we raised was less than 5%. The focus is how are you going to get people to invest 5 or 10 thousand and how are you going to target them? (CT4.2016)
		G.3 It has its management challenges because you need to communicate with your investors and probably because you need to communicate with any other kind of investors—if you treat the crowd as you would treat a normal investor, then things should go as smooth as you can make it. (CT5.2016)
		G.4 We also liked the fact that at [Platform B], all of the people who put into the pot, basically all of your investors are under the nominee of [Platform B]. We knew when we were doing the campaign, it was early stage funding and we were likely to seek funding later on as well. What we didn't want to do was reach a point where we were seeking funding, or even VC funding and we've got hundreds of investors, some of which who have only put in 5 pounds or 10 pounds. So yea, that's basically why we picked [Platform B].(IT3.2016)
	H. Quick access to significant levels of capital	H.1 When you see that it's possible to raise a significant amount of money then it becomes a viable option for a growth stage company like ours whereas I think it really started with seed stage companies which would need to raise a quarter of a million or something like that but once we became comfortable that it was possible to raise one million so it became more viable for us. (3.D.2015)
		H.2 Equity crowdfunding has been a little bit limited in terms of transaction size. For future assistance, it will really need to grow as fast as possible. It will involve much more of an evolution of the equity crowdfunding size with respect to the transaction sizes. I know there have been a few kinds of records over the past few weeks and we are watching the stakes closely to see what happens. It's definitely on the radar. (CT2.2016)
		H.3 The reason for using [Platform A] was that they could cope with big numbers. I think if we had gone with a smaller platform, we were concerned they wouldn't be able to cope with the number of investors we had. We were under the misconception that the platform was a lot more useful. I think the only thing the media does is validate existing investment decisions. The most successful targeting we did was targeting local law firms, accounting firms, tax advisors. Around Bedford, where we are based, there is a local mass affluent type of people. If you think of any kind of crowdfunding thing, when we raised over 100 million pounds over time, you only need 1000 people, it's just finding those 1000 people. It isn't much—and any media coverage will get you more than 1000 people, but it's getting those people and it's targeting the people who will invest more than 1000 pounds. (CT4.2016)
		H.4 [Platform A], the platform we used, approached us and said you have a very compelling story, the crowd will love it, and more importantly, they have a partnership with Department for International Development (DFID, where DFID wanted to invest in crowdfunding campaigns. For companies that fulfil their agenda They said if you do the crowdfunding with us, we can give you this chunk of funding from DFID (CT5.2016)
		H.5 Usually these campaigns are a sort of U-shaped—a lot of momentum and then usually it dies down and then you get a bit of a pick up towards the end as people start getting towards the target. In our case, it started to dip down towards the bottom and then suddenly someone from Hong Kong put in 25,000 and then someone else who recently missed out on another big investment kind

		of panicked and put in 33,000 and then I think that triggered a lot of other alerts with lots of other people who had set up all sorts of alerts to get an email or a text when it gets close to the 9th or 10th percent mark or something like that. So I went into a meeting and we were about 60% funded and came out of the meeting and we were over 100%.(IT2.2016)
		H.6 For us, one of the benefits of ECF and the online platform is that we were at the stage where we didn't have a prototype. We had the idea, the research, the team...but not the product. And in order to get the product, we needed investors. And at that stage you are way too early for angels and way too early for VCs. So the kind of stage we were at is often called the friends and family round, where you just try to basically get your parents or your siblings to help out or you just invest yourself in order to do it. What we sought from [Platform B] is basically replacing that kind of round in order to get to the stage where we could build our prototype, and also as it was a B2B product at the time that was trying to solve a problem, we also saw [Platform Bs as a source of validation. If we could get that funding and a group of investors and such would say yes that is a problem, let's invest some time in to do it. (IT3.2016)
	I. Raise awareness of company/product/service	I.1 While we were looking to fundraise as well, it was relatively significant that we wanted to raise awareness with the restaurants in London. We wanted to gain credibility among the restaurants. [Crowdfunding] allowed us to do that. (3.C.2014)
		I.2 We were in the media a lot on both campaigns with a BBC article which basically said these guys have raised about 100% in 24 hours and this thing is selling like hotcakes, which then encouraged people to invest even more and made it more successful. It's an easy way to raise finance, it's quick, it's low hassle administratively and there are a lot of side benefits to it. You can get publicity just by crowdfunding and you can get lots of recognition—there's lots of initiatives going on around crowdfunding. But you've got to be robust and know what you are talking about, the forum is very public. But I think business today—if you think you can hide behind a wall and not be public about anything---you can't anymore, it's an open world. (CT4.2016)
	J. Access to networks and deeper knowledge base	J.1 One of the advantages from the crowdfunding is that you end up with a network of investors, we got investment from over 300 individuals. And out of those 300, easy to find people with the skills, connections, or just the will to help. Many of the investors have approached us now and said we have the connections here; I can help you with that---it's a nice way to build up a network of people who are interested in your business. (CT5.2016)
	K. Digitization/virtualization of investment process	K.1 [Platform C] is attractive to the investor and investee because it's a virtual meeting rather than a physical meeting and you don't have to go and sit in a hot room somewhere and look and watch six or seven other companies presenting, so it's very attractive from that point of view. (3.D.2015)
	L. Ability to manipulate the 'psychology of the market' and game the funding limits	L. 1It's very easy to manipulate the psychology of the market. For example, when we did our 2nd crowdfund, we knew we wanted to raise 1.25 million and we went in with a 500,000-pound target, which is absolutely within what was going on. And if we raised more, we just give away more equity, great. But to a certain degree, morally that feels wrong—saying you will do one thing, when you will do another, but what you are trying to do is create a kind of herd mentality by creating a psychological bubble by saying this is really hot and that's exactly what we did. (CT4.2016)
		L.2 You can also manipulate the market—manipulate is too strong a word—but you can do things that you can't do in other equity markets. Things like front running a campaign, you can have prearranged people to put money in, which makes it look like the red hot investment, even though it's a whole load of people doing it. (CT4.2016)
		L.3 I've heard of a couple of crowdfunding campaigns who have done this—you almost see that the way in that which they try to manipulate the market a little bit by generating the periodic investments and you sort of see this big leap in creating this sort of momentum so people are there, watching the campaign, they get caught up in it and they put money in. I think to that extent we probably could have been more strategic in terms of the way we tried to manage the momentum within the campaign. We kind of

