The Angel Investor Perspective on Equity Crowdfunding
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Abstract

This thesis explores the rapidly growing phenomenon of equity crowdfunding from the perspective of professional investors. The aim was to contribute to the relatively thin academic field of equity crowdfunding, shedding light on why it is yet to be recognized as an important instrument for raising capital and provide suggestions for improvement.

The data was collected through semi-structured in-depth interviews with Angel Investors that through their experience could identify benefits and constraints with equity crowdfunding not obvious to the crowd. Benefits of using equity crowdfunding platforms were outweighed by the identified constraints such as corporate governance issues, uncertainties concerning laws and regulations, high risk, and lack of intellectual capital. This eventually led to suggestions for improvements that included channelling the crowd investments through a mutual fund, and allowing the crowd to co-invest with Angel Investors to get around the constraints.

Conclusively, the Angel Investors were positive towards the underlying ideology of equity crowdfunding of helping more entrepreneurial ventures reaching their full potential by tapping a previously unutilized source of capital, the crowd. However, there is scepticism to how the phenomenon is currently working in practice.

Keywords: Equity Crowdfunding, Crowdfunding, The Crowd, Angel Investor, Swedish Angel Investors, Business Angel, Equity Gap, Fundraising, Capital Raise, Early Stage Funding, Entrepreneurial Funding, Investing
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I Introduction

In this chapter an introduction and background to the chosen research topic is presented, together with the problem and purpose. In addition, the research questions associated with the study will be given, as well as the definitions and delimitation of the thesis.

1.1 Background

In late 19th century in Oxford, England, professor James Murray launched perhaps the first well-known documented example of a phenomenon that was not named for another hundred years or so, namely crowdsourcing. Murray collected thousands of definitions of English words written down on sheets of paper by others during seven decades and compiled them. The project was later to become known as the Oxford English Dictionary (Lanxon, 2011). Doing it this way, he made use of crowdsourcing, a concept characterized by the art of outsourcing a certain business activity to a large and unknown group of people (Howe, 2006).

Across the Atlantic Ocean in 1884, the American publisher Joseph Pulitzer urged the readers of The World Magazine to fund the remaining sum of the foundation of nothing less than the Statue of Liberty. He managed to raise over $100,000, which successfully completed the construction of the statue. This was one of the first known and recorded cases of crowdfunding, a phenomenon not to be coined until a century later (NPS, 2014). It emerges from the umbrella term crowdsourcing (Belleflamme, Lambert & Schwienbacher, 2011) and regards the aspect of raising capital from the crowd.

Evidently, crowdfunding is not a new phenomenon. However, the arrival of Web 2.0 has enabled the rapid growth of crowdfunding activities in recent years (Kleemann, Voß & Rieder, 2008). In 2003, the site ArtistShare was founded, where artists could get funding for their new album or tour, from their own fans (ArtistShare, 2012). This was a huge success and soon to follow were two of the biggest crowdfunding platforms (from here on referred to as CFPs) of today, Indiegogo in 2008 (Indiegogo, 2014), and Kickstarter in 2009 (Kickstarter, 2014). The latter had only 4 years after its launch in 2013 recorded pledges from 3 million people who together raised $340 million in total (Kickstarter, 2014).

Crowdfunding has come a long way since the statue of liberty was funded. Just take the crowdfunding success story is the case of Pebble as an example, where the entrepreneurs used the platform Kickstarter to raise capital to enable the launch of their smartwatch, the Pebble Smartwatch, reaching their initial goal in only 28 hours (Crowdfunding Industry Report, 2013). This turned out to be the most successful crowdfunding campaign at the time, raising $10,266,844 (Kickstarter, 2014). Which later was beaten by Star Citizen, a project seeking funding to create an online video game that successfully raised $40,000,000 (Roberts, 2014).

