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Crowdfunding as a Financing Resource for Small Businesses

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Walden University

College of Management and Technology

This is to certify that the doctoral study by

Melissa Lynn Berrier Cohen

has been found to be complete and satisfactory in all respects,
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the review committee have been made.

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Walden University
2017

Abstract

Crowdfunding as a Financing Resource for Small Businesses

by

Melissa Lynn Berrier Cohen

MBA, University of Cincinnati, 2003

BA, University of Kentucky, 1998

Doctoral Study Submitted in Partial Fulfillment

of the Requirements for the Degree of

Doctor of Business Administration

Walden University

May 2017

Abstract

Although small businesses borrowed $1 trillion in 2013 from traditional lenders, 35% of small business owners were unable to obtain adequate financing and subsequently sought alternative sources such as crowdfunding. Guided by the pecking order theory, the purpose of this exploratory case study was to explore how 6 small business owners in Tennessee successfully used crowdfunding to start, grow, or sustain their businesses. Data were collected from semistructured interviews and a review of crowdfunding project data on the internet platform including the project description, target goal, amount achieved, number of backers, and locations of the funders. Data were inductively analyzed, first into coded phrases, then categories, and finally emergent themes. Findings revealed that these small business owners tapped into a strong social media network of potential funders for increased funding opportunities. They also advocated that project descriptions consist of high-quality project content and videos, 9 to 11 reward levels, and valuable rewards to entice funders to contribute to the campaign. These small business owners also noted that they devoted more time than originally anticipated during the planning, execution, and fulfillment phases, and they all faced preliminary transaction, fulfillment, and shipping costs when using crowdfunding. The risks included not receiving any funding, negative customer feedback, and poor reputation. These stories have implications for positive social change by illuminating the necessary resources to establish a successful business through employment of a social change mechanism. With funding for growth, the small business owner, family, and local community will promote economic prosperity.

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Dedication

I would like to dedicate this dissertation to my mother. She allowed me to excel academically and encouraged my passions for learning and school. I would also like to dedicate this dissertation to my husband and twin boys who joined me in the doctoral journey. I am grateful for my husband's continued support as I sprinted to the finish line. My second family also played a huge role in shaping my early life, and they deserve a special thank you. I would like to extend a special thank you to all of my teachers and professors, especially Mr. Miller and Mrs. Hall, who have inspired me along the way to continue my search for higher education and instill a love of learning. Thank you.

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I would like to acknowledge my committee chair, Dr. Craig Martin, and committee members, Dr. Kevin Davies and Dr. Roger Mayer. Thank you for your valuable feedback and support as I complete this journey. I cannot adequately thank you for your commitment and guidance. Finally, thank you to Dr. Freda Turner for your support and professionalism as the Department Chair of the Doctorate of Business Administration program.

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Section 1: Foundation of the Study

Small businesses make up 99.7% of all firms in the United States and create 63% of new private sector jobs (Small Business Administration [SBA], 2014a). Despite the importance of small businesses to the United States economy, financing challenges to start, grow, and maintain operations remain. Traditional financing options include individual household wealth, personal network of family and friends, credit cards, venture capitalists (VCs), grants, and bank loans (Fink, 2012; Stemler, 2013). Despite these resources, small business owners are turning to crowd financing as an emerging source. Laws regulating crowd financing went into effect in 2012 with final regulations effective in 2014 (Levine & Feigin, 2014). With technology and pooling financial resources among the masses, crowd financing is an emerging source of revenue to help small businesses.

Background of the Problem

Small businesses are an important segment of the United States economy, consisting of 99.7% of firms (SBA, 2014a). As of 2014, small businesses contributed 63% of net new private sector jobs; therefore, the economy depends on this sector for short-term and long-term employment (SBA, 2014a). Small businesses use capital to launch new ventures, purchase inventory, grow through profitable investments, and keep businesses afloat (SBA, 2014b; Stemler, 2013).

The 2008 financial crisis created additional challenges from banks and VCs by rationing credit, increasing loan requirements, and raising interest rates (Comeig, Del Brio, & Fernandez-Blanco, 2014; Stemler, 2013). In 2012, President Obama signed into law the Jumpstart Our Business Startups (JOBS) Act to allow small businesses to solicit money through the internet, referred to as crowdfunding, and sell limited amounts of equity to investors through internet platforms without registering the securities with the Securities and Exchange Commission (SEC); (Mollick, 2014; Riedl, 2013; Stemler, 2013). In 2013, banks continued to tighten loan standards while the demand for small business loans increased, indicating a financing gap (SBA, 2014b).

Many small business owners may not know that crowdfunding through rewards, donations, peer-to-peer lending, presales, and equity-based is an emerging finance option. As a new phenomenon, there is limited research on crowdfunding in general and less on how small business owners use crowdfunding to finance growth and innovation. Therefore, ample research opportunities currently exist to explore how small business owners use crowdfunding as a financing option.

Problem Statement

Growing small businesses need financing to facilitate growth (Fraser, Bhaumik, & Wright, 2015). Although small businesses borrowed $1 trillion in 2013, a lending gap remains between the demand for loans and the availability of loan amounts due to tightened loan standards (SBA, 2014b). Crowd financing is an option to fill that lending gap (Gerber & Hui, 2013). The general business problem is that some small businesses face a lack of funding from traditional financing sources. The specific business problem is that some small business owners, who have difficulty in securing financing through traditional financing sources, lack knowledge on how to use crowdfunding as sources of financing for small business growth.

Purpose Statement

The purpose of this qualitative exploratory multiple case study design was to explore how small business owners, who have difficulty in securing financing through traditional financing sources, gain knowledge on how to use crowdfunding as sources of financing for small business growth. The population for this study was small business owners who have successfully used an internet platform to raise capital, specifically participating in crowd financing. The population was appropriate for this study because small business owners who have raised capital through crowd financing can provide insight into the use of crowdfunding compared to other financing sources. The geographic location of the small businesses was in Tennessee. The contribution to social change was the study results may provide small business owners knowledge of an additional resource to raise capital and contribute to a growing economy.

Nature of the Study

The three research methodologies are quantitative, qualitative, and mixed methods. The chosen methodology was qualitative. Qualitative research allows researchers to collect data in a natural setting to gain insight not possible through quantitative or mixed methods (Yilmaz, 2013). Qualitative research allows participants to provide rich and focused information on the phenomenon based on personal experiences (Cleary, Horsfall, & Hayter, 2014; Yilmaz, 2013). Qualitative research requires the use of multiple data sources, including semistructured interviews, field observations, and archived documents (Gioia, Corley, & Hamilton, 2012; Swafford, 2014). Conversely, quantitative research uses mathematical data to analyze and explain a phenomenon

(Yilmaz, 2013). Mixed method research combines quantitative and qualitative research into a multistep process (Zachariadis, Scott, & Barrett, 2013). Quantitative and mixed method research were not sufficient for this study, as my goal was to explore how small business owners use crowdfunding as sources of financing for new ventures.

The chosen design is multiple case study. Researchers use case studies to explore a phenomenon in depth and in the natural setting (Yin, 2014). Multiple case study research is an analysis of the phenomenon in multiple cases, businesses, or other situations to illustrate how the phenomenon repeats (Zivkovic, 2012). Case study research can use interviews, preferably semistructured, to allow researchers to ask follow-up questions and delve into the phenomenon deeper (Grossoehme, 2014). Interviews allow researchers to gain insight into the phenomenon and gain further knowledge about attitudes, experiences, processes, and behaviors (Rowley, 2012). I used the multiple case study design to explore how several small business owners have used crowdfunding as sources of financing for new ventures.

Case study design was the best design for this study since narrative, phenomenology, and ethnography are not appropriate. Narrative research is the examination of life experiences, phenomenology explores human experiences, and ethnography studies behavior of people over time (Houghton, Casey, Shaw, & Murphy, 2013; Petty, Thomson, & Stew, 2012; Reiter, Stewart, & Bruce, 2011; Tuohy, Cooney, Dowling, Murphy, & Sixmith, 2013). Since I explored human experiences with the phenomenon in a business setting, case study design was the only design appropriate for the research question.

Research Question

How do small business owners use crowdfunding as sources of financing for small business growth in the state of Tennessee?

Interview Questions

The following interview questions supported the main research question:

1. What made you decide on crowdfunding over other forms of nontraditional financing?
2. What category of crowdfunding (donation, presales, rewards, equity) did you use and why?
3. What type of project did you list for the growth of your business (bought equipment, hired staff for specific project, bought marketing materials, etc.)?
4. How did you successfully use crowdfunding as a source of financing?
5. What factors contributed to reaching your crowdfunding goal?
6. What are the challenges and disadvantages of using crowdfunding over nontraditional financing?
7. What are the levels of risk associated with crowdfunding over nontraditional financing?
8. What are the costs associated with crowdfunding?
9. What do you feel are the best uses for other small business owners using crowdfunding?

Conceptual Framework

The conceptual framework of this business problem was the pecking order theory of capital structure (Ross, Westerfield, & Jaffe, 2013). Myers (1984) and Myers and Majluf (1984) developed the modern version of pecking order theory in the 1980s. The pecking order theory of capital structure is an examination of firms' preferred order of financing options, where firms choose internal financing over external financing, illustrating a pecking order for financial decisions (Lopez-Gracia & Sogorb-Mira, 2008; Myers & Majluf, 1984; Serrasquiero, Armada, & Nunes, 2011). The pecking order preference is typically internal financing, low-risk short-term debt, high-risk long-term debt, and finally, equity due to asymmetric information and transactions costs associated with each financing option (Lopez-Gracia & Sogorb-Mira, 2008; Serrasquiero et al., 2011). As a result, small business owners choose the cheapest financing option.

The characteristics of pecking order theory are risk, asymmetric information, and costs. Firms should issue safe securities over risky ones. Firms without cash and no options for low-risk debt may forgo investment opportunities rather than issue risky securities (Myers & Majluf, 1984). As firms climb the pecking order, firms increase the odds of incurring financial distress costs and other costs for overlooking positive net present value projects because the firm chooses not to issue securities (Myers, 1984).

Pecking order theory applied to this study as small businesses use a pecking order approach to determine which financing options best meet their current needs concerning costs (Daskalakis, Jarvis, & Schizas, 2013; Lopez-Gracia & Sogorb-Mira, 2008). Transaction costs are associated with each type of crowdfunding, ranging from donations (essentially none) to equity-based (potentially highest costs). Since crowdfunding is a new financing option, I explored how small business owners considered the types of crowdfunding in comparison to traditional financing options.

Operational Definitions

Crowdfunders: Crowdfunders are the individuals who contribute monetarily to online projects (Kitchens & Torrence, 2012).

Crowdfunding: Crowdfunding is the act of attracting a large number of public internet users to provide money to a project, business, or nonprofit in exchange for some form of a reward or company ownership through internet platforms (Mollick, 2014).

Information asymmetry: In this study, information asymmetry is the lack of information available to both the small business owners and creditors about the small business (Serrasquiero et al., 2011).

Jumpstart Our Business Startups (JOBS) Act of 2012: The JOBS Act of 2012 is the law signed by President Obama that legalized equity crowdfunding (Mollick, 2014).

Small business: A small business is an independent business having fewer than 500 employees (SBA, 2014a)

Assumptions, Limitations, and Delimitations

Assumptions

Assumptions are facts believed to be true using specific premises (Bloomberg & Volpe, 2016). For this study, I assumed that small business owners were willing to participate fully and cooperate with providing information freely and truthfully. A second assumption was the qualitative method was appropriate to explore the phenomenon. A third assumption was small business owners provided sufficient data to use the case study design. A fourth assumption was that crowdfunding is a valuable financing resource for small business owners.

Limitations

Limitations refer to potential weaknesses of the study outside the control of the researcher (Bloomberg & Volpe, 2016). The primary limitation of this qualitative, exploratory case study was participants may not explain the best practices for using crowdfunding. A second limitation was the transferability of the results as they may not be transferrable to all small businesses in Tennessee. A third limitation was the crowdfunding model or technology may change so that the study results may not apply to small business owners. The final limitation was the data collection process. The researcher must mitigate bias when collecting data. The participant must contribute fully and truthfully all pertinent information during the interview.

Delimitations

Delimitations are the bounds or scope of the study that are within the control of the researcher (Bloomberg & Volpe, 2016). A delimitation of this study was the geographic location of the participants, which included only small businesses in Tennessee. Additional delimitations were the time constraint to conduct the research, the geographical area of Tennessee, and the research question. The final delimitations of this study were the variables I chose, such as crowdsourcing versus other alternative financing sources.

Significance of the Study

The significance of the study included a contribution to business practice and implication for social change. Small business owners did not understand the strategies that contribute to how they can use crowdfunding as a financing resource in Tennessee. The results of the study may contribute to small business financing and social change for small businesses and communities.

Contribution to Business Practice

The results of this study may contribute to business practice because crowdfunding may provide a financing alternative for small business owners, which provides capital for growth and innovation, keeping businesses open, and potentially reduce transaction costs. Crowdfunding creates more jobs by transferring capital from an untapped market of small investors, typically held only by elites and traditional funding (Yeoh, 2014). Rules around equity-based crowdfunding are still evolving, which provide many opportunities to explore this phenomenon (Mollick, 2014; Stemler, 2013).

The additional benefits of crowdfunding for firms include enhanced customer relationships, organizational legitimacy, online reputation, brand recognition, and prefunding production and sales (Belleflamme, Lambert, & Schweinbacher, 2013; Frydrych, Bock, Kinder, & Koeck, 2014; Serrasquiero et al., 2011). In addition, crowdfunding can potentially affect the traditional financing model by banks and VCs with increased competition (Mollick, 2014). The legalization of new crowdfunding laws creates many research opportunities for small businesses.

Implications for Social Change

Small business owners face challenges in receiving financing for growth (SBA, 2014b). With financing, small business owners can innovate new products, increase productivity, and strengthen the local economic development (Halabi & Lussier, 2014). The results of the study may add to positive social change by providing strategies on how small business owners can use crowdfunding as sources of financing. These strategies can create jobs within a community and provide innovative products that benefit society. Overall, the results may allow small business owners to become profitable, sustain, or grow their business, which contributes to improving the conditions of families, communities, and local economies.

A Review of the Professional and Academic Literature

The purpose of this qualitative exploratory multiple case study design was to explore how small business owners, who have difficulty in securing financing through traditional financing sources, gain knowledge on how to use crowdfunding as sources of financing for small business growth. Small businesses play an important role in the growth of the United States economy, consisting of 99.7% of firms and contributing 63% of net new private sector jobs (SBA, 2014a). The purpose of the professional and academic literature is to synthesize, compare, and contrast academic research sources on the topic.

The literature review consists of financing challenges, crowdfunding laws and regulations, types of crowdfunding, characteristics of successful projects, and the advantages and disadvantages of crowdfunding for small businesses. In the literature review, I focus on academic research addressing small business owners' financing challenges and crowdfunding. The review includes scholarly literature accessed from databases such as EBSCOhost, ProQuest, Business Source Complete, Walden University, Google Scholar, and government websites. I included 111 references in this study, of which 96 of the 109 references are scholarly, peer-reviewed journal articles, resulting in over 86%. Ninety-five of the references, which is 85.6% of the total references, are current, dating from 2013 through 2017.

Small Businesses

A small business is a firm with fewer than 500 employees (SBA, 2014a). Small businesses consist of 99.7% of United States firms and contribute 63% of net new private sector jobs (SBA, 2014a). However, half of all new businesses fail within 5 years, and about one-third survive more than 10 years (SBA, 2014a). When businesses fail, small business owners potentially face reduction of personal income, bankruptcy costs, or loss of assets (Ucbasaran, Shepherd, Lockett, & Lyon, 2013). Despite the high failure rate, the economy depends on small businesses for short-term and long-term employment.

Entrepreneur characteristics. The necessary characteristics of entrepreneurs to run businesses range in financing knowledge, education, experience, risk level, and goals. Individual characteristics, such as education, industry experience, and prior start-up experience, may provide access to funding for other entrepreneurs or at least signal lower risk to investors (Gartner, Frid, & Alexander, 2012). One major obstacle to receiving financing is simply the lack of knowledge of options.

Entrepreneurs with no or limited financing knowledge may not choose the financing option for maximum company value (Seghers, Manigart, & Vanacker, 2012). A lack of financial knowledge may result in raising insufficient capital (Seghers et al., 2012). In addition, entrepreneurs may lack an awareness of funding opportunities with the SBA, the Small Business Innovation Research, and government contracts designated for small businesses (Voelker & McGlashan, 2013). The lack of knowledge can severely limit financing opportunities and increase transaction costs.

Besides a lack of knowledge, entrepreneurs may face cognitive biases in evaluating financing options to them, possibly resulting in decisions not to grow their business, the ability to exploit financing opportunities, relinquish control of firms, diluting family ownership, or assuming debt, all of which increases risk (Fraser et al., 2015). However, these biases may change over time as entrepreneurial experience increases (Fraser et al., 2015). Seghers et al. (2012) found that entrepreneurs with more ties in the financial community have a greater knowledge of finance alternatives.