		<p>somewhat innocently just turned it on and the money would come in, whereas I think more effective campaigns managed that a little more intelligently—manipulatively, what you will. In retrospect, it’s hard to look back at the campaign and say it didn’t work because it obviously did. (C01.2016)</p>
3. Reasons for avoiding ECF	M. Limits on capital raised	<p>M.1 So that’s it—we would have done a 3rd round in 12 months, but the feedback we got from our platform, which was [Platform A], was that they had had feedback from the Financial Conduct Authority that these multiple rounds of quick succession, they weren’t very comfortable with it. The platform’s interpretation of the regulations basically said no. We contest and we don’t think it is right, but we are part of this blanket thing and if they don’t want to do it, then we can’t do it. There really isn’t any other platform that will allow us to raise the quantum of money we want. (CT4.2016)</p>
		<p>M. 2 We were introduced to a couple of crowdfunding options. At that time, they were very limited. Now I think things have moved on a bit and it’s a better space to be in and you are talking more like the 10-12 million pounds, but for where we are it’s probably not the right type of funding. But I think it’s a wonderful mechanism and it will have more and more potential over time once it has proven itself. At the moment it’s not mature enough to be of real value to us. (CT6.2016)</p>
		<p>M. 3 I’m not sure we will use it again. I think for a couple of reasons. I think the most obvious one is that probably the next time we raise money it is probably going to be a bit more money than you would typically expect to raise through crowdfunding. Our next round might be 3 million pounds in equity or something and I don’t think crowdfunding sees those sorts of funds being raised at the moment. That’s my observation. Just because crowdfunding as a market can’t keep up with our funding requirements. (CO1.2016)</p>
	N. Administrative overheads	<p>N.1 I could say that it was a painful experience, but every time you raise funds you need to go through a lot of due diligence, a lot of legal work, but it’s not different than when you do it with normal investment. (CT5.2016)</p>
		<p>N.2 The crowdfunding process from our company’s point of view, was quite admin heavy. It was lots of paperwork; a lot of hoops we went through. The second time we went through it, there was even more than the first time. There was a sorts of information from the company’s directors that a lot of our time was taken up from admin. (ED1.2016).</p>
	O. Reputational damage if the funding round fails	<p>O.1 This is really important when you are fundraising, you have to pitch to over 100s of people. If you are serious about funding and you actually go out there—if you get 95 No, you might get 2 Yes. With crowdfunding it doesn’t work like that, you have one chance. One chance to get it right. If you fail, it’s public. I failed publically. Everyone I pinged to try and get subsequent funds, they knew I wasn’t successful and I failed at it. (IT1.2016)</p>
		<p>O.2 There are people like myself and my business partner, who probably should have been told, “you have a fantastic idea, but crowdfunding isn’t going to get you more money and it will probably do you more harm than good - because actually it might do your reputation more harm than good. (ED2.2016)</p>
	P. Business risk if the platform fails	<p>P.1 You had to transfer all of your rights of the company, to the crowdfunding company, until the money was raised. I don’t know all of the specifics or what was behind that, but there was no way when they were talking about relatively small amounts of money, about 4 or 5 million pounds. (CT6.2016)</p>
		<p>P.2 Throughout the life of our shareholding, they run all of the admin—we have to do all of the shareholder communications, we have to provide EIS (Tax) forms, but they do the basic stuff. To a degree, we are running an amount of credit risk against them, because if they fail, we will have to do that ourselves and I’m not quite sure what the mechanism is. Also, they have created unlimited liability forever about providing that service and I’m not sure how they have worked that into their business model, (CT4.2016)</p>