CFPs are still in the early stages of their evolution and it is hard to predict what the future might hold. There is however no denial that the industry is growing incredibly fast, with global crowdfunding markets reaching an annual growth of 64 % in 2011 and 81 % in 2012 (Crowdfunding Industry Report, 2013). Trends on the search engine Google.com further indicate the growth of crowdfunding as a search term and clearly demonstrate the recency of the phenomenon. Searches for crowdfunding did not start until mid-2008, early 2009 as can be seen in Figure 1 on the next page.
Even more recently equity-based crowdfunding, a specific type of crowdfunding where investors are offered equity or equity-like shares in return for their contribution, has developed as an alternative source of financing for start-ups. Although there are four main types of crowdfunding (explained further in section 2.2.2), viz. reward-, donation-, lending- and equity-based crowdfunding, there is also a new emerging type - royalty. The authors have chosen to focus on equity-based crowdfunding. It has the potential to reform the way of raising capital as it enables anyone in the crowd to invest and own a share in an entrepreneurial venture. This essentially enables anyone with extra cash to take the role of an Angel Investor (from this point referred to as AI). Caldbeck (2013) argues in Forbes magazine that equity crowdfunding has the potential to revolutionize the financial playing field of capital raises. If the evolution of equity crowdfunding follows a similar pattern to that of the Foreign Exchange, which used to be limited to large institutions and wealthy individuals, it is not impossible that the art of raising capital may indeed change dramatically in the future.

According to the Crowdfunding Industry Report (2013), the equity crowdfunding industry grew by 31% to $116 million in volume in 2012. It does furthermore follow a similar pattern to that of its umbrella term crowdfunding when it comes to interest and awareness, based on Google.com searches as demonstrated in Figure 2 below.

Equity crowdfunding is clearly still in the early stages of its evolution. Nevertheless, such a fast growing Internet movement is definitely worth exploring.

1.2 Problem

Equity crowdfunding is a particularly interesting topic to explore as it addresses one of the most crucial company growth stages that causes many entrepreneurial ventures to go under, namely when external capital is needed to enable survival. This stage is characterized
by an equity gap (Coveney & Moore, 1998), which historically has only been covered by AIs (Wetzel, 1983; Mason & Harrison, 2008). Few other sources for raising capital are available at this point. Equity crowdfunding could help to fill that gap as it taps a previously unutilized source of capital. “It is one of few options that can mobilize private capital in the early stages [of company growth].” (Hemer, 2011, p. 31). It is however, yet to be recognized by AIs as an important tool for raising capital (Hemer, 2011).

Currently, the AIs represent the largest pool of funding for entrepreneurial ventures and play an important role in the economy (Wetzel, 1983; Avdeitchikova, Månsson & Landström, 2006). They operate in the same equity gap as equity crowdfunding and are familiar with the process of raising capital and the potential implications that may follow in this particular company growth stage. Their professional knowledge of the process of raising capital and investing is hence an essential viewpoint, and it is to the authors’ knowledge yet to be explored academically. The AIs’ professional views are very relevant to explore as they are external, and hence also objective, and can identify possibilities and constraints not obvious to the crowd. Moreover, it should provide an explanation to why equity crowdfunding is yet to be recognized as an important tool for raising capital by AIs.

1.3 Purpose

This thesis intends to explore the phenomenon of equity crowdfunding from the perspective of professional investors. The aim is to discover the AI attitudes and opinions on the subject matter and thereby shed light on why it is yet to be recognized as an important tool for raising capital. The thesis will also provide suggestions for improvements of the mechanics of equity crowdfunding.

1.4 Research Questions

From the problem discussion and purpose above, the following questions are the ones that will guide this research:

- To what degree are AIs aware of equity crowdfunding?
- What attitude do AIs have towards equity crowdfunding?
- What are the benefits of equity crowdfunding from an AI perspective?
- For whom is it best suited according to the AI?
- What are the constraints from an AIs point of view?
- Are there possible improvements they can suggest?

1.5 Definitions

Angel Investors (AIs) – “a high net worth individual, acting alone or in a formal or informal syndicate, who invests his or her own money directly in an unquoted business in which there is no family connection and who, after making the investment, generally takes an active involvement in the business, for example, as an advisor or member of the board of directors.” (Mason & Harrison, 2008, p. 309).

Crowdfunding - “The practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet” (Oxford Dictionaries, 2014).

Entrepreneur - “A term often used to describe an owner/founder of an unquoted business. It often relates to an enterprising person setting up or growing a new company which requires capital.” (Amis & Stevenson, 2001, p. 357).