Not all entrepreneurs start businesses to maximize wealth. Entrepreneurs may open businesses to increase their quality of life, contribute socially, or grow the venture commercially (Bruton, Khavul, Siegel, & Wright, 2015). Traditional finance research assumes entrepreneurs choose financing options to maximize wealth (Seghers et al., 2012). However, entrepreneurs can also choose based on retaining firm control, personal values that refrain from debt, or a lack of knowledge of all financing options (Seghers et al., 2012). Despite the variation in goals, entrepreneurs still contribute to society and the economy through the small business venture.

Capital structure of businesses. Several differences exist between small businesses and large businesses affecting the capital structure and financing decisions. Firm characteristics, such as profitability, size, age, growth opportunities, risk, asset structure, and nondebt tax shields, determine capital structure decisions (Serrasquiero et al., 2011). The factors contributing to how small business owners choose to finance are risk level, moral hazards, information asymmetry, nondebt tax shields, growth opportunities, and internal resources (Lopez-Gracia & Sogorb-Mira, 2008; Schwienbacher & Larralde, 2010).

Specifically, small business owners face substantial risk in the start-up and development process. Small business owners face risk diversification due to a lack of business focus, fluctuations in profits, lack of credibility, lack of tangible business assets needed to secure debt, and imbalance between different agents (Harrison, 2013; Lopez-Gracia & Sogorb-Mira, 2008; Serrasquiero & Nunes, 2012). Smaller and younger firms typically lack a credit history, have an unproven track record of business success, are high risk, volatile, and prone to bankruptcy, and face asymmetric information leading to higher transaction costs (Lopez-Gracia & Sogorb-Mira, 2008; Serrasquiero et al., 2011; Stemler, 2013).

Concerning financing options, additional characteristics separate small businesses from large businesses. Small businesses incur higher transactions costs for financing, have control concentrated to one or a few people, experience financial restraints by creditors, are more volatile, experience more bankruptcy, and cannot list on stock markets due to the high initial amount and implementation costs (Lopez-Gracia &

Sogorb-Mira, 2008; Sannajust, Roux, & Chaibi, 2014). Due to these characteristics, small business owners must weigh their financing options differently than large businesses.

New businesses and entrepreneurs face financing challenges due to lack of credit, collateral, operating history, proven track record, and receiving traditional financing through bank loans (Stemler, 2013; Valanciene & Jegeleviciute, 2013). The very characteristics of small businesses affect the financing options available and the willingness of lenders to provide financing (Serrasquiero & Nunes, 2012). Small business owners must overcome or reduce these barriers by convincing lenders the business idea will be successful.

Overcoming asymmetric information is the first step in securing desirable terms. The lack of transparency on business models and cash projections increases the risk for lenders and limits the number of funds available to the entire small business pool within defined markets. Establishing trust and long-term relationships may reduce information asymmetry between small businesses and creditors (Serrasquiero et al., 2011). Reducing information asymmetry may result in lower transaction costs for obtaining debt, opportunity to finance multiple investment opportunities, economies of scale, and better firm performance (Serrasquiero et al., 2011).

Pecking Order and Trade-Off Theories

The two dominant financing theories for firms are trade-off and pecking order theories (Serrasquiero et al., 2011). The goal of trade-off theory is for firms to achieve a target debt ratio to the point where marginal benefits equal the marginal costs of debt while pecking order theory is a preferred order for selecting funding sources that minimize the cost of capital (Serrasquiero et al., 2011). Serrasquiero et al. (2011) found that small businesses in the service sector in Portugal prefer debt to equity, supporting pecking order theory over trade-off theory.

Small business owners may use different categories of financing in various development stages. Entrepreneurs who received financing in stages could choose investors according to their immediate needs while increasing their chances of survival (Schwienbacher, 2013). Atherton (2012) used pecking order theory to determine the financing options entrepreneurs used during venture creation and found significant variation in the type and amount of financing used. Overall, small businesses received internal financing and debt financing over external equity, retained profits, and venture capital (Atherton, 2012).

Serrasquiero and Nunes (2012) used pecking order theory to determine that young small businesses depend more on short-term debt while older small businesses have a greater possibility to obtain long-term debt at lower costs. Pecking order theory is appropriate for this research project as small business owners use pecking order theory for financing decisions at various stages of firm development. Entrepreneurs must compare the cost of capital for the types of crowdfunding in relation to traditional forms of financing (Belleflamme, Lambert, & Schwienbacher, 2014). In this research project, I explored how small business owners secure crowdfunding to traditional financing sources in relation to the pecking order of financing options.

Few research studies have demonstrated that small business owners turn to crowdfunding when no other financing option is available. In the United Kingdom, Accardi turned to crowdfunding and raised 440,000 British pounds after asking business angels, VCs, and others unsuccessfully to start a new pizza chain (Coomber, 2014). In a case study analysis on a European company, Schwienbacher and Larralde (2010) found the business owners turned to crowdfunding once they exhausted banks, local incubators, and personal savings and were unable to secure funds through business angels or private individuals.

In a study conducted by Stoeckl (2014), he used a case study approach of a shoe manufacturer who turned to crowdfunding when the bank reduced the credit line during the 2008 financial crisis. O'Toole, Lawless, and Lambert (2015) revealed that in the absence of bank financing, a limited number of Irish firms used crowdfunding. These examples illustrate the need to conduct additional research on how small business owners use crowdfunding in relation to other financing methods.

Sources of Entrepreneurial Financing

For most startup businesses, entrepreneurs need financing and turn to several categories of resources. The traditional classifications of financing sources are hybrid entrepreneurship; family, friends, and fans; debt; and equity. Crowdfunding is a new category of financing that can serve as a source to launch and grow new ventures.

Hybrid entrepreneurship. Entrepreneurs face risk and credit constraints when starting new businesses. One option to reduce failure risk is through hybrid entrepreneurship. Hybrid entrepreneurship allows individuals to work full-time at one job while working on the entrepreneurial business, to learn about the process, and to increase the long-term survival of the venture (Raffiee & Feng, 2013). Credit-constrained entrepreneurs can work a full-time job to pay the costs of the new business (Geho & Frakes, 2013). Hybrid entrepreneurship is one alternative to financing a new business using personal funds.

Friends, family, and fans. Pre-2008, funding from the highest risk stage (start-up and development stages) came from founders, family, friends, fans, and state grant-based funding (Harrison, 2013). After the recession of 2008, founders, family, friends, and fans reduced funding due to a smaller household budget and smaller loans against assets as home values decreased (Harrison, 2013). Subsequently, pecking order theory dictates that entrepreneurs use retained earnings until exhaustion and then turn to short-term debt (Serrasquiero & Nunes, 2012). Once entrepreneurs exhaust these resources, they turn to debt financing.

Debt. Traditional debt financing sources are typically banks. The challenges that small businesses face in securing bank loans are the lack of collateral, screening based on success probability, and long-term cash flow projections (Comeig et al., 2014; Lehner, 2013; Sannajust et al., 2014). In addition, the rate of small businesses defaulting on loans, the reduced amount of available capital, and entrepreneurs as the sole risk taker contribute to the difficulty of securing bank loans (Geho & Frakes, 2013; Sannajust et al., 2014). After the 2008 financial crisis, banks reduced funds due to adjusting risk exposure, restructuring balance sheets, and less demand for loans (Harrison, 2013). Despite these challenges, banks lend to small businesses that meet their criteria.

Banks grant loans and financing terms dependent on firm assets, entrepreneurial self-efficacy, and risk level. The higher the value of tangible assets and greater firm size reduces information asymmetry and influences the financing terms of external debt with better terms (Serrasquiero et al., 2011). Slavec and Prodan (2012) found lenders are more likely to lend to entrepreneurs who show strong beliefs in their capabilities and articulate a business plan, resulting in debt financing positively related to entrepreneurial self-efficacy. Comeig et al. (2014) determined low-risk small businesses accepted loans with lower interest rates in exchange for high real estate collateral while high-risk small businesses incurred higher financing costs for projects and growth.

Other factors affecting bank loans are family ownership, entrepreneur gender, and firm age. First, Burgstaller and Wagner (2015) examined the financing behavior of 470 family firms (FF) in Austria to show that FF are more leveraged (higher debt levels) than nonfamily firms, face a higher risk of bankruptcy, and accept creditor influence. This study illustrates that the capital structure decisions of FFs are different from nonfamily firms but are consistent with pecking order theory (Burgstaller &Wagner, 2015). Second, Slavec and Prodan (2012) showed that there was no relationship between gender and age. In contrast, Fraser et al. (2015) found that funding gaps exist as male-founded firms received less bank financing than females. Small business owners should carefully weigh these factors before asking for bank loans.

Equity. Venture capitalists, business angels, and securities typically provide equity financing in exchange for ownership rights in the company. In this category of financing, fewer VCs provide money compared to entrepreneurs requesting money (Valanciene & Jegeleviciute, 2013). VCs invest in late-stage investments instead of early stage investments, creating a funding gap (Ley & Weaven, 2011). For example, Bains and Wooder (2014) found the value of biotech VC investments in the United States fell significantly from 2007 to 2009 and then increased from 2010 to 2011 (Bains & Wooder, 2014). However, VCs primarily funded the biotech firms in the late stages (Bains & Wooder, 2014).

Despite the availability of capital, VCs and angel investors selectively choose businesses, and subsequently, they forgot about many small businesses (Manchanda & Muralidharan, 2014). VCs and business angels seek startups with protectable intellectual property, provable ideas, high growth potential, and high return, eliminating most small businesses and startups (Macht & Weatherston, 2014; Voelker & McGlashan, 2013). However, VCs usually require small businesses to be operating at a higher level that excludes new ventures (Sannajust et al., 2014).

Besides providing capital, VCs and business angels provide additional value added services for entrepreneurs. VCs can provide financial resources, managerial capabilities, accurate forecasts, focused business ideas, and clear business models that small businesses may lack (Macht & Weatherston, 2014; Sannajust et al., 2014). Local investors offer a strategic advantage to local firms over far away firms as the local investors can perform due diligence more easily (Kitchens & Torrence, 2012). These services contribute to higher productivity growth and firm's internationalization (Fraser et al., 2015).

Despite the benefits, disadvantages of using equity financing exist. Small business owners give up some company control including management decisions (Schwienbacher & Larralde, 2010). In contrast to bank financing, the VC controls the relationship until the VC sells all shares in the company (Profatilov, Bykova, & Olkhovskaya, 2015). Small business owners who use crowdfunding lose potential business advice from VCs (Chemmanur & Fulghieri, 2014). Therefore, entrepreneurs should consider the costs for this stage of financing in exchange for the benefits.

IPOs. Initial public offerings (IPOs) are stocks sold to the public in exchange for ownership of the company. The JOBS Act allows companies with less than $1 billion in annual revenues to avoid some of the strict requirements of the traditional IPO process (Hurt, 2015). Under the Securities Act of 1933, companies must register securities with the SEC, except for the new crowdfunding exemption (Thomas, J., 2014). The current SEC costs for registering securities are over $100,000 in third party services, plus firm time to draft the statement and market the offer, prepare disclosure documents, enlist a funding portal, conduct background checks on potential investors, and file annual reports, all above the feasible cost for small businesses (Carni, 2014; Thomas, J., 2014). Another option is online auction IPOs. Online auction IPOs cost less than traditional IPOs (Hurt, 2015). Despite the reduced costs, only two companies have used online auction IPOs from 2008 to 2015 compared to the over 330 traditional IPOs during the same period (Hurt, 2015).

Crowdfunding fills financing gap. The U.S. credit crunch in 1990 led to the fall of small firm lending by 38%, from $144 billion to $88 billion (Sannajust et al., 2014). During the next wave of the credit market collapse in 2008, small business owners faced severe credit rationing, negatively affecting innovation projects (Comeig et al., 2014). After the financial crisis, historically low interest rates on savings motivated people to participate as peer-to-peer lenders (Bruton et al., 2015). While overall credit availability has improved across all firm sizes since 2012 in the United Kingdom, small firms still face limitations on bank finance, leading to the growth of crowdfunding (England, Hebden, Henderson, & Pattie, 2015).

Alternative forms of capital can ease constraints and increase lender competition. Crowdfunding taps into a new market for raising capital, the everyday consumer, which is about a $1 billion market (Anonymous, 2015). This new source of funding is good for the economy since it fills the financing gap by helping small business owners turn ideas into revenue-producing products or services, maintain operations, grow, and stay afloat (Belleflamme et al., 2014; Fink, 2012; Gobble, 2012; Stemler, 2013). Entrepreneurs can use crowdfunding instead of bank debt, to offset the risk of bank loans, and when they cannot ask family or friends for money (Hurt, 2015; Sannajust et al., 2014; Tomczak & Brem, 2013). Entrepreneurs can use crowdfunding funds as bridge capital until business angels and VCs increase their amounts of funding, competition for these funds reduces, or simply as an interim source due to capital levels (Lehner, 2013; Tomczak & Brem, 2013; Valanciene & Jegeleviciute, 2013; Voelker & McGlashan, 2013). Due to the growth of crowdfunding, this new source of capital can fill many financing gaps for small business owners.

Crowdfunding

The evolution of technology and the internet has led to the popularity of crowdfunding. Technology allows users to connect at all times, create content, access money across geographical barriers, match their preferences to preferred products, reduce information asymmetries, lead to more sophisticated and better-educated consumers, process more information in shorter periods, adapt to shorter adoption cycles, and increase media consumption (Labrecque, vor dem Esche, Mathwick, Novak, & Hofacker, 2013; Valanciene & Jegeleviciute, 2013). In addition, the internet changed the interaction between consumers and businesses. The internet creates economic value between sellers and social networks through low communication costs, improves quality and accessibility of information, and eases the ability to monitor project status (Labrecque et al., 2013; Yeoh, 2014). The technology evolution resulted in a power shift from businesses to consumers through increased information access, more choices, and the option to engage or leave the online interaction at any time (Labrecque et al., 2013). Technology and the internet created favorable conditions for crowdfunding from the masses.

Crowdfunding evolved after the 2008 financial crisis in conjunction with the emergence of social media and technology (Bruton et al., 2015). Crowdfunding is the intermediary for online capital markets, allowing entrepreneurs to exploit online social networking to raise funds more easily and efficiently and reduce barriers for small business and startups to gain funding (Colgren, 2014; Frydrych et al., 2014; Meric, Bouiass, & Maque, 2015; Harrison, 2013; Valanciene & Jegeleviciute, 2013). While crowdfunding evolved, the U.S laws caught up to regulate the financial systems through the JOBS Act of 2012.

President Obama signed into law the JOBS Act in 2012 to assist small businesses in creating jobs, fueling the United States economy, improving access to public capital markets, and spurring innovation (Gobble, 2012; Kitchens & Torrence, 2012; Mollick, 2014; Valanciene & Jegeleviciute, 2013). Under this law, small businesses can legally crowdfund and sell limited amounts of equity to investors through internet platforms without registering the securities with the SEC (Kitchens & Torrence, 2012; Mollick, 2014; Stemler, 2013). The law improves the capital markets for small businesses while protecting investors' money.

While the definition of crowdfunding varies among researchers, the general concept of crowdfunding is a source of start-up capital in which small businesses solicit small amounts of capital from a large quantity of contributors facilitated through online social networks (Ley & Weaven, 2011). Valanciene and Jegeleviciute (2013) added that crowdfunding is raising funds for individuals who have a common interest and provide small monetary support towards new ventures. Essentially, crowdfunding merges microfinance and crowd sourcing by allowing individuals to invest in firms through the internet with minimal barriers (Fink, 2012). An early example of crowd financing is the raising of funds for the Statue of Liberty (Harrison, 2013).

In general, crowdfunding blends finance, economics, management, sociology, and information systems (Golic, 2014). Through these concepts, crowdfunding is a type of market that allows users to exchange ideas or products safely and easily for financial supporters (Gerber & Hui, 2013). Crowdfunding stimulates the global financial systems by transferring funds from small investors to socially responsible ventures by solving problems associated with rapid economic urbanization, growth, and employment (Yeoh, 2014). Consumer and investor outcome are factors to divide crowdfunding projects into five categories. There are five categories of crowdfunding categories based on consumer and investor outcome.

Crowdfunding Categories

Crowdfunding categories have five project categories based on consumer and investors' outcome and benefit: rewards-based, product presales, donation, peer-to-peer lending, and equities and securities (Belleflamme et al., 2014; Mollick, 2014). Each type of project is distinct in its model and is limited to specific website platforms. However, the projects employ the same concept of gathering small amounts of money from a large number of investors through the internet.