	Q. Transparency of business	Q. 1 It's not something I would ever touch, ever. I'm really not interested in putting my name out there, and I don't really understand it fully and what I see is that you have to put up a video and a business plan and forecasts and all the financials, both in the past and in the future. That's the sort of information I don't really want to have in the public eye. People putting money in, it's their lifetimes savings, or part of their savings, and then the pressure is on to give it back. (CO2.2016)
	R. Lack of support from the platform	R.1 I think also [ECF platforms] should take a far greater responsibility, bearing in mind they take a big old whack, of the investment you raise. They take a large proportion of it... they take about 10%. I find it very difficult to see how they can justify that. (ED2.2016)
		R.2 They did provide the regulatory framework (they were the FCA accredited company, which we needed, they had the platform—apart from that they didn't really do anything for us) we thought the [Platform A] name and investing in the amount of advertising that they did, would be more useful. They did promote us a little bit, but we really had to knock on their door and we had to fight with probably 30 other companies doing the same thing. I'm not sure the platform is that important or it does that much for you. (CT4.2016)
	S. Seen as means of last resort and desperation	S.1 I would say for me; it is still a method of last resort. I would always recommend the founder to go with more value added type things. It's really important you get support from other angels, their network and expertise and not just the money. When you go through equity crowdfunding basically take from the crowd, smaller tickets from many people that makes it very difficult to exploit the knowledge of investors. (ED3.2016)
		S.2 A lot of people use crowdfunding as a backup, they think it's easier than going to VCs or angel investors, and because of that it means that means that they aren't good enough to raise funds from VCs or angels. So it's like this self-fulfilling prophecy, where you aren't really good enough to get money, to raise investment, so you go for crowdfunding as a backup, but you've convinced yourself that it should work—it usually doesn't. If you aren't fundable, you aren't fundable whether it's a crowd, angels, or VC. (IT1.2016)
	T. Dealing with unsophisticated investors	T. 1 People putting money in, it's their lifetimes savings, or part of their savings, and then the pressure is on to give it back. (KO2.2016)
		T.2 Statistically out of all of those who crowdfund about 8 out of 10 fail in the next 5 years (around those numbers). There will be a large amount of companies who crowdfund who will fail. And out of those there are a large number of people who are not sophisticated investors, haven't done a great deal of due diligence, and are a lot less protected than in any other investment suddenly losing a lot of money. We had a random guy invest 500 pounds in us and he ended up ringing up the office and got put through to me and he said he had invested—he wanted to know what he would get for it...wasn't worried about losing money, "I think you guys are great and I wanted to give you some money, but I don't understand whether you have just got it and that's a gift from me or whether I get anything for it." If you have a person like that who can click this bozo multi-choice questionnaire in order to qualify as an investor that has to get sharpened up. We had a lot of people ring us up on the first crowdfund saying that they had failed the test...a three-year-old could do it! They kept ringing us up, asking for the answers. When the person who can't pass the simple test is then coached by the person who is receiving the money, that's a massive moral hazard issue for the company. I think there are bunch of issues like that that are going to come out. (CT4.2016)
		T.3 The crowd tends to be unsophisticated. It could be anybody off the street investing in a company, you have to be able to deal with a plethora of questions and concerns and making everybody happy where they aren't necessarily professional investors. Also unsophisticated investors don't know much about your space, they can't really add value from investing in your business. (IT1.2016)

	<p>T.4 Not regulated enough and people will lose a lot of money. A lot of risk, there are false projections. From what I've seen people are overly enthusiastic and I'm not the only one with concerns. I would never give money as an investment. My feeling is that it will potentially crash in the future. (CO2.2016)</p>
	<p>T.5 I do think [platforms] should have more a responsibility placed on them to give full and informed advice to ensure they aren't breaking any rules and certainly not any financial investment rules—which I think had we gotten the investment we possibly might have done because we had to tick this box, which we did, but we had no idea why we were ticking them. So I think with that responsibility comes some accountability, if you are going to ask for such a large percentage of the amount these people raise, often through friends and acquaintances, they should be accountable for delivering something (ED2.2016)</p>

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