Equity - “Ownership stake in a company. Equity or share capital is the risk capital provided to finance a business.” (Amis & Stevenson, 2001, p. 357).
**Equity crowdfunding** - “A method of financing whereby an entrepreneur sells equity or equity-like shares in a company to a group of (small) investors through an open call for funding on Internet-based platforms.” (Ahlers, Cumming, Günther & Schweizer, 2012, p. 10).

**Venture Capitalist (VC)** - “The manager of a venture capital fund. The fund raises most of its capital from institutional investors and invest in start-up companies in exchange for equity.” (Brigham & Daves, 2004, p. 1012).

**Entrepreneurial venture** - For simplicity, this word includes any small unquoted business in the early stages of the company life cycle in need of capital.

**Informal venture capital** - Also known as Angel Investor capital. As opposed to institutional venture capital that is capital from formal sources such as venture capitalists and banks.

**Equity gap** - The stage between “love money” and banks and venture capitalists. It is observed problem between “the needs of individual entrepreneurs seeking capital and the requirements of the institutions formally supplying it.” (Coveney & Moore, 1998, p. 6). It is a gap since VCs and banks are less interested in financing entrepreneurs and hence entrepreneurs struggles to find financing.

### 1.6 Delimitation

This research will focus solely on Swedish AIs due to the fact that the authors currently reside in Sweden and since AIs are not easy to get in contact with. The authors were however able to use personal contacts to get in touch with Swedish AIs. The focus will moreover be on active AIs, where active means that the AI has made at least one investment during the last three years. The reason behind this is that previous studies define an active investor with the cut-off period of three years (Fiet 1995; Coveney & Moore, 1998; Månsson & Landström, 2006). Due to a lack of time and resources these were the most suitable delimitations.
2 Frame of Reference

In this chapter the authors will delve into theories and research via a review of previous literature in the two fields of angel investing and crowdfunding as well as providing short description of the equity gap.

2.1 The Equity Gap

When starting a business, an entrepreneur usually starts off by using own savings. If further funding is needed the typical action is to turn to friends and family for so called “love money” (Wetzel, 1983; Coveney & Moore, 1998). However, these sources will eventually dry out and the entrepreneur must find sufficient funding elsewhere. At this second stage most entrepreneurs turn to venture capitalists (henceforth, referred to as VCs) and formal sources such as banks (Coveney & Moore, 1998). These two major external sources of funding have however become less interested in financing entrepreneurial ventures, and hence only a successful few receive the financial resources sought. Therefore it is in between these two stages that the authors find what is called the “equity gap”, which is possibly seen as the entrepreneurs biggest obstacle to growth (Wetzel, 1983; Coveney & Moore, 1998).

The equity gap (also known as equity capital gap or equity financing gap) is an observed problem between “the needs of individual entrepreneurs seeking capital and the requirements of the institutions formally supplying it” (Coveney & Moore, 1998, p. 6). This does not include investments made by AIs (Wetzel, 1983). The reason for banks and VC firms to move away from making these kinds of investments is that they are not as interested in financing entrepreneurs, i.a. for historical reasons of losses in the 1990s and the higher risks associated with early stage investments (Coveney & Moore, 1998; Månsson & Landström, 2006).

![Figure 3 - Company Stages and Typical Investors, based on the work of van Osnabrugge (1998)](image)

Bridging this gap is considered to be one of the major challenges for an entrepreneur and is many times the main reason for entrepreneurial ventures not reaching their full potential (Coveney & Moore, 1998). It is hard for entrepreneurial ventures to find the necessary
funding in the phases of start-up and growth, and the way many entrepreneurs successfully have bridged this gap is through investments by informal suppliers of risk capital (read AIs) in the less known informal venture capital sector (Wetzel, 1983; Coveney & Moore, 1998). The problem is that these sources are less visible and even though most entrepreneurs have heard of AIs, they do not know who these AIs are and where to find them. This, since the population of the AIs is unknown and probably unknowable, but once you have found one however, you will most likely find more as AIs tend to be found in clusters formed by an informal network (Wetzel, 1983).