In addition to consumer and investor outcome, the crowdfunding categories vary with decision power, return on investment, kind of relationship, and contracts (Meric et al., 2015). The complexity of crowdfunding is that it incorporates extreme project variety, project originality, relies on the power of words and stories, and is relatively free to setup (Meric et al., 2015). Crowdfunding provides companies with feedback, market research, public relations, project legitimacy, and confidence (Meric et al., 2015). More details on the specific categories are below.

Rewards-based crowdfunding. Rewards-based crowdfunding allows donors to receive a token gift in exchange for their contributions, but rewards specifically cannot be company equity or a loan (Valanciene & Jegeleviciute, 2013). The gifts can be items, such as a signed compact disc or dinner with a celebrity, and tiered according to donation size (Colombo, Franzoni, & Rossi-Lamastra, 2015). Rewards-based crowdfunding is one of the most popular forms of crowdfunding due to the intrinsic value of participating in crowdfunding, social reputation, and shared identity (Cholakova & Clarysse, 2015). According to Kickstarter, rewards at $25 are the most popular level, while the average pledge is about $70 (Kickstarter, 2015a).

One concern for entrepreneurs using rewards-based crowdfunding is to budget appropriately for the proposed project costs and costs for fulfilling the rewards. Buff and Alhadeff (2013) found that the real costs are the funds needed for the project, the cost of the rewards, shipping, platform fees, payment processing fees, taxes, and other unexpected costs, which can amount to roughly 50% of the needed funds (Buff & Alhadeff, 2013). While rewards-based crowdfunding may be the most popular type, entrepreneurs should budget appropriately or risk underfunding the initial project and face financial losses.

Product presale crowdfunding. Product presales allows entrepreneurs to pre-order a product or service, collect the capital to launch production, and then send the finished good to the contributor upon completion (Belleflamme et al., 2014). This model allows entrepreneurs to fund initial production costs to establish inventory run. One benefit of product presales allows entrepreneurs to price discriminate between early purchasers and consumers on the open market (Belleflamme et al., 2014). The disadvantage of product presales for crowdfunders is that crowdfunders may not receive the product, or receive it later than promised.

Donation-based crowdfunding. Donation-based crowdfunding is the process of accepting donations online (Dushnitsky & Marom, 2013). Contributors give money without expecting any return on their investment, perhaps with the only reward as watching the business grow (Fink, 2012). Nonprofit organizations and civic organizations typically use this model to raise funds for specific projects (Mollick, 2014).

Peer-to-peer lending crowdfunding. Peer-to-peer lending allows contributors to choose which person or business loans to contribute, the amount, and the stated interest rate. For-profit businesses largely use peer-to-peer lending. However, the loans do not require collateral and the potential to default is riskier (Bruton et al., 2015). Kiva.org is the world's largest online platform for prosocial, peer-to-peer lending facilitated loans (Burtch, Ghose, & Wattal, 2014; Meyskens & Bird, 2015). Puddle and Prosper are other peer-to-peer lending websites (Meyskens & Bird, 2015).

Equity and securities crowdfunding. Equity and securities crowdfunding allows the company to sell ownership shares of the company to the public but remains regulated by the SEC since this category is an investment. However, the JOBS Act of 2012 relaxed some of the strict rules and regulations so that small businesses can participate without the high financial burden. In 2014, the SEC released new rules that clarified the equity-based rules specifically applied to crowdfunding (Levine & Feigin, 2014). The new crowdfunding laws allows companies to use the internet to solicit investors, caps the amount up to $1 million over a trailing 12-month period, and requires transactions to occur through SEC licensed funding portals or broker-dealers (Aronson, 2013; Cronin, 2016; Gelfond & Foti, 2012; Kitch, 2014; Levine & Feigin, 2014; Stemler, 2013; Williamson, 2013). The JOBS Act reduced the accounting and disclosure requirements for emerging growth companies (EGCs), those with annual revenues less than $1 billion annually and traded less than 5 years (Jensen, Marshall, & Jahera, 2015). These changes lead to reduced IPO costs with the potential for more businesses to go public in a shorter timeline and to transition to full financial disclosure (Kitchens & Torrence, 2012).

Equity-funding websites are Early Shares, The Funders Club, InCrowd Capital, Crowd Funder, and Startup Valley (Stemler, 2013). The ECGs can share info directly with the SEC, accept feedback, and then disclose the changes later, preventing disclosing sensitive information to competitors (Jensen et al., 2015). The SEC and state governments retain rights to sue civilly and criminally in cases of fraud (Yeoh, 2014).

Crowdfunding Platforms

To launch a project, entrepreneurs should review the platform requirements and best hints to increase odds of funding. Typically, platforms provide dedicated project pages, analytics, project monitoring, and tutorials (Gerber & Hui, 2013). Entrepreneurs can list their project with details, any rewards or product presales, base target amount, deadline (generally 30 days), video with details, and intended benefits (Voelker & McGlashan, 2013). Each project seeks its unique audience of funders (Riedl, 2013). The project description area allows entrepreneurs to provide information to persuade contributors to support the project financially.

To protect investors, the SEC requires the licensed portals and brokers to follow requirements. The JOBS Act regulates funding portals to prevent fraud and abuse, educates investors on risk and individual contribution limits, cannot offer investment advice, cannot actively push securities on investors, and prohibits paying employees on commission (Stemler, 2013). Other requirements include the crowdfunding platform must hold the funds until the project receives all of the funds, conduct due diligence on issuers' business and intended use, verify income amounts for accredited investors, provide all required disclosures and make attempts to reduce fraud (Gelfond & Foti, 2012; Rechtman & O'Callaghan, 2014). In addition to the SEC mandates, each platform or broker has a specific requirement, business focus, and unique fees, possibly creating additional barriers for entrepreneurs.

Platform intermediaries. Crowdfunding utilizes internet platforms, also referred to as funding portals or intermediaries, to connect contributors with entrepreneurs (Stemler, 2013). The top international crowdfunding sites are Kickstarter and Indiegogo, based in the United States, and CrowdCube, based in the United Kingdom (Marlett, 2015). The goal of intermediaries is to connect capital with businesses. While small business owners can ask for project capital on their corporate website, the small businesses must generate a sufficient quantity of traffic and investors to their website (Tomczak & Brem, 2013). This can be a challenge. Therefore, the intermediaries provide larger quantities of interested investors, although the investors may not be a loyal customer of the business (Tomczak & Brem, 2013).

As the largest crowdfunding platform, Kickstarter has successfully funded more than 92,600 projects with over $1.9B pledged from its launch on April 28, 2009, to September 18, 2015 (Kickstarter, 2015b). Kickstarter raises funds through specific projects, typically in the arts, but technology, food, and other business types are growing (Voelker & McGlashan, 2013). Kickstarter sorts projects based on recently launched, ending soon, and popularity based on recent backers (Kuppuswamy & Bayus, 2014). All projects must meet the stated goal within 30 days to receive funding, otherwise, the parties do not exchange any money (Tomczak & Brem, 2013; Voelker & McGlashan, 2013). This model reduces the risk of underfunding a project (Frydrych et al., 2014). If contributors fund the target goal, then Kickstarter charges small businesses 5% of the total project funding (Tomczak & Brem, 2013). The founder for the Pebble smartwatch turned to Kickstarter after failing to secure venture capital despite having a prototype, business plan, and sample apps (Gobble, 2012). As of 2012, the project is the most successful campaign on Kickstarter raising over $8.3 million (Gobble, 2012).

Indiegogo allows anyone with an idea to create a campaign, including small businesses. Campaigns are either flexible funding, fixed funding, or not funded. Flexible funding costs are a 5% fee whether or not the project meets the goal (Bradley & Luong, 2014). Fixed funding costs are a 5% fee if the project meets the goal (Indiegogo, 2015). Campaigns that do not meet their goal do not receive any money and donors receive their money back (Bradley & Luong, 2014). Overall, costs are minimal through the internet platforms Kickstarter and Indiegogo (Tomczak & Brem, 2013).

Kiva is the largest global online crowdfunding platform that conducts peer-to-peer lending, facilitating loans for more than one million borrowers since its inception through 2015 (Bruton et al., 2015; Burtch et al., 2014). Lenders receive no interest or charged fees, but borrowers repay the principal amount according to a predetermined schedule (Burtch et al., 2014). Kiva has relationships with 288 microfinance institutions that select and vet the entrepreneurs (Meyskens & Bird, 2015). The vast majority of lenders on Kiva are from the United States while entrepreneurs are from the developing world (Burtch et al., 2014).

Puddle, Fundable, and MegaTotal are three other crowdfunding platforms. First, Puddle targets entrepreneurs who may not qualify for traditional loans (Meyskens & Bird, 2015). Borrowers join a puddle, contribute money, borrow up to 5 times the initial contribution amount without credit checks or loan applications, and repay the loan at predetermined interest rates (Meyskens & Bird, 2015). Fundable focuses on entrepreneurs, offers rewards-based or equity-based options, and accepts other pledges such as material and skill set donations (Bradley & Luong, 2014). MegaTotal specializes in music, is based in Poland, and uses an equity and royalty-based crowdfunding model (Galuszka & Brzozowska, 2015). MegaTotal contributors deposit money into their account and then choose projects to invest (Galuszka & Brzozowska, 2015). If projects turn profits, then the contributors receive a share of the revenue based on the rank order of giving (Galuszka & Brzozowska, 2015). The entrepreneur has a wide range of platforms to choose based on several aspects.

Type of projects funded. The primary projects funded are arts, innovations, and software launches (Marlett, 2015). Technology innovations include 3D printers, mobile phone accessories, and software for games and apps (Marlett, 2015). Due to drastic cuts in public arts funding and reduced government support, arts organizations are turning to crowdfunding for support (Boeuf, Darveau, & Legoux, 2014). A scientist working at a nonprofit turned to crowdfunding to cover material costs to test water filtrations for pesticides in Third World countries (Anonymous, 2014). A variety of businesses can benefit from crowdfunding.

Civic crowdfunding is another popular use of crowdfunding. Civic crowdfunding is the process of community members funding civic projects, such as buildings and public art (Stiver, Barroca, Minocha, Richards, & Roberts, 2015). The characteristics of civic crowdfunding are crowd sourcing, social capital with democratic participation, social impacts of volunteering, a combination of public and private funding, and online activity (Stiver et al., 2015). One challenge of civic crowdfunding is marketing the nonfinancial benefits and opportunities as features, community participation, and the ability to choose (Stiver et al., 2015).

Characteristics of Crowdfunding Entrepreneurs

Researchers identified some positive characteristics of entrepreneurs who have used crowdfunding. These characteristics include self-efficacy, preference for a pre-purchase model, trustworthiness, autonomous, competitive aggressiveness, risk-taking, and cultural differences. There is very limited research on these characteristics.

Harburg, Hui, Greenberg, and Gerber (2015) interviewed 53 entrepreneurs, with half meeting their project goals, about their experiences on crowdfunding on Kickstarter, Indiegogo, and Rockethub. Harburg et al. (2015) found that crowdfunding can both increase and decrease self-efficacy in entrepreneurs. Crowdfunding built self-efficacy through public validation of the entrepreneur's work, role modeling from fellow crowdfunders, seeing oneself succeeding, and energy and emotions working under a timeline (Harburg et al., 2015). Crowdfunding decreased self-efficacy due to lack of public validation, entrepreneurs feel daunted by work, and failed projects are visible publicly (Harburg et al., 2015). The more founders depended on friends and acquaintances, the less likelihood of project success (Davidson & Poor, 2015).

Entrepreneurs prefer to ask friends, family, and the local community to give back to social causes through online versus asking in person (Yeoh, 2014). Network-based power focuses on building personal relationships and influencing markets through digital content (Labrecque et al., 2013). In addition, the trustworthiness of social entrepreneurs is higher than nonsocial firms (Lehner, 2013).

Moss, Neubaum, and Meyskens (2015) examined loans on Kiva and found that projects signaling conscientiousness, courage, empathy, or warmth were less likely to receive funding, while those signaling conscientiousness, courage, warmth, or zeal were less likely to repay the loans and pay them less quickly. In addition, those signaling autonomy, competitive aggressiveness, and risk-taking were more likely to receive funding while ventures signaling proactiveness were less likely to repay the loan (Moss et al., 2015). Entrepreneurs using Kiva should choose wording specifically to increase positive signaling and subsequent funding.

Research by Belleflamme, Lambert, and Schwienbacher (2014) found that entrepreneurs prefer the presales model when the initial capital requirement is relatively small and prefers profit-sharing model for larger capital requirements. Song and van Boeschoten (2015) found that 40% of all founders preferred the pre-purchase model to test products in their social community, but had to spend two days a week for 1 to 3 months managing the campaign. However, founders lacked expertise on crowdfunding and will not use again due to time, effort, begging for money feeling, and unsustainability (Song & van Boeschoten, 2015).

Western cultures based on individual initiatives approach entrepreneurship by emphasizing individual success while collective societies approach entrepreneurship by emphasizing group success, teamwork, and cooperation (Beugré & Das, 2013). Ingram, Teigland, and Vaast (2014) found that cultural norms discouraged Swedish entrepreneurs from investing in businesses and publicizing their investment. The Swedish entrepreneurs did not perceive that crowdfunding would sustain the business over a significant amount of time in relation to the time and expense of conducting a campaign (Ingram et al., 2014). Entrepreneurs should consider these various traits before engaging in crowdfunding, but caution that more research may expand the characteristics.

Characteristics of Funders

Research is ongoing to determine the characteristics of funders and their motivations to participate in online funding. The funders are an extremely large number of ordinary people who contribute small amounts of money for promising ideas, allowing them to contribute anonymously and reduce investment risk (Boeuf et al., 2014; Lehner, 2013; Valanciene & Jegeleviciute, 2013; Yeoh, 2014). Lower net worth investors can participate in new venture creation, which was previously restricted to wealthy investors (Fink, 2012). Crowdfunding can likely create 60 million new angel investors (Kitchens & Torrence, 2012).

The masses of ordinary people have the power and freedom to choose which projects to support (Meric et al., 2015). Meric et al. (2015) found that crowd characteristics are generous, wisdom, and power. Crowdfunding investors share similar characteristics, such as a preference for using technology, social networking, and participating first in new ideas (Ordanini, Miceli, Pizzeti, & Parasuraman, 2011). Song and van Boeschoten (2015) found the success factors for crowdfunding in the Netherlands were funders prefer face-to-face meetings with the founders, while the founders liked the financial investment, crowd expertise to improve the product, and stronger relationships with potential investors. Ahlers, Cumming, Guenther, and Schweizer (2012) examined the signals for successful crowdfunding projects through examination of the largest equity crowdfunding website at that time in Australia. The researchers found start-ups with more board members, higher levels of education, longer operations, and better networks will attract a higher number of investors (Ahlers et al., 2012).

Gerber and Hui (2013) found the motivation for supporters are to collect rewards, experience the new product first, help others, support creative ideas, and support a cause (Gerber & Hui, 2013). Characteristics of the crowd are wisdom of the crowd with shared cultural backgrounds, buy products based on emotions, retains power and freedom to choose projects and ideas to support, and allows ordinary people to connect with the same interests virtually (Meric et al., 2015). Entrepreneurs can create target markets of funders for their individual projects to ensure success.

Several researchers have concluded that funders donate money based on emotions. Lehner and Nicholls (2014) support that crowdfunding taps into people's values and opinions to appeal to the social impact of the venture. Yeoh (2014) divides crowdfunding investors into three groups: those who emotionally connect with the investor, those seeking financial returns, and a combination of the two. Since crowdfunding is a sales pitch, funders contribute based on emotion, receiving token rewards, and personal satisfaction for supporting the project (Meric et al., 2015). Belleflamme et al. (2014) established that donors would contribute if they expect to become a future consumer of the business and community benefits are large. Gerber and Hui (2013) determined the motivations for small businesses are to solicit easily and collect funds through safe technologies, receive funds quicker than traditional sources, potentially receive press attention, create long-term relationships with supporters, easily communicate with creators and supporters, quickly build a consumer fan base, maintain control over the business, and learn new business skills (Gerber & Hui, 2013).

Community links are important reasons for funders to contribute. Funders are more prone to support local businesses (Belleflamme et al., 2014). Supporting social causes are another incentive for funders to give. Crowdfunders can choose to invest in their local communities (Kitchens & Torrence, 2012). Funders support a worthy social cause, receive some financial return, and feel empowered through participation while social enterprises tap new investors, reduce dependency on traditional investors and financers, gain visibility through marketing, and fulfill their mission (Lehner & Nicholls, 2014). To the contrary, Burtch, Ghose, and Wattal (2013) determined that as individuals observe others contributing to crowdfunding projects more frequently, their contributions fall.

Ordanini et al. (2011) conducted case study research in the United States and Italy and found the characteristics of funders are engaging in innovative behavior, social networking, engagement with companies and fellow funders, first users of new services and products, and the opportunity to choose specific causes. Jian and Shin (2015) found that motivations for contributing to journalism crowdfunding projects were freedom of content, altruism, and contributing to one's community.