2.2 The Angel Investor

Although much research has been done on informal venture capital there is still no consistent definition for what an AI is. Previous research makes use of many different inconsistent definitions where AI, Business Angel and Informal Investor are used to differentiate one from the other, but many times with the same meaning (Avdeitchikova et al., 2008). Further, Avdeitchikova et al. (2008) state that this makes empirical studies hard to interpret and compare and therefore make the conclusion that it might not be possible to make one single definition and perhaps it is not even desirable. It is hard to define an AI since being an AI is a “transitory state” (Mason & Harrison, 2008) where an investor makes different kinds of investments through their career (Avdeitchikova et al., 2008). In addition, the population is unknown and hard to find (Wetzel, 1983) because “unlike the institutional venture capital market, there are no lists or directories of [AIs]” (Mason & Harrison, 2008, p. 312).

Another prevailing problem considering who should be included in the definition is the many different types of investors making informal investments (Mason & Harrison, 2008). Not all non-institutional risk capital investments in unquoted businesses should be included since only a smaller percentage of those investments could be traced back to AIs. The "love money" for example, which is invested by friends and family, account for the greatest percentage of informal investments to the entrepreneur (Mason & Harrison, 2002). It is furthermore important to stress that “love money” is something entirely different from investments made by AIs, as these affinity investments are conceptually different (Mason & Harrison, 2008).

Whether or not to include inactive investors in the definition of an AI is also something that is inconsistent throughout the literature (Avdeitchikova, 2008). Lastly, researchers (Fiet 1995; Coveney & Moore, 1998; Avdeitchikova et al., 2008) debate on whether or not to include the increasing investments made by AIs through syndicates with other AIs. In the later study by Avdeitchikova et al. (2008) they are convinced that investments made by syndicates, private- or family-owned, should be included since it still is the AIs money and the AIs are still making the decision whether or not to invest.

Most researchers within the field have agreed upon that the informal venture capital market is heterogeneous and that there is a need of categorizing the players in order to understand the field better (Sörheim & Landström, 2001). Many researchers (Landström, 1992; Freear, Sohl & Wetzel, 1994; Coveney & Moore, 1998; Sörheim & Landström, 2001; Avdeitchikova, 2008) have therefore developed categorizations of the AI where the common focus has been on the dimensions of competencies and the investment activity. Moreover, there is no clear “right” categorization to use since they all are different, although every AI focus around the same dimensions. Following this, Freear, Sohl and Wetzel (2002) compare AIs to wild flowers where “they are going to do their thing despite the authors most imaginative efforts to organize them into a traditional garden” (p. 280). Based on this, the authors have decided not to
categorize the AIs interviewed since many different names and numbers of categories are being offered.

Following this overview of over 3 decades trying to define the term, the AI in this study will hereby be defined according to the definition created by Mason & Harrison (2008, p. 309) where an AI is:

“A high net worth individual, acting alone or in a formal or informal syndicate, who invests his or her own money directly in an unquoted business in which there is no family connection and who, after making the investment, generally takes an active involvement in the business, for example, as an advisor or member of the board of directors”

The authors chose this definition since it was believed to fit the best alongside the research questions and purpose as its breadth allowed the authors to include as many of the all so elusive AIs as possible.

2.2.1 The Role of the Angel Investor

The AIs represent the largest pool of funding for entrepreneurial ventures and plays an important role in the economy (Wetzel, 1983; Avdeitchikova et al., 2008) since it historically has been the main external source of finance for early-stage ventures (Wetzel, 1983; Harrison & Mason, 2008). The main reason for this is because the AIs are able to make smaller investments compared to institutions, both considering ideal investment size and stage of the venture due to the avoidance of transaction costs of VC firms (Mason & Harrison, 1997). Coveney and Moore (1998) expand this by stating that AIs are to be considered important sources of risk capital for two main reasons. The first reason is that of the growing demand for this form of finance among early stage entrepreneurs. Secondly, because of the knowledge and advice that comes with the investments of many AIs can be a factor of success for the business. Many researches point out that in addition to the financial contribution of informal venture capital, the entrepreneur also benefits the experience, knowledge and network of the investor, which most AIs have gained through their entrepreneurial background (Wetzel, 1983; Harrison & Mason, 1992; Harrison & Mason, 2008).

2.3 Crowdfunding

Belleflamme et al. (2011) provides a broad yet accurate and modern definition of crowdfunding in which all of its components can be included, describing the concept as an “open call” over the Internet for financial resources. It is a process of raising capital and essentially involves three parties: The entrepreneurs seeking capital, the crowd who are the potential investors, and a CFP where the transaction between the two takes place. In exchange for the monetary contribution, the investor can receive for example rewards or voting rights in the company, if the funding is not purely donation-based (Hemer, 2011; Belleflamme et al., 2011). Hemer (2011) concludes that although crowdfunding cannot replace traditional sources of entrepreneurial finance, particularly in the later stages, it should be both supported and recognized as it is one of few instruments that can mobilize private capital at the early stages of company growth. Furthermore, according to the Crowdfunding Industry Report (2013), successful crowdfunding campaigns drastically shorten the path from idea to marketplace, especially if the crowdfunding product or service spark an interest and appeal to the crowd (Crowdfunding Industry Report, 2013). Agrawal, Catalini and Goldfarb (2011) argue that the Internet has contributed to a globalized world and crowdfunding is suggested to “eliminate most distance-related economic frictions” (p. 1), making it possible for entrepreneurs to access a larger amount of investors through CFPs.
2.3.1 From Crowdsourcing to Crowdfunding

The concept of crowdfunding originates from the term crowdsourcing (Hemer, 2011; Belleflamme et al., 2011), a phenomenon coined by Jeff Howe in 2006 (Kleemann et al., 2008), and which simply put is the art of outsourcing certain operations to an undefined and generally large group of people referred to as the crowd. When talking about crowdsourcing, an open call can be explained as a call-to-action or a call-for-support. Specifically for crowdfunding, that support is capital. In an open call, the target is not meant to be any specific individual but rather anyone who hears the call (Crowdfunding Industry Report, 2013).

Crowdsourcing activities can be used to obtain for example feedback, ideas and solutions about certain products or services. A great example of effective crowdsourcing is the case of Wikipedia, which is tapping the spring of “collective intelligence” where “no one knows everything, [but] everyone knows something” (Lévy, 1997, p. 13-14). This is in line with Surowiecki’s thoughts in his book The Wisdom of the Crowd (2004), which suggests that the wisdom of a large group of people is greater than that of a few “elites”. This theory can explain the rapid growth of Crowdsourcing.

According to the Crowdfunding Industry Report (2013), crowdsourcing is further divided into six subunits (see figure 3 on the next page):

- **Cloud Labour** - Virtual workers distributed on demand through a virtual labour pool
- **Crowd Creativity** - Tapping online creative talent pools of design, art and media
- **Distributed Knowledge** - Sharing knowledge through a distributed pool of contributors
- **Open Innovation** - Individuals sharing knowledge online
- **Tools** - Miscellaneous sharing of tools, communication and applications etc.
- **Crowdfunding** - “A scalable alternative to public and private finance” (Crowdfunding Industry Report, 2014, p. 7)

Crowdsourcing itself is however not a new phenomenon per se as the previously identified examples indicate (see section 1.1). What really has made it possible to integrate the crowd efficiently in such activities is the emergence of Web 2.0 (Kleemann et al., 2008) also enabling the recent popularity and growth of crowdfunding.

2.3.2 The Branches of Crowdfunding

It is under the crowdsourcing umbrella that the phenomenon of crowdfunding emerges with several branches of its own (Belleflamme et al., 2011). Each of these has different qualities in order to fit the various needs of the campaign owners (Crowdfunding Industry Report, 2013). Specifically, crowdfunding can be divided into four main categories (De Buysere, Gajda, Kleverlaan & Marom, 2012; Crowdfunding Industry Report, 2013), with a fifth category emerging, namely royalty-based (Crowdfunding Industry Report, 2013):
2.3.3 Equity Crowdfunding