On the negative side, the typical crowdfunding investor will not perform due diligence, does not look at the business plans or collateral, lacks industry knowledge, or has little business knowledge (Lehner, 2013; Neslund, 2014). However, funders will delay gratification from the time of providing support and receiving the reward (Gerber & Hui, 2013). The deterrents for supporters are distrust of creators' use of funds, no rewards in exchange for funds, and no conflict resolution (Gerber & Hui, 2013). Davidson and Poor (2015) found that introverts are less likely to enjoy crowdfunding and less likely to use it in the future.

Benefits of Crowdfunding

The benefits for small business owners to use crowdfunding include idea validation, proof of business concept, maintain firm control, solve firm problems, build community, increase marketing, determine price points, economic benefits, and social impact. Additional benefits will surface as researchers conduct more research on the subject. Crowdfunding is unique as a financing option that offers significantly more benefits than traditional financing.

Small business owners face information asymmetry when seeking finance. In crowdfunding, investors usually require less upfront information about the business and do not require detailed contracts (Macht & Weatherston, 2014). Crowdfunding uses collective decision making to evaluate and raise financing (Bruton et al., 2015). The benefits are sparking growth among small businesses, filling the capital gap challenge, market products or services, obtain feedback from customers, and improve business models (Sigar, 2012). Crowdfunding appeals to startup firms as it eliminates geographical barriers to raising capital, the necessity of personal connection with investors, and it appeals to young, tech-savvy investors (Gelfond & Foti, 2012).

Entrepreneurs can use crowdfunding to test business ideas, validate products, and support business with less than $1 million profits. Crowd engagement is a legitimacy signal as the crowd chooses worthy enterprises to contribute their funds, with the level of backer interest gauging for a larger consumer interest (Lehner & Nicholls, 2014; Mancuso & Stuth, 2014). Small business owners can use Kickstarter as proof of concept, raise capital, marketing and promotional activities, brand awareness, launch products, fund future efforts without incurring debt or diluting equity (Voelker & McGlashan, 2013). Crowdfunding allows entrepreneurs to test new ideas with minimal risk and loss to any one investor and inspire creativity and innovation (Bradley & Luong, 2014; Kitchens & Torrence, 2012; Mashburn, 2013; Valanciene & Jegeleviciute, 2013). Ingram et al. (2014) conducted case study research and found that one entrepreneur used crowdfunding as proof of market demand to ask for a bank loan.

Manchanda and Muralidharan (2014) found that additional benefits of crowdfunding are business idea validation, identifying the target market, increases product and brand awareness, and allows genuine customer feedback at minimal cost.

Another characteristic of crowdfunding is self-regulation as the crowd chooses whether to donate or not, which is not present in traditional financing (Olson, 2015). In addition, crowdfunding appeals to business models with profits under $1 million, including those that are profitable but have a limited revenue and time on the market (Manchanda & Muralidharan, 2014).

Maintaining control of the firm's business decisions is another benefit for entrepreneurs using crowdfunding instead of other financing options. Crowdfunding is a capital formation strategy that allows entrepreneurs to raise funds without giving up ownership rights and keep property rights (Gerber & Hui, 2013; Sigar, 2012). When working with VCs, entrepreneurs give up ownership rights and firm control (Valanciene & Jegeleviciute, 2013).

Entrepreneurs can use crowdfunding to provide feedback and solve company problems without paying them. Crowds, due to the collective intelligence of information, may efficiently solve company problems more than individuals (Ordanini et al., 2011; Sannajust et al., 2014). The crowd creates value for companies by offering suggestions for product design and improvement, shortening creation and production time, solving company problems, generating marketing hype, and reducing costs (Schwienbacher & Larralde, 2010). Crowdfunding connects entrepreneurs directly with consumers, which allows direct feedback, communication, and product development with the interaction providing feedback that would otherwise cost millions of dollars and extended market research time (Mancuso & Stuth, 2014). As a result, small businesses gain better customer acceptance, customer perception of the new product, and marketing hype (Schwienbacher & Larralde, 2010).

Sannajust et al. (2014) examined crowdfunding in France as a new financing option for new ventures and determined the benefits were reduced time for product development and associated costs, improved customer product acceptance, increased customer perception of the new product, and generate hype of the new product, provide quality signals of market potential. Galuszka and Brzozowska (2015) examined the relationship between entrepreneurs and contributors in MegaTotal and found that crowdfunding empowers fans and exploits them through free labor. The benefits of the MegaTotal model are both artist and consumer relationships were visible, the consumers had some influence over artist decisions, and profit sharing changed the recording industry (Galuszka & Brzozowska, 2015).

Sanchez-Gonzalez and Palom-Torres (2014) examined journalism projects in Spain and found the benefits of collaboration between the public and journalists are journalists write content based on contributors' wants while the disadvantage is that journalists may lose content freedom. Journalists benefit by receiving financial independence, involving community members, and can start a journalism business (Sanchez-Gonzalez & Palom-Torres, 2014).

Crowdfunding allows small businesses to connect directly with the community, social network, and contributors. Crowdfunding creates an opportunity for communication and a real community that share similar interests (Sannajust et al., 2014).

Small business owners can use crowdfunding to focus on the sharing in the participation after the project is implemented (Profatilov et al., 2015).

The new crowdfunding laws allow startups, emerging firms, and private investment funds to solicit investors beyond their traditional networks through newspaper, television, radio ads, and the internet (Aronson, 2013). Small businesses can tap into a new consumer market that would otherwise be untouched (Gerber & Hui, 2013). The characteristics of crowdfunding are the quality of the social network, online trustworthiness, and overall communication about projects (Yeoh, 2014).

Crowdfunding allows small businesses to test the price of their products. Small businesses can survey the crowd for the best price point, form factor, product name, and other potential uses of the product (Mancuso & Stuth, 2014). This information improves a business model, appeal to consumers better, and is relatively free for small businesses. In addition, small businesses can price discriminate between funders and other consumers, thereby revealing consumer willingness to pay and extract maximum profits (Belleflamme, Lambert, & Schwienbacher, 2014).

Crowdfunding plays an important role in marketing to future consumers and contributors. Marketing activities for crowdfunding are product development, promotion and advertising, and market research (Gatautis & Vitkauskaite, 2014). The benefits of crowdfunding are reduced product development time and associated costs, improved customer product acceptance, increased customer perception of the new product, hype of the new product, and quality signals of market potential (Sannajust et al., 2014). In addition, Mollick & Kuppuswamy (2014) found the top reasons for small business owners to use crowdfunding were to determine consumer demand, increase marketing, connect directly with supporters, and capital to launch the product.

Belleflamme et al. (2014) determined that individuals become promoters of the product leading to market expansion and possible strategic advantages by achieving higher financial backing early. Small business owners can use crowdfunding as corporate communication and public relations department to increase the legitimacy and confidence of the company (Meric et al., 2015). Besides financial funding, small businesses gain product and business testing, expand their knowledge and skills, project innovation, design changes, and conduct advance product sales, market research, and mouth-to-mouth promotion (Golic, 2014). Even failed projects garner some free advertising.

Crowdfunding offers economic advantages for startups over other types of traditional financing. Small business owners can potentially receive funds quicker than other options that require applications and long wait periods (Meric et al., 2015). Small business owners can raise money for equipment to manufacture products and subsequently keep these same assets (Profatilov et al., 2015). Small business owners can raise capital from anywhere in the world rather than tied to local angel investors or VCs, which plugs the financing gap for startups (Mashburn, 2013).

As a new phenomenon, crowdfunding has the potential to evolve and change traditional business models. Crowdfunding will stimulate new investments in entrepreneurial projects, modify the structure of existing investments, and possibly replace other investments (Kshetri, 2015). Crowdfunding can affect other countries as well through economic growth for developed and emerging countries (Beugré & Das, 2013). Macht and Weatherston (2014) determined that small businesses in the United Kingdom face credit issues, although two-thirds of them are unaware of crowdfunding. The global popularity of crowdfunding may increase if countries establish tax incentives, compatible payment systems across regions, and encourage charitable giving (Kshetri, 2015).

Crowdfunding projects with financial documents and exit strategies will garner more investors. Ahlers et al. (2012) found that start-ups that list their exit strategy of either an IPO or a trade sale would attract more investors over other exit strategies. Firms without financial forecasts and disclaimers are less likely to raise capital, take a longer time, and attract less investor (Ahlers et al., 2012).

Crowdfunding Challenges and Disadvantages

Despite the potential of crowdfunding, small business owners must consider challenges and disadvantages when using crowdfunding. These challenges include information asymmetries, high risk, lack of experience using the platforms, limited financial capacity, potentially higher transaction costs, stolen intellectual property, fraud, and ethics issues. Small business owners should carefully weigh these issues with the advantages of crowdfunding to ensure successful funding.

As with traditional funding, entrepreneurs face challenges in information asymmetries in crowdfunding. Information asymmetries exist in crowdfunding as investors lack access to industry specific information and past performance of the small business while entrepreneurs may not perform sufficient research and development of platforms (Sangani, 2014; Sannajust et al., 2014). Information asymmetries are worse in developing economies due to a lack of credit ratings, information on small businesses, and lack of transparency (Kshetri, 2015). In addition, another concern is that small businesses with poor business ideas will turn to crowdfunding, resulting in failed businesses and lost investor money. Despite information asymmetry concerns, Sigar (2012) claimed that public access to information on the internet protects investors.

Crowdfunding is a financing option for high-risk innovative projects since it diversifies risk among investors (Colgren, 2014; Profatilov et al., 2015). Turan (2015) investigated the impact of crowdfunding on risk in the regulated securities market and found that businesses face high risk in the prelaunch stage while the entrepreneurs face medium risk. Crowdfunding allows high-risk businesses access to financing while minimizing risk across thousands of investors.

Small businesses risk the potential for others to steal business ideas and intellectual property by revealing business details online (Manchanda & Muralidharan, 2014; Mancuso & Stuth, 2014; Valanciene & Jegeleviciute, 2013). Therefore, small business owners should take appropriate steps to protect copyrights, trademarks, patents, and other types of protection before engaging in crowdfunding (Mancuso & Stuth, 2014). Future problems with crowdfunding may include data security, copyright ownership when consumers suggest product changes, and securities regulations (Yeoh, 2014). As with any firm conducting business on the internet, firms should put in place additional security and intellectual property protections.

Another challenge with crowdfunding is that entrepreneurs may spend a considerable amount of time on projects and may lack resources to manage them effectively. Small businesses may lack organization, staffing, time, and resources to administrate crowdfunding securities and prizes, promote the business idea, and communicate with funders (Manchanda & Muralidharan, 2014; Stemler, 2013; Valanciene & Jegeleviciute, 2013). Song and van Boeschoten (2015) found that founders liked testing products in their social community but disliked spending two days a week solely managing the campaign. Small business owners issuing equities can simplify the administrative processes by setting investment minimums (Williamson, 2013). Small business owners must weigh the opportunity costs of crowdfunding against other financing options.

Additional drawbacks to crowdfunding are the disclosure and reporting requirements may be too complex for small businesses, small businesses may still need to prepare for subsequent investment rounds, states may vote additional laws, funders with management control creates high coordination costs, and VCs do not like complicated financial structures (Gelfond & Foti, 2012; Sannajust et al., 2014). In addition, only half of the projects reach their goal and a lack of financial return may discourage investors (Macht & Weatherston, 2014). Small businesses are responsible for any false or misleading information including delivering products on time (Mashburn, 2013).

Entrepreneurs with a small social network may have more difficulty in reaching crowdfunding targets. Hui, Gerber, and Gergle (2014) uncovered challenges that small businesses faced leveraging their social network to reach financial campaign goals and found that some creators were unable to estimate their network size (either too large or too small), the number of those willing to give, and the time and efforts to fulfill rewards.

The deterrents for creators are an inability to attract supporters, the risk of public failure, inability to attract the target audience, inability to develop appropriate rewards, possibility of intellectual property theft, time and resource commitment, initial financial commitment, and little mentorship (Gerber & Hui, 2013; Mollick & Kuppuswamy, 2014). In addition, creators who fail in raising money through crowdfunding face a negative stigma in their social and professional network (Sangani, 2014). Social networks play a key role in successful projects.

Since crowdfunding is a new concept with thousands of different platforms, small businesses may lack experience using these platforms. Song and van Boeschoten (2015) found that small businesses lacked expertise on crowdfunding and will not use again due to time and effort investment, the begging for money feeling, and long-term unsustainability. Sources of uncertainty at the beginning of a campaign are quality and trustworthiness (Colombo et al., 2015).

Equity-based crowdfunding have financial constraints and possibly higher costs for other financing options. The financial limits for crowdfunding are $1 million over a rolling 12 months (Manchanda & Muralidharan, 2014). Crowdfunding costs are higher than bank financing and equity-based costs can be higher than other securities due to the SEC requirements for registration statements, screening investors, and other administrative functions can cost about 15% of the $1 million cap (England et al., 2015; Neslund, 2014). J. Thomas (2014) estimates that initial costs for a $50,000 offering are 23% with 8% annual ongoing costs and a$750,000 offering translates into 15% initial costs and 4.4% ongoing annual costs. Hidden transaction costs for issuing equities are

SEC filings, accountant fees, administrative costs of maintaining records, and internet platform fees (Mashburn, 2013). These higher costs can potentially limit crowdfunding use (Thomas, J., 2014).

The roadblocks to equity crowdfunding are the cost of disclosures, costly SEC requirements, audited financial statements, verification of all investors' financial worth, public disclosure of all project details, lack of secondary market, and lack of analyst coverage that can positively impact stock price (Aronson, 2012; Hurt, 2015). VCs and angel investors will shy away from businesses with thousands of unsophisticated investors due to limited liquidity, slow management decisions, increase in equity holder disputes, and no exit strategy for investors (Hurt, 2015; Neslund, 2014; Thomas, Z., 2014). VCs may provide additional services, such as monitoring cash flows, offering advice and mentorship, or providing business contacts and resources, while crowdfunding may not (Fraser et al., 2015; Gobble, 2012; Voelker & McGlashan, 2013). Despite findings of higher costs for equities, Kitchens and Torrence (2012) claimed that a streamlined IPO process of equity-based crowdfunding would reduce overall transaction costs.

Since transactions occur over the internet, the potential for fraud may be high. Gobble (2012) and Sigar (2012) claim the potential for fraud increases with the loosened restrictions, lack of entrepreneur information, uncertainty about unproven products or services, and higher failure rate; however, fraud will be minimal because entrepreneurs use personal social network connections to raise funds. Giles (2012) determined that scientists using the social platforms of crowdfunding would keep them honest. Internet platforms provide no assurances that entrepreneurs will follow through on promises. However, no evidence exists that suggests entrepreneurs are committing fraud to gain money (Kitch, 2014). On the contrary, Mollick (2014) found that founders did not deliver products on time were less than 5%. While potential fraud is a concern, the tightly regulated securities markets also faced fraud, in the examples by banks Lehman Brothers and Bear Sterns (Turan, 2015).

Some restrictions are in place to minimize fraud. The SEC has prohibited any parties that have issued securities and convicted of fraud from engaging in equity-based crowdfunding (Aronson, 2013). Internet platforms cannot receive sales commissions (Levine & Feigin, 2014). Legal action will be minimal as class action lawsuits are unlikely due to small investing amounts, which leaves contributors with no legal recourse for fraudulent activities (Mashburn, 2013). Funders should consider their contributions as donations in case small businesses fall through on promises.

The authors explored the ethical issues of crowdfunding using a case study approach from Amanda Palmer, an aspiring artist that asked for $100,000 but raised over $1.19 million on Kickstarter (Padgett & Rolston, 2014). After fulfilling the rewards as promised, the artist admitted to spending the rest of the money on personal expenses and asked musicians to play free at concerts, much to the dismay of the unions (Padgett & Rolston, 2014). This example illustrates the ethical issues of how entrepreneurs spend the money, and whether investors are entitled to refunds.

Crowdfunding Project Success Factors

A large majority of the research conducted on crowdfunding focused on project success factors. Crowdfunding success factors include large social network, nonprofit status, the geography of the entrepreneur, project descriptions and language, exit strategy, funding stage, target amount, trustworthiness, and communication between small business owners and funders. Small business owners should consider integrating these success factors prior to launching a project for optimal success of funding.

Valančienė and Jegelevičiūtė (2014) found that successful crowdfunding projects satisfy the interests of all stakeholders: entrepreneurs, funders/investors, and intermediaries. Several researchers identified the ideal project timeline and initial target amount. The optimal time for funding projects is between 40 and 60 days (Boeuf et al., 2014). As of September 2014, 39.69% of all projects (174,267) on Kickstarter received full funding amounts, totaling more than $1.3 billion (Profatilov et al., 2015). There is long-term success in crowdfunding and its economic benefits. Over 90% of successful projects remained ongoing for 1 to 4 years after the campaign ended, almost one third of those reported annual revenues of over $100,000 a year since the campaign ended, and increased staff by 2.2 employees (Mollick & Kuppuswamy, 2014).

Specific project characteristics, such as project size, quality of product, exit strategy, and financial forecasts contribute to success. In the study conducted by Antonenko, Lee, and Kleinheksel (2014), the researchers determined that 90% of the crowdfunding projects requested less than $6,000 with five projects raising more than $20,000. Boeuf et al. (2014) research found that entrepreneurs experienced with crowdfunding set lower target amounts. These results suggest that projects with smaller goals were more successful than larger goals (Antonenko et a. 2014).

Riedl (2013) found that successful technology projects have consumers who appreciate the value of the project and the finished product appeals to a wide variety of consumers. Start-ups that list their exit strategy as an IPO or a trade sale will attract more investors over other exit strategies (Ahlers et al., 2012). Firms without financial forecasts and disclaimers are less likely to raise capital, take a longer time, and attract fewer investors (Ahlers et al., 2012).

Mollick (2014) found that the factors for successful fundraising are a larger social network of the founder; the project has strong quality signals, such as videos, frequent updates, and few spelling errors; and project success relates to the geography of the founder within the United States. Hui et al. (2014) found conflicting results on the role of social networks as a success factor. The researchers interviewed 58 project creators and determined that a large fan base correlated with higher funding success (Hui et al., 2014). Zheng, Li, Wu, and Xu (2014) collected data on reward-based projects on Kickstarter in the United States and Demo Hour in China and found a significant relationship between an entrepreneur's social network and the performance of the project.

Through analysis of public information on Kickstarter from January 1, 2010 through December 31, 2011, Kuppuswamy and Bayus (2014) established that project support is a U-shaped pattern with a higher number of backers during the initial and last stages of the project due to sorting options of projects on Kickstarter, friends and family participation, and social influence. Family members primarily give funds during the first week of a project launch and the last week of the campaign, and most funders are one-time backers from the entrepreneur's social circle (Kuppuswamy & Bayus, 2014). Similarly, Colombo et al. (2015) analyzed 699 Kickstarter projects and found that the number of backers and the percentage of target capital raised early are positive predictors of success. On the contrary, Belleflamme, Lambert, and Schwienbacher (2013) discovered that social networks in nonprofit organizations do not increase the amount of funds raised.

Communication between funders and small business owners is an important success factor. Amanda Palmer secured over $1.2 million in 30 days on Kickstarter, the highest earning music-based crowdfunding project (Coleman, 2015). Successful attributes are active blogging, more than one million Twitter followers, frequent posts about her desire and pleasure from interacting with fans, creating an intimate and relational approach with fans, creating community, and delivering on rewards (Coleman, 2015).

Kuppuswamy and Bayus (2014) determined founders that provide regular updates are more successful in funding and add more backers. Successful project owners posted regular status updates, reports, product shipping dates, milestones, and deadlines (Antonenko et al., 2014). To increase success, Hui et al. (2014) recommend that creators identify their potential network size prior to advertising projects through Facebook and Twitter, build relationships with reputable people, ask for endorsements to increase online reputation, and prepare publicity efforts prior to campaign launch.

The frequency of communication is as important as the project description and language used. Allison, McKenny, and Short (2013) examined 6,051 entrepreneurial narratives in Kiva profiles to determine that the language influences how quickly contributors fund the loans. Entrepreneurs who blamed external circumstances and connected the current state of affairs with future goals received faster funding, while those who described personal accomplishments and confidence, repeated few themes, and highlighted the innovativeness of the venture receive slower funding (Allison et al., 2013).

Barbi and Bigelli (2015) analyzed all 123,467 Kickstarter projects since its inception from April 2009 through December 2013 to determine success factors within the United States and outside the United States are essentially the same. The success factors were the inclusion of a video, a higher number of rewards, shorter campaign, and a lower monetary goal, while more information in the *Description*, *About*, and *FAQs* increased success as long as the information was not excessive (Barbi & Bigelli, 2015). Xu, Zheng, Xu, and Wang (2015) found on the Chinese crowdfunding platform that funder satisfaction, characterized as delivery timeliness, product quality, project novelty, sponsor participation, entrepreneur activeness, and sponsor demographics, had a positive effect of entrepreneurs reaching their financial target.

Allison, Davis, Short, and Webb (2015) subsequently examined the project description language on 36,665 loans on Kiva, using a much larger dataset, to determine language that leads to maximum funding success. The results indicated that language with human interests received funding the quickest while language focusing on external rewards, financial rewards, and risk taking led to an increased time for project funding (Allison et al., 2015). In addition, the results showed that overall intrinsic and extrinsic language were significant predictors of investor preferences, with the intrinsic effect five times stronger than extrinsic effect (Allison et al., 2015). To the contrary, Cholakova and Clarysse (2015) showed that intrinsic, nonfinancial motives, such as helping others or community support, were not significant.

Since the entrepreneur and funder will probably never meet in person, trust serves as another important factor. Crowdfunding projects are susceptible to signaling effects of stability and investability (Ley & Weaven, 2011). Specifically, VCs will fund highly rated opportunities and experienced investors because of the increased the credibility (Ley & Weaven, 2011). Cholakova and Clarysse (2015) demonstrated that individuals' decisions to contribute and the actual amount pledged to rewards-based projects were positively related to trust in the entrepreneur and the offered rewards.

Colombo et al. (2015) found that early support, defined as the number of backers and the percentage of target capital raised early, are positive predictors of success (Colombo et al., 2015). Funds received during the early stages reduce uncertainty by providing indirect clues about project quality, increase word-of-mouth, and may lead to early backers providing suggestions and feedback to modify projects (Colombo et al., 2015).

Antonenko et al. (2014) found that all successful project owners posted regular status updates, reports, product shipping dates, milestones, and deadlines. Kuppuswamy and Bayus (2014) confirmed similar findings that projects were more likely to achieve its funding goals in the last week if project owners responded to questions and comments promptly and provided regular updates. Their research confirmed that almost two-thirds of projects received funding during the last week of the project (Kuppuswamy & Bayus, 2014).

Mollick (2014) found that projects either succeeded by small margins or failed by large margins and that higher-quality projects are more apt to receive funding. Cordova, Dolci, and Gianfrate (2015) examined technology projects success factors and found an increase in the funding goal relates to a lower success probability, project duration increases success rate, and success are positively related to daily contribution amounts. For every 1% increase in funding goals, the degree of success decreases by five to six times (Cordova et al., 2015). These results confirm findings by Mollick (2014) but use a much larger data set, including data from Kickstarter, Indiegogo, Ulule, and Eppela (Cordova et al., 2015).

Frydrych et al. (2014) collected data on reward-based projects originating from New York on Kickstarter in 2012 and determined that successful rewards-based projects have a lower funding target on average of $9,415, the majority of projects were created by individual entrepreneurs, and visual pitches did not predict success but are the norm. The initial goal of unsuccessful projects averaged $32,002, while the final funding amount for successful projects averaged $12,807, which is 32.6% more than the original goal (Frydrych et al., 2014). In the study of educational technology crowdfunding projects, Antonenko et al. (2014) found that 90% of the projects requested less than

$6,000, while five projects raised more than $20,000. These results suggest that projects with smaller goals were more successful than larger goals.

Despite the thoughts that the internet eliminates distance, geography can potentially play a role in funding success. Research conducted by Burtch et al. (2014) on Kiva.org found that cultural differences and physical distance have a significantly negative association with lending: as geographic distance increases, banks lend fewer dollars. Therefore, entrepreneurs should market themselves, projects, and products to investors that are physically close or have strong cultural or community ties (Burtch et al., 2014). In the study conducted by Antonenko et al. (2014), the results indicated half of the most successful educational technology projects originated in or near large cities. Mollick (2014) found that geography plays a role in funding for entrepreneurs located in specific areas with strong cultural preferences.

Belleflamme et al. (2013) examined 44 nonprofit organizations and determined that nonprofits should raise larger amounts than for-profit firms, direct involvement with the crowd is positively related to the amount of funds raised, and projects that make products rather than offer services raised more funds (Belleflamme et al., 2013). Boeuf et al. (2014) studied 875 theater projects on Kickstarter in 2011 and found entrepreneurs that back other projects have a positive effect on crowdfunders to support their project and support decreases as entrepreneurs create subsequent projects, pointing to possible donor fatigue (Boeuf et al., 2014).

The purpose for this qualitative exploratory multiple case study design is to explore how small business owners, who have difficulty in securing financing through traditional options, use crowdfunding as an emerging source of financing. The professional and academic literature review contains scholarly articles and government documents to support the study. The literature review synthesizes, compares, and contrasts all research sources related to the topic of small businesses, financing, and crowdfunding. The review of the literature supports the growing use of crowdfunding as a financing option for small business owners.

Transition

Section 1 consisted of the problem statement, purpose statement, and the nature of the study, which justified the business need to study the topic. This section also included the research questions, conceptual framework, operational definitions, assumptions, limitations, delimitations, and significance of the study. Finally, Section 1 contained the professional and academic review, which focused on the government and scholarly articles and documents related to small businesses, sources of entrepreneurial financing, crowdfunding categories, crowdfunding platforms, characteristics of crowdfunding entrepreneurs and funders, benefits and disadvantages of crowdfunding, and crowdfunding project success factors.

Section 2 contains the purpose statement, the role of the researcher, participants, research method, research design, population and sampling, ethical research, data collection instruments and techniques, data organization techniques and data analysis, and reliability and validity. This section contains detailed information on how I will conduct the research study. Section 3 begins with an introduction, followed by the presentation of findings, application to professional practice, implications for social change, recommendations for action and further research, reflections on the researcher's experience, and ends with a concluding statement about the study.

Section 2: The Project

With small businesses contributing the majority of new jobs to the United States economy each year, the importance for small businesses to succeed is valuable (SBA, 2014a). Small business owners need access to capital to grow, innovate, and sustain their business. Small business owners should know the advantages and disadvantages of all potential sources of financing to ensure long-term operations. Section 2 includes the purpose statement, the role of the researcher, participants, research method, research design, population and sampling, ethical research, data collection instruments and techniques, data organization techniques and data analysis, and reliability and validity

Purpose Statement

The purpose of this qualitative exploratory multiple case study design was to explore how small business owners, who have difficulty in securing financing through traditional financing sources, gained knowledge on how to use crowdfunding as sources of financing for small business growth. The population for this study was small business owners who have successfully used an internet platform to raise capital, specifically participating in crowd financing. The population was appropriate for this study because small business owners who have raised capital through crowd financing provided insight into the use of crowdfunding compared to other financing sources. The geographic location of the small businesses was in Tennessee. The data from this study might affect social change by providing small business owners knowledge of an additional resource to raise capital and contribute to a growing economy.

Role of the Researcher

In qualitative research, the researcher and interviewee interact through verbal fluency and explicatory and analytical abilities to provide information (Cleary et al., 2014). This interaction affects the data through the researcher's emotions (Grossoehme, 2014). The researcher in the data collection process gathers data from sources, such as interviews, focus groups, observation, records, and electronic devices, and analyzes the data (Rimando et al., 2015). In the qualitative multiple case study design, my role as the researcher was to choose the appropriate research methodology and design, recruit participants, collect the data, and analyze the data as objectively as possible.

My relationship with the topic was a new finance topic prior to starting the research project. However, through research on the topic, I gained insight into crowd financing. I did not have a relationship with the participants prior to finding them through a search on Kickstarter for small businesses based in Tennessee. I did not know a small business owner who used crowd financing. I have been a resident of Middle Tennessee for over 12 years and have an interest in small businesses in the area.

The researcher should uphold the highest ethical standards when dealing with human subjects, including those specified by the Belmont Report. The Belmont Report lists three principles as respect for persons, beneficience, and justice (U.S. Department of Health & Human Services, 2015). I upheld these basic ethical principles involving human subjects in my study.

As the data collection instrument, the researcher's possible influences that may affect the research are personal beliefs, political stance, and cultural background (Bourke, 2014). To mitigate bias from the data, researchers can ask open-ended questions by not leading the participant to specific answers and use member checking. Participants can tell their lived experiences in their voices through open-ended questions (Bourke, 2014). Member checking is a type of triangulation that requires the participant to verify the researcher’s interpretation of the data given in the interview process (Harvey, 2015). After the researcher analyzes the data, the participants review the summaries for feedback and changes (Grossoehme, 2014). To mitigate bias and data from a personal lens, I asked open-ended questions and conducted member checking with each participant.

Researchers use interviews to acquire information and gain insights into attitudes, beliefs, behaviors, and experiences of the interviewee (Rowley, 2012). Semistructured interviews provide the best data collection method to explore how small business owners use crowdfunding in relation to other financing options. This format allowed me to delve further into participants’ responses to learn more about the decision and phenomenon. Interviewing in a neutral location and comfortable environment may assist participants in contributing fully (Rimando et al., 2015). The interview protocol (Appendix A) includes allowing the participant to choose a location and asking each participant the same questions in the same order (see Appendix B).

Participants

A requirement of case study research is that participants should have experience with the phenomenon studied (Yin, 2014). Researchers should choose participants based on their personal experience and knowledge of the subject and research question (Cleary et al., 2014). The participant should be willing to provide information, experiences, and feelings about the phenomenon (Alby & Fatigante, 2014). The eligibility criteria for selecting participants included the following: (a) Participant was the decision maker on using crowdfunding in place of another financing option, (b) the small business was located in Tennessee, (c) the small business was currently operating, and (d) the small business successfully used a crowdfunding platform to raise funds for the small business.

I selected six small businesses for the multiple case study design. Yin (2014) suggested six to 10 cases. The advantages of multiple case studies over single case studies are that the evidence is more compelling, the study is more robust, and each case uses the same design (Yin, 2014). The small number of participants in the case study design allow for depth and understanding of the phenomenon (Cleary et al., 2014).

Strategies for gaining access to participants will depend on their willingness and availability to participate (Rowley et al., 2012). Clear communication between the researcher and participants increases the information power of the dialogue (Malterud, Siersma, & Guassora, 2016). Cooperation and mutual trust are important factors that researchers must establish when contacting and recruiting participants (Alby & Fatigante, 2014).

Strategies for gaining access to participants included a search in Kickstarter based on geographic location. I chose small business owners who created viable businesses serving the public and eliminated cases of donations or onetime music and theater projects. I called or emailed the small business owner, explained the intent of the study and a consent form, and sought participation. I initially chose 20 businesses to ensure that I had at least six small business owners participating. I received two positive responses. I then proceeded to contact the Nashville Entrepreneur Center, Launch Tennessee, U.S. Association for Small Business and Entrepreneurship, and the Nashville Chamber of Commerce. I reached six participants for the study.

The relationship between the researcher and the participants influences the research (Bourke, 2014). The researcher should develop an empathetic relationship with the subjects (Yilmaz, 2013). Therefore, I attempted to create an empathetic bond with the small business owner to gain trust. To establish a working relationship with the participants, researchers should initially contact potential interviewees, describe the purpose of the research, explain the project and time commitment, and affirm confidentiality (Rowley et al., 2012). For each participant, I explained my role as a doctoral student conducting research, explained the project, assured them of confidentiality, and set expectations of time commitment. The researcher should practice interviewing skills to extract relevant information from the participant (Cleary et al., 2014). I practiced the interview questions prior to the interview to ensure professionalism and confidence with the research participants.

Research Method and Design

Research Method

The three research methods are quantitative, qualitative, and mixed methods. Quantitative research uses data sets and statistics to test theories (Bansal & Corley, 2012). Quantitative research tests theories using variables that measure the phenomenon with numbers and subsequently analyzes the data using statistics to determine if the theory explains the phenomenon (Yilmaz, 2013). Since quantitative research requires numerical data, I chose not to use a quantitative method since numerical data would not answer the research question (Yin, 2014). Quantitative research methods will not allow for the exploration of how small business owners use crowdfunding over other sources of financing.

Mixed methods research is a mixture of qualitative and quantitative research in a single study or a series of studies (Vaitkevicius & Kazokiene, 2013). Mixed methods research consists of both quantitative and qualitative data in a study (Doyle, Brady, & Byrne, 2016). This research method can begin with either quantitative or qualitative data for the first level and then use the other data type for subsequent levels (Fetters, Curry, & Creswell, 2013). Since my study did not require analyzing variables or comparing variables, a quantitative or mixed methods approach was not appropriate.