Examples of equity CFPs are Crowdcube and Fundedby.me. They are still generally small in comparison to their less complex donation-based cousins. Hemer (2011) ranks the equity-based version as the most complex branch of crowdfunding. He furthermore provides an accurate definition of equity crowdfunding: “Crowdfunders invest equity, the rewards are either in shares of the venture, dividends and/or voting rights” (Hemer, 2011, p. 14). In other words it is when the entrepreneur is outsourcing the financial aspect of raising capital. This process makes it possible for anyone in the crowd to take the role of an investor and receiving equity or equity like shares when using an equity-based platform.
The mechanics behind equity crowdfunding are however and as mentioned previously complex (Hemer, 2011). For example, “It is virtually impossible to correctly assess the value of a company. A good valuation to one person might be seen as hideous by another” can be read on the Swedish equity-based crowdfunding platform Fundedbyme’s (2014) website. Fundedbyme furthermore state that they will never interfere with the valuation of a company that is set by the entrepreneurs. They do however approve all equity campaigns before they get published on the platform (Fundedbyme, 2014). The process of valuing a business before an investment is known as Pre-money valuation. The best definition of the term is the comment by Mark Heesen (2004), president of the National Venture Capital Association (NVCA):

_valuation of a private, venture-backed company’s stock is a process, which at best is costly, complex, and inexact. Absent new rounds of financing, venture capitalists rarely have information upon which to base changes of the set stock price because the stock is not tradable and the companies tend to be unique, with no like comparisons to benchmark. And in the end, the final number will be an inaccurate, inconsistent, and incomparable guess. (Cited by Cumming, Gill & Walz, 2009)_

There are three stages that a company wishing to equity crowdfund must go through.

1. Pre-Round
2. Open-Round
3. Closed-Round

During the pre-round the entrepreneurs can test the concept, get feedback from the crowd and work with the presentation of the very important pitch. Examples of feedback could concern overvaluation of shares or similar. The crowd and investors can under this round only reserve shares and not buy the actual ones. However, the reserved shares will automatically turn into real, purchased shares during open-round. This first round usually lasts for one month and based on the performance of the entrepreneur and on the response from the crowd, this is where the entrepreneur either decides to proceed with the campaign or to back out. When and if the entrepreneur chooses to proceed the crowd can now purchase shares and once the campaign hits its target, the project will move on into closed-round (Fundedbyme, 2014).

By ensuring that only campaigns that have a fair chance of success receive financing the CFPs take responsibility and protect the investors. Entrepreneurs have to hit their targeted minimum financing level in order to receive funds. Meaning that it is all or nothing and the investors are refunded if the set levels are not reached. Furthermore, the CFPs business model is to charge each campaign with a smaller fee, usually below 10 % (Fundedbyme, 2014; Crowdcube, 2014).

The median pledged campaign size of equity crowdfunding was in 2012, $190,000. It is important to keep in mind however that the success rate is only just above 40 % for equity crowdfunding projects. Another interesting side note when talking about success rates is that of all crowdfunding projects there is almost a 90 % success rate in North America, almost double to that of Europe (Crowdfunding Industry Report, 2013). According to Hemer (2011) AIs are yet to recognize CFPs as an instrument for entrepreneurs looking to raise capital in the early stages of the business cycle. The phenomenon is expanding with a fast pace but the future is yet unpredictable due to its brief existence.
2.3.4 Motivation of using equity crowdfunding

The majority of studies previously conducted are focusing on the motivation of using CFPs both from the entrepreneurs’ and the investors’ perspective (Belleflamme et al., 2011; Gerber, Hui & Kuo, 2012). Although they mostly focus on other types of crowdfunding than namely equity-based crowdfunding, they provide a relevant and applicable framework.

According to Belleflamme et al. (2011), the benefits for the entrepreneurs go beyond the financial aspects. They highlight the importance of raising public awareness as well as by obtaining feedback from their potential future customers to name a few of the major advantages that comes with a successful crowdfunding project. Motivation goes beyond the financial aspect from the investors’ point of view as well (Gerber et al., 2012). The same author mentions emotions as an influencing factor and further examples could be the sense of involvement and belongingness, the sense of being supportive and the sense of enjoyment. Gerber et al. (2012) also suggest that empathy, guilt, happiness and identity are important factors. This is all in line with what is stated in the Crowdfunding Industry Report (2013), which states that crowdfunding first gained popularity as a way to fund social endeavours, something that still prevails as the top crowdfunding activity is social causes (27%). Furthermore, people with greater social networks are more likely to perform successful crowdfunding campaigns (Buraschi & Cornelli, 2013), which can be linked to the motivational factor of belongingness (Gerber et al., 2012) that the web 2.0 enables (Kleemann et al., 2008).