Qualitative research is the study of people and their behavior in their natural settings to explore the phenomenon (Hazzan & Nutov, 2014). Qualitative research provides rich data on the phenomenon as experienced by the participant (Bourke, 2014; Houghton, Murphy, Shaw, & Casey, 2015). Qualitative research requires a theory as a backdrop to interpret the collected data and describe the phenomenon (Bansal & Corley, 2012). Data collection in qualitative research includes surveys, interviews, focus groups, observations, video and audio representations, and official documents (Paradis, O'Brien, Nimmon, Bandiera, & Martimianakis, 2016). I selected a qualitative research method for this study to allow for the exploration of the phenomenon in a real-world business setting. I chose the pecking order theory as the conceptual framework for the study to explore why small business owners choose crowd financing over other sources of financing. I chose interviews, observations, and documents as data.

Research Design

The main designs for qualitative research methods are narrative, case study, phenomenology, and ethnography (Houghton et al., 2013; Petty et al., 2012). Ethnography is the study of behavior, beliefs, and language of a cultural group over time (Petty et al., 2012). I did not study a culture or community over a designated period; therefore, I did not choose an ethnographic design. Narrative research is the study of life experiences of an individual or a few people (Petty et al., 2012). The study of life experiences of small business owners did not add value to understanding the use of crowd financing as a finance source. Thus, a narrative design was not appropriate for this study.

A phenomenological study seeks to understand the experiences of humans and the meanings they attach to the experiences (Tuohy et al., 2013). Case study research allows researchers to observe, explore, or explain the phenomenon in a real world setting to understand why the phenomenon occurred (Verner & Abdullah, 2012). I selected an exploratory multiple case study design for this qualitative research study. Although I was interested in the lived experiences of small business owners, a phenomenological study was not appropriate because I used project data and other data sources.

Case study research is a methodical way to use multiple sources of data: examine events, collect data, analyze information, and report results in a single case or multiple cases (Verner & Abdullah, 2012). Researchers use case studies to investigate a phenomenon in a real world situation (Yin, 2014). Researchers use case studies to provide an in-depth investigation of the past or current phenomenon (Zivkovic, 2012). A case study design requires multiple data sources to understand the complexity of the phenomenon from different angles (Reiter et al., 2011). Researchers can investigate a phenomenon in a single case study, but an investigation of the same phenomenon in multiple case studies will strengthen external validity and reduce researcher bias (Zivkovic, 2012). Interviewing is common in qualitative studies (Reiter et al., 2011).

The three types of case study research are descriptive, explanatory, exploratory, and evaluatory (Verner & Abdulla, 2012). Descriptive describes the phenomenon in its context while explanatory explains why the condition occurred (Yin, 2014). An exploratory case study is used to understand how the phenomenon takes place, specifically, how organizational dynamics or social processes work (De Massis & Kotlar, 2014). The purpose of an exploratory case study is to identify research questions that future researchers can use in a subsequent study (Yin, 2014). The use of multiple case studies allows for comparisons in more than one setting, which strengthens explanation of the phenomenon (De Massis & Kotlar, 2014). I used a multiunit exploratory case study design to explore why small business owners use crowdfunding over other finance sources through interviews and project data.

In qualitative research, data saturation is an important point of concern. Data saturation is the point that the information becomes redundant and no new information emerges (Marshall, Cardon, Poddar, & Fontenot, 2013). Too few participants may lack depth, and too many participants may prove unnecessary with volumes of data (Cleary et al., 2014). Relatively small samples sizes are sufficient to gather rich detail about lived experiences (Grossoehme, 2014). Limiting the sample size based on local geography will ensure that data saturation is also limited to the local geography (Robinson, 2014). I was able to reach data saturation with six cases based in Tennessee.

Population and Sampling

The population is the participants who have experienced the phenomenon (Malterud et al., 2016). The chosen participant should fulfill the purpose of the research question and generate rich, dense, and focused information (Cleary et al., 2014). In case studies, the chosen cases should predict similar results, should contrast results but for predictable reasons, or eliminate alternative explanations (De Massis & Kotlar, 2014). The population selected for this qualitative study included small businesses operating in Tennessee that have used an internet platform to raise capital, specifically participating in crowd sourcing. The population was appropriate for this study because the small business owners successfully raised capital through crowd sourcing and provided insight into the decision-making process to use crowdfunding instead of other financing sources.

The sample is the selection of a business case chosen by the researcher to extract data (Robinson, 2014). Sampling in qualitative research focuses on the richness of information of the lived experiences of the participants, rather than the number of participants (Grossoehme, 2014). The focus of sample size in qualitative research should focus on the quality of the participants over the quantity (O'Halloran, Littlewood, Tod, & Nesti, 2016). Sample size influences the generalizability of research findings (Robinson, 2014). The number of participants for this multiple case study was six, one person from each small business with knowledge of the financing decisions. The sample size was appropriate for this study as the findings were transferrable only to small businesses in Tennessee.

Samples can include inclusion and exclusion criteria. Inclusion criteria are characteristics that participants possess to qualify for the study while exclusion criteria are characteristics that disqualify participants from the study (Robinson, 2014). In this study, inclusion criteria were small businesses operating in Tennessee that had successfully used crowd financing to raise capital, and the project's purpose was to launch, grow, or sustain the small business. The exclusion criteria in this study were small business owners who have financed with traditional bank financing, simply collected donations, used peer-to-peer lending, or funded one-time art projects, such as theater shows or music records.

Good sampling procedures increase external validity (Cleary et al., 2014). The sampling method was convenience sampling and snowballing. Convenience sampling is the process of finding cases that meet the criteria and select those based on the order in which the cases respond (Robinson, 2014). To ensure six cases, I reached out to small business owners with successful projects listed on Kickstarter, advertised on LinkedIn, and emailed small business and entrepreneurship centers. Once I verified the six participants, I interviewed them in a location that was convenient and comfortable to them, suggested a location to allow confidentiality, and facilitated an open conversation on the phenomenon.

Data saturation is the point when the researcher stops gathering information due to redundancy, the full exploration of the research question, and no new themes emerge

(Cleary et al., 2014). Limiting the sample size based on local geography will ensure that data saturation is also limited to the local geography (Robinson, 2014). The study had six cases based in Tennessee. All six participants conducted member checking, ensuring data saturation.

Data triangulation uses multiple external methods to collect and analyze data to ensure data saturation (Fusch & Ness, 2015). Member checking requires the participant to verify the researcher's interpretation of the data given in the interview process (Harvey, 2015). Data saturation is the point when the information in the study becomes redundant and no new information emerges (Marshall et al., 2013). Since the researcher in qualitative research is present in the data collection process and cannot separate himself from the research, the researcher will know when the collected data reaches saturation (Fusch & Ness, 2015). Six cases were sufficient for this study to reach data saturation. I triangulated the data through interviews, project data, and observations. In addition, all participants in the cases reviewed the interview summaries for clarification.

Ethical Research

Ethics are an important part of conducting research with human subjects. Ethics are practices that define acceptable and unacceptable behavior (Mikesell, Bromley, & Khodyakov, 2013). In research, the Belmont Report describes ethical principles for conducting research to protect participants (U.S. Department of Health & Human Services, 2015). One part of ethical research is to gain informed consent from participants as it protects participant rights and safety (Hardicre, 2014).

Participants had knowledge of the informed consent process prior to participating. Researchers must fully disclose the risks and benefits of participating in the study and participants must give explicit consent to participating in writing (Hardicre, 2014). The consent form describes the research project, time commitment, study criteria, and lists any potential risks. Once I received approval from Walden University and the IRB to conduct the study, I made initial contact with potential participants through email and described the project. When the potential participant agreed, I emailed the consent form to the participant, filed the signed consent form, and answered any further questions.

I received certification from the National Institute of Health Office of Extramural Research to engage in research involving human subjects (see Appendix C). Participants had the option to withdraw from the study at any time without any consequence. No vulnerable population or children participated in the study. Participants received a $25 gift card as a monetary incentive for participating after the member checking review was completed. The Walden IRB approval number is 10-27-16-0449635.

Ethical protection includes confidentiality and securing data. I took steps necessary to ensure that the ethical protection of participants was adequate by assigning a code, such as P1, P2, and P3, for participants, and SB1, SB2, and SB3, for small businesses, to ensure confidentiality that the individual name or company name was not identifiable. I will keep the papers in a locked filing cabinet and all information secure on a password-protected jump drive in my home for a period of not less than 5 years. After that time, I will destroy all information linking participants to the study by erasing electronic data and shredding all hard copy information.

Data Collection Instruments

The researcher as the primary data collection instrument cannot eliminate all personal bias from the research due to the researchers' personal lens (Fusch & Ness, 2015). As the researcher, I was the primary data collection instrument using semistructured interviews, observations, and project data from the internet platform website. Interviews allow researchers to understand the phenomenon from the point of view of the person who experienced it (Paradis et. al, 2016). Researchers using semistructured interviews have the latitude to delve into relevant topics that arise during the interview (Grossoehme, 2014). Using the same interview questions and following the same interview protocol for multiple participants is one way to reach data saturation (Fusch & Ness, 2015). I used the same interview questions and interview protocol for each participant (see Appendices A and B).

Member checking and data triangulation are two processes used in qualitative research to improve validity and reliability. Member checking and triangulation lead to robust results in case studies by reducing researcher bias and providing varying perspectives (Petty et al., 2012; Zivkovic, 2012). Member checking is the process of allowing the participant to review the researcher's interpretation of the interview data and allow any changes (Grossoehme, 2014; Harvey, 2015). The participants had the opportunity to make any changes to verify and enhance the accuracy of the data (Birt, Scott, Cavers, Campbell, & Walter, 2016). Therefore, I updated the summaries until the summaries accurately reflected the participants' point of view about the phenomenon.

Data triangulation is the process of identifying similar data in different contexts (Zivkovic, 2012). Researchers can explore the phenomenon and improve the validity of the case study through data triangulation (Fusch & Ness, 2015; Verner & Abdullah, 2012). Methodological triangulation is the process of using more than one method to study a phenomenon, which may include multiple data sources such as interviews, observations, and documents (Bekhet & Zauszniewski, 2012). I achieved data triangulation in the study by examining multiple data sources, such as interviews, observations, and project data from internet platforms.

Data Collection Technique

A detailed explanation of the data collection process provides a stronger case study (De Massis & Kotlar, 2014). The data collection technique can influence the participants' behavior, subsequently affecting research data, results, and conclusions (Wright & Ogbuehi, 2014). Case studies require multiple sources of data (Verner & Abdullah, 2012). As the researcher for the qualitative study, I served as the primary data collection instrument. The data collection techniques included face-to-face semistructured interviews, observations, and project data from the internet platform.

The collection of raw data, including recorded interviews and field notes, is necessary prior to analysis (Miles, Huberman, & Saldana, 2013). Prior to conducting the interview, I gathered the public information on the completed project from the internet platform. I had this information available during the interview as a reference. I reviewed the project information on the internet platform after the interview based on any additional insight provided by the participant.

Interviews allow researchers to understand the phenomenon from the point of view of the person who experienced it (Paradis et. al, 2016). Open-ended questions in semistructured interviews allow participants to tell experiences of the phenomenon in their words with minimal influence by the researcher (Bourke, 2014). Prior to the interviews, I forwarded the interview questions to the participants. This allowed the participants time to think about the phenomenon and provide a thicker, contextualized description of the events (Freeman, 2014). I interviewed the participants face-to-face in a location that was comfortable and convenient to them, letting them suggest a location to allow confidentiality and facilitate an open conversation on the phenomenon.

The interviews lasted between 15 to 40 minutes. I recorded the interviews on my laptop and wrote any observations about the participant and setting. I asked the interview questions listed in Appendix B and followed the interview protocol in Appendix A. In addition, I noted the date, time, location, and other pertinent information related to the participants' behavior and willingness to cooperate. The participants' information will remain secure on a password-protected jump drive and any papers filed in a locked filing cabinet in my home for a period of not less than 5 years. After that time, I will destroy all information linking participants to the study.

The different data collection techniques have advantages and disadvantages. The main advantages of face-to-face semistructured interviews are the opportunity to deviate from the interview questions, delve further into a topic, and reading body language for additional cues. The potential disadvantages of face-to-face semistructured interviews are the incomplete or lack of truthful participant information due to outside reasons such as positive self-reflection and lack of trust. The advantage of retrieving project information from the internet platform is the accuracy of the data, and the disadvantage is the type of data collected will not portray the phenomenon. The advantage of using project data from the internet platforms provide hard data on performance, without personal bias, while the disadvantage is that the data may not provide sufficient insight into why the small business owner used crowdfunding as a financial resource.

Member checking is a process that allows the participant to review the interview data to ensure the data is complete and full (Harvey, 2015). The participant can make any changes or additions to reflect fully their experience (Grossoehme, 2014). I used member checking by summarizing the main points of the interview and emailed to the participant following the interview. Each participant reviewed the summary and suggested any edits, clarifications, or additions to my interpretation of the data. This process mitigated any personal bias and improved the reliability of the data.

Data Organization Technique

Data organization is necessary to make data useful and valuable to answer the research question as it relates to the context of the phenomenon (Richards, 2015). Maintaining and keeping accurate records of processes and methods during the various research stages increase reader comprehension, transparency, and academic rigor (Cleary et al., 2014). With standardized and documented processes, the researcher can more systematically extract relevant data during the analysis stage resulting in higher quality findings (Elo et al., 2014).

For my case study, I used several data organization techniques. A case study database is one method to organize the multiple sources of data (De Massis & Kotlar, 2014). First, I catalogued all project data in a database to assist in collecting the same type of data from all six small businesses. Second, prior to the interview, I reviewed and printed project information from the internet platform. After reviewing the data, I reflected on the information in relation to the research question.

Third, I recorded the interviews on my laptop using Audacity software. I tested the software prior to use to ensure the audio was loud and clear. Following the interviews, I summarized the main points for the participants to review. Field notes taken during the interview consisted of information about the participant, notes on body language, date, time, and location of the interview. I then used NVivo software to analyze the interview summaries to help me determine themes, followed by coding answers according to interview answers and each participant.

A research log can include personal reflections on the researchers' role on the project and ideas that relate to the phenomenon, settings, and confidence in the data (Richards, 2015). The personal research diary can improve research rigor (Vaismoradi, Turunen, & Bondas, 2015). The researcher can write notes on observation of the phenomenon, which can enhance the understanding of the phenomenon (Petty et al., 2012). I used a research log to reflect upon my research, including any ideas for further research. I incorporated this information into the case study analysis.

The collection and storage of all data complied with IRB requirements. I will keep information secure on a password-protected jump drive and any papers in a locked filing cabinet in my home for a period of not less than 5 years. After that time, I will destroy all information linking participants to the study by erasing electronic data and shredding all hard copy information.

Data Analysis

Once data is gathered, researchers must analyze data appropriately. Data analysis for case studies consists of one of four types of triangulation: data, investor, theory, and methodological triangulation (Heale & Forbes, 2013). Methodological triangulation is the process of using more than method to study a phenomenon, which may include multiple data sources such as interviews, observations, and documents (Bekhet & Zauszniewski, 2012). The data must be trustworthy to ensure accurate results (Bansal & Corley, 2012). To increase the trustworthiness of the analysis, I used interviews, observations, and project data to triangulate the data, whether or not a primary source.

Researchers can use thematic analysis as the main process for data analysis. Thematic analysis is the process of reviewing the data as a whole, then coding and labeling sentences, phrases, or paragraphs to distinguish variations, similarities, patterns, and relationships (Petty et al., 2012). The systematic coding and categorization of the data allow for identifying trends and patterns in the context of the data (Vaismoradi et al., 2015). The researcher can begin identifying emergent themes and concepts during the data gathering stage and initial analysis stages by creating a list of first order concepts relevant to the main research question, subsequently group them into second order themes, and finally, group those into larger dimensions (Gioia et al., 2012). Coding should include word frequency and the frequency of key words in relation to context to provide a consistent and more accurate use (Bell, 2014).

Researchers can state the data analysis in qualitative research as patterns or codes to connect the raw data to the phenomenon (Bansal & Corley, 2012).). I began data analysis by using the NVivo software to identify word frequencies and themes. I removed any irrelevant data that did not meet the search criteria. I correlated the key themes with those identified in the literature review and any new themes that appeared. The data analysis and coding of themes occurred within each case and across cases. After data analysis within each case, I also analyzed the results across the six cases to identify patterns (Yin, 2014).

I used a case study database by research questions and each small business to record data and notes. I used a case study database to organize, code, and analyze the raw data in my study. The data from the six semistructured interviews served as the main data source to identify and group themes according to the research question. The secondary data supplemented and provided support for the major themes. Data analysis methods included computer software and traditional paper and pencil.

Dependability and Validity

Dependability

Reliability in quantitative research is equivalent to dependability in qualitative research (Munn, Porritt, Lockwood, Aromataris, & Pearson, 2014). Reliability is the extent that the research study will produce the same results under the same conditions (Bell, 2014). Dependability determines whether other researchers can replicate the study in the future, under different conditions, and result in the same conclusions (Elo et al., 2014; Petty et al., 2012). Dependability of the results increases with clear, written processes that are logical (Munn et al., 2014; Vaismoradi et al., 2015). I documented and followed the written descriptions of the procedures, used member checking, and used documents to support the interviews to ensure dependability.

Validity

Validity determines whether the findings accurately reflect the data or concept (Bell, 2014; Noble & Smith, 2015). Dependability, credibility, transferability, and confirmability are four concepts to increase reliability and validity in qualitative research (Vaismoradi et al., 2015). Credibility refers to whether the results are trustworthy, believable, and valuable (Houghton et al., 2013; Petty et al., 2012). Methods to determine credibility include triangulation, member checking, participant transcript review, and testing the findings for contradictions and competing explanations (Petty et al., 2012). The use of multiple data sources in case studies enhances credibility (De Massis & Kotlar, 2014). By using structure and defined processes within the research and analysis, the results will be relevant to similar settings (Zivkovic, 2012). Accurate record keeping and consistent data interpretations can increase transparency and increase credibility (Noble & Smith, 2015). I used data triangulation and member checking to increase the credibility of the findings.

Transferability is the extent that the results are transferrable to a larger audience or other groups (Elo et al., 2014; Gioia et al., 2012). Using defined methods to acquire and analyze data can enhance transferability and credibility (Petty et al., 2012). Rich descriptions of participants' experiences also enhance transferability and credibility (Noble & Smith, 2015). Gioia et al. (2012) state that results from case studies are transferrable if the concepts are relevant from one setting to another, even though case studies may be limited to a specific context and not applicable to other audiences. In contrast, Yin (2014) states that case study results are transferrable only to the studied population. The results of the study are transferrable to future research, as case study research method for small businesses, other small businesses located in different geographic areas, or the type of small business using crowdfunding. The results of the study can potentially serve as a basis for qualitative research too.

Confirmability is the extent that the results reflect the purpose of the research with very little or no researcher bias (Petty et al., 2012). The results reflect the participants' intent (Elo et al., 2014). A well-organized case study database increases reliability as future researchers can easily replicate the research across time, researcher, and analysis (De Massis & Kotlar, 2014). A data check increases the credibility of the analysis (Elo et al., 2014). Data triangulation increases the credibility and validity of the study (Zivkovic, 2012). Therefore, I used multiple data sources, multiple cases, data triangulation, and member checking to increase credibility and validity.

Reaching data saturation in a qualitative study can increase the reliability and validity of the study (Elo et al., 2014). The use of multiple case studies experiencing the same phenomenon is more robust due to varied evidence (De Massis & Kotlar, 2014). A study reaches the point of data saturation once information becomes redundant and no new information emerges (Marshall et al., 2013). One way to ensure data saturation is to limit the sample size to a local geography (Robinson, 2014). For this multiple case study, data saturation occurred since the six cases were located in Tennessee.

A second way to ensure data saturation is to use data triangulation since it uses multiple external methods to collect and analyze data (Fusch & Ness, 2015). In addition, member checking and triangulation can lead to robust results in case studies by reducing researcher bias and providing varying perspectives (Petty et al., 2012; Zivkovic, 2012). Researchers can use member checking to summarize the interview responses and allow the participant to review the summary and offer additional changes (Harvey, 2015). To improve validity and reliability, I used six case studies, triangulation of various documents, and member checking.

Transition and Summary

In Section 2, I stated the purpose of the research study: to explore how small business owners, who have difficulty in securing financing through traditional options, use crowdfunding as an emerging source of financing. Other key points in Section 2 were the role of the researcher, participants, research method, and research design. Next, I described the population and sampling, ethical research, data collection, data organization, and data analysis. Section 2 concluded with a discussion on reliability and validity.

Section 3 begins with an introduction, followed by the presentation of findings. Section 3 further includes the application to professional practice, implications for social change, and recommendations for action and further study. Finally, this section finishes with the researcher’s reflections and conclusion.

Section 3: Application to Professional Practice and Implications for Change

In this section, I present findings identifying how small business owners use crowdfunding as sources of financing. Section 3 includes the presentation of findings, applications of study's findings to professional practice, implications for social change, recommendations for action, and recommendations for further study. Finally, this section finishes with the reflections on the research process and the study's conclusions.

Introduction

The purpose of this qualitative exploratory multiple case study design was to explore how small business owners, who have difficulty in securing financing through traditional financing sources, gain knowledge on how to use crowdfunding as sources of financing for small business growth. I conducted semistructured, face-to-face interviews with six small business owners in Tennessee. I applied member checking to strengthen the credibility of the case study. I collected data from the internet platform about each project and data from my field notes. The funded projects ranged from $1,341 to over $1.3M. From the interviews, participants identified strategies that small business owners can apply to use crowdfunding successfully as financing options for business growth.

After analyzing the data, the following themes emerged: (a) social media, (b) the project, (c) time constraints, and (d) gap financing. Social media included the network of family and friends on social media. The project entailed the knowledge and use of the internet platform for the project. Time commitment refers to the time needed to plan, execute, and fulfill the rewards of the projects. The third theme consisted of marketing, specifically concept validation, price point, publicity, and customer feedback. The fourth theme of gap financing revealed that crowdfunding served as partial funding for overall costs and filled a gap financing need. These themes align with the conceptual framework, the pecking order theory.

Presentation of the Findings

In this study, I addressed the following research question: How do small business owners use crowdfunding as sources of financing for small business growth in the state of Tennessee? A brief description of the small businesses and crowdfunding project data served as contextual data for the analysis. The data collection process consisted of participant interviews, field notes, and data from the internet platform. I developed four themes that emerged from the participants: (a) social media, (b) the project, (c) time commitment, and (d) gap financing.

Small Business Participants

The participants in this study were small businesses owners comprised of (a) embroidery and design (SB1), (b) mobile food service (SB2), (c) smartphone application that connects home chefs with buyers (SB3), (d) adult pajama apparel company (SB4), (e) musical instrument company (SB5), and (f) a men’s shaving product (SB6). Each business was located in Tennessee and used Kickstarter as the crowdfunding platform. However, each business used crowdfunding for different business strategies.

Based on interview findings, the small business owners had different purposes for the funds and the crowdfunding campaigns. SB1 used the funds to expand the business and offered a new product to the core audience, establishing expert status. SB2 used crowdfunding to grow and expand the business by purchasing a food trailer. SB3 used crowdfunding as a marketing source for a new smartphone application. SB4 used crowdfunding to purchase materials to launch a complementary business line. The strategy for SB5 and SB6 was to test the product with potential consumers through an initial manufacturing run. The choices of the small business owners aligned with the pecking order theory as they chose the best financing option, beginning with low-risk internal financing (Lopez-Gracia & Sogorb-Mira, 2008; Serrasquiero et al., 2011).

For each interview, I followed the interview protocol (Appendix A) and interview questions (Appendix B). Each participant answered all 10 open-ended interview questions. Following the interview, I conducted member checking with each participant to ensure accurate descriptions of the interview answers and data saturation.

Crowdfunding Project Data

Each small business owner conducted a different crowdfunding campaign based on individual needs of the business. SB1 created and paid for a beginner's embroidery workbook. SB2 purchased a food trailer, equipment, and other related costs. SB3 used the money for marketing costs for a new smartphone application that connects home chefs with buyers. SB4 purchased fabric for pajamas, launching a new business. SB5 used the capital to manufacture a musical instrument. Finally, SB6 used the capital to manufacture a men's shaving product. Each small business used Kickstarter as the internet platform.

Crowdfunding has five project categories based on consumers' and investors' outcome and benefit: rewards-based, product presales, donation, peer-to-peer lending, and equity (Belleflamme et al., 2014; Mollick, 2014). This study did not include data from donation, peer-to-peer lending, or equity-based crowdfunding categories. Rewards-based crowdfunding is one of the most popular forms of crowdfunding due to the intrinsic value of participating in crowdfunding, social reputation, and shared identity (Cholakova & Clarysse, 2015). Three of the businesses (SB2, SB3, and SB4) used rewards-based crowdfunding while SB1, SB5, and SB6 conducted product presales projects.

The project goal amount varied. The lowest goal amount was $500 while the highest amount was $75,000 (Table 1). SB1 had the lowest amount funded at $1,321 while SB5 was the highest funded project at over $1.3 million (Table 1). SB5 reached the highest percentage of funding over the initial goal with 1,660% (Table 1). SB1, SB2, SB5, and SB6 mentioned that setting a low goal amount was important to receiving funding, regardless of the true costs of the business needs. For example, SB2 projected the cost of the food truck as $50,000 but set the target goal at $20,000 so that the business would receive some money, even if it would not cover the true cost. SB6 mentioned it was important in the business community to have a successful campaign at a low dollar amount rather than an unsuccessful campaign at a higher amount. Kuppuswamy and Bayus (2017) found that 45% of the successful Kickstarter projects were within 10% of their original goal. The research by Bayus holds true for SB2 and SB3.

Table 1

Crowdfunding Project Data

Description	SB1	SB2	SB3	SB4	SB5	SB6
Project description	Embroidery book	Mobile food service	Chef application	Pajama apparel	Musical instrument	Shaving product
Goal amount	$500	$20,000	$10,000	$4,000	$75,000	$24,000
Amount reached	$1,321	$20,091	$10,633	$6,761	$1.3M	$60,004
% over goal	164%	4%	6%	69%	1,660%	150%
Project type	Presales	Reward	Reward	Reward	Presales	Presales
Total backers	24	115	81	53	3,391	1,245
% of new to total backers	54%	64%	62%	66%	29%	20%
Rewards levels	7	10	11	11	9	11
Most popular reward level	$30	$29	$20	$50	$399	$29

Emergent Theme 1: Social Media and Viral Marketing

The first emergent theme is social media. The theme for social media has two sections: social media network and viral marketing. The small business owner needs a strong social media presence for success on the internet platform.

Social media network. The social media network is the network of family, friends, business acquaintances, or other people connected to the project creator or small business owner. This network can consist of a large number of friends or a small number of loyal customers and friends. Most funders are one-time backers from the entrepreneur’s social circle (Kuppuswamy & Bayus, 2014). The social media network should consist of a strong list of potential funders.

The total number of backers ranged from 24 to 3,391 (Table 1). For this study, the number of backers ranked the same as the total amount funded. This confirms the research by Hui et al. (2014) that a large fan base correlated with higher funding success. Similarly, Zheng et al. (2014) found that an entrepreneur’s social network related to the performance of the project.

SB2, SB4, and SB6 stated that the social network was the main reason for success. SB2, SB5, and SB6 discussed the importance of social media blasts leading up to and during the campaign. SB1, SB4, and SB5 built their client list over the years. SB3 relied heavily on friends and family to fund the project and stated that he would not have reached the goal without their contributions.

Each participant used the social network to drive funders to their campaigns. P1 had one acquaintance in the social network who contributed a large amount but did not redeem the reward, helping to reach the goal. P1 used a loyal business network of over 5,000 Facebook group members plus her network of family and friends to reach the goal. SB2 pursued as many contacts as possible. SB2 stated that one acquaintance donated $10,000 when SB2 reached $10,000. Family, friends, and social networks were important in helping the small businesses reach funding early in the campaign. SB4 relied on business contacts that he acquired during his career, business school contacts, and former customers. SB5 accumulated contacts and customers for over 2 years at expos and conferences during the research and development stages. P5 stated the importance of social media networks as their funders related to the product and shared with friends well beyond the creators’ own personal and business network. SB6 began the business a few months before the launch of the campaign. The business partners created a tiered email list of contacts based on the probability of contributing to the campaign, allowing them to forecast funds and fulfillment costs.

The number of first time backers was relevant to note for all projects. The percentage of new backers to total backers was at least 20% of all small businesses, suggesting that each business brought new funders to the internet platform that specifically supported them (Table 1). The percentage of first-time total backers on Kickstarter for SB1, SB2, SB3, and SB4 were over 54% (Table 1). This confirms the interview findings that each small business' social network was important to success. For the projects categorized as presales (SB1, SB5, and SB6), their percentage of new backers to total backers ranged from 20% to 50%, suggesting that it is easier to sell products to the general Kickstarter community.

For the projects categorized as rewards (SB2, SB3, and SB4), their percentage of new backers to total backers were over 62%, suggesting that the social network they brought to the Kickstarter platform played a significant role in their success as personal relationships were key when physical products were not the core of the company. The small business owners could not solely rely on Kickstarter's marketing or loyal customers to fund the projects. Interview data and platform data confirm that a small business owner's social media network was necessary to meet the financial goals.

Viral marketing. One unique aspect of social media is the ability to share information with others' individual social networks. Social influence, including spreading information about the project, is important in Kickstarter projects (Kuppuswamy &

Bayus, 2017). One unique characteristic of social media is the unpredictable projects spreading virally.

Kickstarter featured two projects as top staff picks, which may be important factors in the two companies exceeding goals. The spotlight by Kickstarter was important to SB5 and SB6 performing well above their goals. SB5 believed that the company and product video and story connected with funders, which led them to share with their social networks. Kickstarter featured SB5's project on their front web page during Pebble's launch of a new product. As of 2012, Pebble was the most successful campaign on Kickstarter, raising over $8.3M (Gobble, 2012). P5 believed this additional website traffic while featured on the Kickstarter home page contributed to a large number of funders outside their social network.

P5 and P6 stated that they noticed the start of outside funders when Kickstarter endorsed their product. The Kickstarter endorsements and virality of social media may explain why the new backers to total backers were 29% for SB5 and 20% for SB6. Li and Martin (2016) determined that Kickstarter entrepreneurs with high skill level and received media attention solicited 60% more money than those without. Small business owners used the publicity from crowdfunding to generate loyal and engaged customers (Paschen, 2016).

Emergent Theme 2: The Project

The second emergent theme is the project on the internet platform. Project creators must create project descriptions, videos, and rewards to entice funders to contribute to their campaign. The small business owner must have the knowledge on how to use the internet platform to create a project, including videos, written descriptions, and valuable rewards.

The project. Zhou, Lu, Fan, Weiguo, and Wang (2016) examined Kickstarter projects and determined that the content of the project descriptions corresponded to funding success. Examination of the Kickstarter project descriptions for each business revealed that the project description was rich and full and did not contain grammatical or spelling errors. SB1, SB3, SB4, SB5, and SB6 created new products, which required extensive descriptions. Overall, the project descriptions included information about the campaign.

Mollick (2014) found that a video in addition to a project description has a higher success rate than the project without videos. The study findings confirm these results. SB2, SB3, SB5, and SB6 created high-quality videos, while SB1 used a Smartphone to create a video. SB4 did not use a video but included high-quality graphics and project description. SB2 created numerous videos during the campaign to solicit further donors and serve as a countdown to the goal amount. While social media knowledge is required, P2, P4, P5, and P6 used internal resources to create videos while avoiding or minimizing production costs. P1 and P2 said that the personalized videos help to connect with contacts and create loyalty. P5 stressed the importance of telling the product story through a video that appealed to the masses but personalized the product. Quality project descriptions and videos were important factors to success.

Rewards. Although having a large or loyal social network is important, potential funders responded to value and enticements in the rewards levels. Project creators should use a strategic approach to select the right rewards, using strategies as product presales, offering products with a claim of exclusivity, and offering experiences such as workshops or meet-and-greet events (Thurridl & Kamleiter, 2016).

All case participants had a small group of family and friends who contributed to the project, some without ever fulfilling the actual reward level. However, the reward levels were important aspects of meeting and exceeding project goals. The consumer should perceive value at the different levels. P1 mentioned that the value of the reward was worth more than the financial contribution. P4 mentioned that he offered products that were more valuable on the market than the financial contribution.

The reward levels varied from a minimum of seven levels (SB1) to a high of 11 levels (SB3, SB4, and SB6). An observation of the number of reward levels suggests that funders like a range of reward levels from which to choose. For SB1, SB2, SB3, SB4, and SB6, the most number of backers were in rewards levels that ranged from $29 to $50. The price point for the product for SB5 was $399, corresponding to the highest number of backers at this reward level. All but SB4 started their reward levels at either $1 or $5, which corresponds to a product with little value or digital thank you. Based on the interviews, friends and family typically pledged the high-level rewards according to SB1, SB2, SB3, and SB6.

Examination of the presale category reveals that the most number of backers in the reward level corresponds to the minimum amount to buy the actual product. Since P3 was not preselling a product, P3 had to come up with creative, yet relevant rewards. P2 offered food, hats, t-shirts, stickers, and a private concert in their rewards. P4 offered paintings from his main business. Since crowdfunding is a sales pitch, funders contributed based on emotion, receiving token rewards, and personal satisfaction for supporting the project (Meric et al., 2015). The reward levels were an important characteristic for success.

Emergent Theme 3: Time Commitment

The third theme is the time commitment to the campaign. Small businesses may lack organization, staffing, time, and resources to administrate crowdfunding securities and prizes, promote the business idea, and communicate with funders (Manchanda & Muralidharan, 2014; Stemler, 2013; Valanciene & Jegeleviciute, 2013a). In addition, small business owners need to fulfill the rewards while running the daily operations of the business. Time commitment is necessary during the planning, execution, and fulfillment phases of the project.

Planning. Conducting crowdfunding campaigns takes effort to create a project and provide backers with updates (Brown, Boon, & Pitt, 2016) and this is confirmed by the research findings P1, P2, P3, P5, P6 confirmed that the time commitment to prepare, plan, execute and fulfill the campaign was much greater than anticipated. Prior to the launch of the campaign, P2, P3, and P5 started preplanning for the Kickstarter campaign. P3 recommended planning at least four months in advance. P5 started planning about six months in advance. P6 created a plan but only began the business a few months before product launch. P3, P5, and P6 pursued free publicity before the launch date, resulting in articles written about the campaign. The publications printed articles on launch date to garner more excitement and funders. P5 stated that the initial two articles did not generate significant interest, but they generated additional articles, which contributed to the viral campaign. P2 received local media attention but did not result in any funders.

Execution. Once the campaigns started, and even following the completion, the amount of time devoted to funder communications and fulfilling rewards was high. Antonenko et al. (2014) found that all successful project owners posted regular status updates, reports, product shipping dates, milestones, and deadlines. The customer relationship is important for new businesses. Small business owners used crowdfunding to build relationships and generate returning customer (Gerber & Hui, 2013). P5 hired an employee to respond to funder emails and post campaign updates. SB4 used the money for manufacturing costs of the fabric but did not offer the finished product as a reward. Instead, P5 used other rewards and then used the Kickstarter customer list to sell the apparel. P2 regularly created videos as the project progressed in hopes of increasing funding. The study findings confirm the research by Kuppuswamy and Bayus (2017) that funders who communicate about the target goal and progress during the campaign will increase contributions (Kuppuswamy & Bayus, 2017).

Song and van Boeschoten (2015) found that project creators spent two days a week up to three months solely managing the campaign. Based on the interviews, all participants mentioned the time to plan, conduct, and fulfill the rewards took a significant amount of time. All but P1 alluded that they spent more than two days a week solely on the campaign for one to three months. In fact, P1, P2, P3, P4, P5, and P6 stated that the time to conduct the crowdfunding campaign took away from conducting other business. P1 used the additional capital raised over the goal as payment for the time spent away from the business. P5 spent the 40 days focused solely on the campaign, while still having to pay for business overhead costs of salaries, rent, and other expenses. P5 hired additional personnel to handle customer communications. The interview findings further the knowledge stated by Stanko (2016) that creators found the crowdfunding process time-consuming, strenuous, publicity and customer require significant time and effort.

Fulfillment. The manufacturing and shipping of products can create logistical headaches for project creators (Stanko, 2016). Fulfilling rewards and shipping product was time-consuming as well. P1, P2, P3, P4, P5, and P6 all confirmed this. The fulfillment time included requisitioning the t-shirts, hats, stickers, and other rewards, in addition to creating the actual products for the presales category. Shipping and handling these goods to each funder costs time and money. Fulfilling the rewards and interacting with customers took the bulk of the time. SB6 temporarily outsourced the fulfillment. P5 and P6 faced delayed product delivery times. The results were additional customer inquiries that required immediate attention and continued until past the fulfillment dates.

Emergent Theme 4: Gap in Financing

The fourth theme is gap in financing. Gap in financing is filling a gap for capital that the small business owner is unable to secure. Small business owners may face capital constraints with the possibility of alleviation by crowdfunding (Paschen, 2016). Small businesses can use Kickstarter to fund efforts without incurring debt or dilute equity (Voelker & McGlashan, 2013). The gap in financing theme directly ties with the conceptual framework, the pecking order theory.

The pecking order theory of capital structure is an examination of firms' preferred order of financing options, where firms choose internal financing over external financing (Lopez-Gracia & Sogorb-Mira, 2008; Myers & Majluf, 1984; Serrasquiero, Armada, & Nunes, 2011). The small business owners experienced both costs and risks associated with crowdfunding as financing options. Gerber and Hui (2013) determined some of the motivations for small businesses were to solicit easily, collect funds through safe technologies, and receive them quicker than traditional sources.

Gap financing. In all cases, the small business owners used crowdfunding to fill a financing gap in their business. P1 stated that the book was an ancillary project to the business. If there were not a demand for the product, then P1 simply would not have created the book. P1 said her family and friends did not have the funds to pay for printing costs. P2 used savings to fund the business initially but would not have chosen another business model if it did not receive funding. In addition, the crowdfunding goal only covered half the costs of a food truck. SB2 did not personally want to take on any debt for the venture. SB3 already put in personal funds and expertise to create the business. SB3 needed funds for a marketing campaign. Kickstarter served as both a marketing channel as well as a financing channel.

The interviews revealed surprising information about the crowdfunding experience regarding financing in relation to other options. SB4 chose to raise funds through crowdfunding but afterward, mentioned a personal or bank loan would have been preferred due to work in creating and fulfilling the rewards. SB5 already had two year's worth of research and development and funding by a VC. Crowd funding allowed them to gain a large chunk of money, without giving up any more ownership, and presale their product to cover initial manufacturing costs. SB6 also put in personal funds to start the business, but needed a large amount of money to cover initial manufacturing costs. SB5 and SB6 recognized crowdfunding as a higher margin retail channel in addition to a financing source.

Costs. Small business owners incur costs to conduct a crowdfunding campaign. Costs include transaction fees, project costs, shipping costs, fulfillment costs, opportunity costs, and additional talent. If the project is successful, Kickstarter charges a transaction fee of 5% of the total project funding (Tomczak & Brem, 2013). In addition to transaction costs, fulfillment costs can reduce the profits if not budgeted properly. The fulfillment costs proved higher than expected for SB1, SB2, SB4, and SB6. SB1stated that the internet platform was not clear on who would pay shipping costs. As a result, SB1 paid for shipping, thereby reducing profits. SB4 underestimated shipping costs and therefore reduced profits.

One challenge of offering rewards on crowdfunding is the inability to accurately predict the number of backers for each level and costs. SB2 had more backers than they initially projected in the lower levels and subsequently spent more money on t-shirts and paraphernalia than projected. SB3 and SB5 mentioned that lost opportunity costs in fulfilling the rewards instead of conducting business. Small business owners face additional costs from video creation, running the marketing aspect of the project (SB2, SB3, and SB5), temporary employees (SB5), outsourcing fulfillment (SB6), and product development (SB6). Small business owners face variable costs when using crowdfunding.

Due to the target goal and the amount of time allotted to the campaign and fulfillment, SB2, SB3, and SB4 stated that applying for a bank loan or asking friends for money may have proven a better use of time.

Risks. Small business owners using crowdfunding face a variety of risks. Risks include whether the new technology will work, final product delayed, product not meet expectations, whether customers will buy it, failing to reach the goal amount and any funds, bad reputation (Brown et al., 2016; Fleming & Sorenson, 2016). In addition, creators who fail in raising money through crowdfunding face a negative stigma in their social and professional network (Sangani, 2014).The results confirm this research. Considering SB2, SB3, SB4, and SB5, a majority of the participants agreed that not hitting the target goal and not receiving any funds were major risks for crowdfunding.

SB2 added that Kickstarter is an all or nothing platform. Even if the creator missed the goal and received no funds, the mental aspect of conducting another campaign may be unlikely. Risk exists with the product and concept validation. SB2 and SB5 said that crowdfunding could validate the product and business idea. On the contrary, the risk is that the market rejects the product or idea. SB3 and SB5 mentioned risks with delayed products, and subsequently dealing with unhappy customers. Other cases stated individual risks: having idea or logo stolen (SB4), negative reviews and comments can destroy the brand (SB3 and SB6), setting goal lower than actual costs (SB6), and finally, the product may not be scalable (SB6).

Finally, in relation to costs, risks, and money received, I asked participants whether they would consider crowdfunding again for future projects. Each participant gave a yes and no answer with conditions. The positive comments centered on crowdfunding as a way to get a large amount of money quickly (SB1, SB2, SB3, SB4, and SB5), receive high return on investment (SB6), a cheap way to connect with customers (SB5 and SB6), and generate product sales (SB5 and SB6). The negative comments varied, citing unable to ask social network to participate in crowdfunding again (SB2, SB3, and SB6), and may be easier to secure a bank loan with higher transaction costs but fewer fulfillment costs (SB2, SB3, and SB4). However, since new businesses and entrepreneurs face financing challenges through bank loans, the likelihood of receiving funding is unknown (Stemler, 2013; Valanciene & Jegeleviciute, 2013a).

Applications to Professional Practice

Small businesses are vital to job creation and the long-term growth of the economy (SBA, 2014a). Crowdfunding may be the only source of financing for individuals and small business owners to raise sufficient funds to start or grow a business (Brown et al., 2016). Despite the growing popularity of crowdfunding, the success rate of funding for projects is only 40% (Kuppuswamy & Bayus, 2017). Therefore, small business owners can increase their chances of financing their projects through crowdfunding by utilizing strategies for success.

The findings from the research study may fill the gap of knowledge of small business owners that lack strategies and insight on how to successfully conduct a crowdfunding campaign. Research by Mollick and Robb (2016) confirm that crowdfunding can lead to long-term businesses and job creation. Over 90% of successful projects remained ongoing for 1 to 4 years after the campaign ended, almost 1/3 of those reported annual revenues of over $100,000 a year since the campaign ended, and increased staff by 2.2 employees (Mollick & Kuppuswamy, 2014). If more small business owners increased their crowdfunding success rate, then the owner, family, and local economy reaps financial benefits.

The data from participant interviews and the project descriptions of six successful projects provides strategies that small business owners can implement to increase the likelihood of success for their crowdfunding projects. If a small business owner lacks social media network or social media network, then it is in the best interest to increase these networks before launching a project. A small business owner needs to create a well-written project description, valuable reward levels, and consider whether the time, costs, and risks of crowdfunding are preferable over other forms of financing.

The motivations for small business owners to use crowdfunding were to solicit easily and collect funds through safe technologies, receive funds quicker than traditional sources, potentially receive press attention, create long-term relationships with funder, easily communicate with customers, quickly build a consumer fan base, maintain control over the business, and learn new business skills (Gerber & Hui, 2013). A small business owner can reap the benefits of crowdfunding by implementing the strategies from successful creators. For some small business owners, crowdfunding may be the only source of financing available. The study findings have the potential to help small business owners launch new products, gain customers, and create long-term businesses.

Implications for Social Change

Small businesses are an important segment of the United States economy, consisting of 99.7% of firms, with half of them failing within the first 5 years (SBA, 2014a). Small businesses are unstable and have a high exit rate (Haltiwanger, Jarmin, & Miranda, 2013). Small business owners face challenges in receiving financing for growth (SBA, 2014b). With financing, small business owners can innovate new products, increase productivity, and strengthen the local economic development (Halabi & Lussier, 2014). If the small business owner remains operational, then the individual, family, business community, and others will support economic prosperity within the local community.

The knowledge gained from this study may add to positive social change by providing strategies on how small business owners can use crowdfunding as sources of financing. These strategies can create jobs within a community and provide innovative products that benefit society. These strategies may also encourage product innovation with limited profits that may benefit society. Women and minorities may be encouraged to start businesses with crowdfunding. Overall, the results may allow the small business owner to become profitable, sustain, or grow their business, which contributes to improving the conditions of families, communities, and local economies.

Recommendations for Action

The themes derived from the analysis of the case study interviews, internet platform data, and observations support the recommendations for small business owners considering crowdfunding as financing options. The small business owners should implement the strategies derived from the study results because they can benefit from learning the techniques to increase their chances of successfully crowdfunding a project. Successful small businesses can receive the capital they need through crowdfunding.

The first recommendation is for small business owners to increase their social media network and increase their media knowledge to create an engaging project description on the internet platform. They should also create numerous reward levels, with value within each one. The second recommendation is to devote a significant amount of time to the project during the planning, executing, and fulfillment stages. The third recommendation is to use crowdfunding as a marketing tool for the small business, to test the idea, determine demand, determine price point, garner publicity, and receive customer feedback. The fourth recommendation is to weigh the costs and risks of crowdfunding against potential benefits with other forms of financing.

I recommend that the Nashville Entrepreneur Center, Launch Tennessee, Belmont University Entrepreneurship Center, Nashville Chamber of Commerce, and the Middle Tennessee State University Entrepreneurship Center share the results with potential and current small business owners in need of financing and considering crowdfunding as a source. I will provide the participants with a summary of the results and offer to send the entire doctoral study if they are interested. The final recommendation is that any small business owners in the United States considering crowdfunding as financing options should implement the results and findings.

Recommendations for Further Research

Due to the lack of knowledge on small business owners' use of crowdfunding, there are many opportunities for further research. The first recommendation is to increase the sample size. The second recommendation is to choose a different segment of the population. The results may be different in other states. Results may differ between small businesses located near small cities versus large cities. A third recommendation is to investigate the successful strategies of a second project by the same business owner. A fourth recommendation is to research only successful campaigns above a certain monetary threshold, such as $50,000.

Since this study was a qualitative, exploratory case study, researchers should consider other methodologies and designs on crowdfunding success strategies by small business owners. A quantitative study approach may provide further strategies for small business owners to use crowdfunding successfully as a finance option. Another recommendation is for a quantitative study applying a survey may provide data if the results hold true for a larger sample. Further research can examine the long-term effects of crowdfunding to determine whether the small business owner is still operational after 5 years. As a new financing option for small businesses, plenty of research opportunities exist.

Reflections

My experience on the DBA Doctoral Study process was one of great learning opportunity. As the researcher, I mitigated personal bias through following an interview protocol and the same interview questions. I did not personally know any of the participants that I interviewed. I interviewed the participants at locations of their choosing, which put them at ease and facilitated more truth in the answers.

My preconception on finding willing participants was inaccurate. I did not know it would take me quite as long to find participants, possibly due to searching for participants during the busy season for small businesses. I found it inspiring that the participants were excited and passionate about their companies and their success so far.

Because of this process, I am personally trying to shop more at small businesses and encouraging others to do so through social media. Changes in my thinking after completing the study is to explore Kickstarter for interesting projects, participate as a funder, and support the innovation process. I will also search for projects within Tennessee to support. I may potentially in the future conduct a crowdfunding project of my own.

Summary and Study Conclusions

The purpose of this qualitative exploratory multiple case study design was to explore how small business owners, who have difficulty in securing financing through traditional financing sources, gain knowledge on how to use crowdfunding as sources of financing for small business growth. I collected data using semistructured interviews from six small business owners in Tennessee that successfully used crowdfunding as financing options for growth. Additional data consisted of project data from the internet platform and personal observations. After I coded and analyzed the data, the following four themes emerged: (a) social media, (b) the project, (c) time constraints, and (d) gap financing. The implications for social change from the findings of this doctoral study include strategies that successful small business owners in Tennessee can use to increase chances of fully funding a crowdfunding project. From that success, the small business owner can finance the business for growth, which improves the economic prosperity of the local economy.

I concluded from the findings that small business owners should increase their social media networks, create high-quality projects with videos, include numerous reward levels with value to the potential funder, and be prepared to commit a significant amount of time on the project. In addition, the small business owner must understand the costs and risks of crowdfunding as with any other form of financing. Incorporating these strategies may help small business owners increase their chances of funding through crowdfunding.

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Appendix A: Interview Protocol

Introduction

- Introduce the interview and set the stage
- Reminder of recording the interview and estimated time of 45 – 60 minutes

During interview (see Appendix B for list of interview questions):

- Watch for nonverbal clues
- Paraphrase answers as needed for clarification
- Ask probing questions for in-depth answers

End of Interview

- Wrap up final questions
- Advise timeline for follow-up member checking verification
- Thank participant

Appendix B: Interview Questions

Interview Questions

The following interview questions support the main research question:

1. Why did you choose crowdfunding over other forms of nontraditional financing?

2. What category of crowdfunding (donation, presales, rewards, equity) did you use?

3. What type of project did you list for the growth of your business (bought equipment, hired staff for specific project, bought marketing materials, etc.)?

4. How did you successfully use crowdfunding as a source of financing?

5. What factors contributed to you reaching your crowdfunding goal?

6. What are the challenges and disadvantages of using crowdfunding over nontraditional financing?

7. What are the levels of risk associated with crowdfunding over nontraditional financing?

8. What are the costs associated with crowdfunding?

9. What do you feel are the best uses for other small businesses using crowdfunding?

10. Would you use crowdfunding again to fund any future projects? Why or why not?

Appendix C: Certificate of Ethical Compliance

Certificate of Completion

The National Institutes of Health (NIH) Office of Extramural Research certifies that **Melissa Berrier** successfully completed the NIH Web-based training course "Protecting Human Research Participants".

Date of completion: 09/13/2014.

Certification Number: 1544488.