2.3.5 Laws, Regulations and Corporate Governance

Whilst there are no legal concerns for a user of donation and reward-based crowdfunding, lending- and equity-based crowdfunding on the other hand have major implications to them. This due the fact that all investments made via these types of crowdfunding are highly regulated (Crowdfunding Industry Report, 2014). In addition, according to the same source, the CFPs offering these services will most likely face vast regulations as they evolve and get closer to the intermediated investment services of today (2014). Sherman and Brunsdale (2013) mention several issues with equity crowdfunding such as the corporate governance issues that could emerge from having too many small investors resulting from issuing equity or equity like shares, and this might shy away AIs as a result.

Laws and regulations are furthermore usually country specific and naturally they vary across borders. Because of this, equity crowdfunding is not as simple as its crowdfunding siblings and has limited availabilities in many countries. The division and comparison of the EU and the US are made, as these are the two largest markets to date (Crowdfunding Industry Report, 2014). Below, the differences in laws and regulations between the two large markets will be explained.

In Europe there are not many rules that implicate the act of reward- and donation-based crowdfunding. When it comes to equity- and lending-based crowdfunding in the EU however, the transactions and investments are considered as security offerings, and thus fall under the “prospectus directive” (Crowdfunding Industry Report, 2014). It implies that a prospectus must be made available when securities are offered to the public on a regulated market in the EU. The prospectus is a disclosed document of financial information regarding the campaign in question, which should be available to potential investors (Commission Delegated Regulation (EC) No 809, 2012). Public offerings below €100,000 do not require a prospectus however and how this prospectus is framed is up to the different EU member states to decide, potentially also making another directive come into effect on the CFPs,

The MiFID establishes a regulatory framework in the EU and increases the financial transparency (pre-trade and post-trade), protects investors as well as increases cross border investments (Directive of the European Parliament (EC) No 39, 2011). This directive could hinder the owners of CFPs to make it across borders however, as it would be too costly for them to comply with the many different national regulations (Gajda & Mason, 2013) of the prospectus directive.

In Sweden, the new investment deduction does however make it easier for people interested in equity crowdfunding and investing in general to invest. The Investment deduction (investeraravdrag) makes it easier for entrepreneurs to get funding as it gives a tax deduction of 15 % in favour of the investors (Investeraravdrag, 2012). In extension this will of course be highly beneficial for the CFPs as well since they can attract even more entrepreneurs than they could prior to the deduction.

As the phenomenon of crowdfunding is becoming more and more recognized every day, it has not gone unnoticed by the US authorities. In early April 2012, President Barack Obama signed the “Jumpstart Our Business Startups” (JOBS) act (Sherman & Brunsdale, 2013). This will make it easier for all parties involved to use crowdfunding (Crowdfunding Industry Report, 2014). It will make it easier for the entrepreneurs as it is meant to favour entrepreneurial ventures by reducing regulatory issues and easing access to both capital and investments (Sherman & Brunsdale, 2013).

If the JOBS act were to be fully implemented (title III is currently pending), entrepreneurs and companies would be able to crowdfund up to $1 million per year without being subject to heavy reporting regimes such as prospectus and regular registration (Crowdfunding Industry Report, 2014). This would also make it easier for the equity CFPs as it would allow them to host transactions of securities without registering with the Securities and Exchange Commission (SEC) (Sherman & Brunsdale, 2013). Bradford (2012) however, argues that it is a poorly and sloppy written bill that needs adjustments. He also acknowledges that the SEC is still drafting rules that may complicate things even more. On the other side however, he is stressing that the JOBS act does indeed turn the CFPs into an authorized platform for securities trading.
3 Method & Data

In this chapter the authors will elaborate on the chosen method of research as well as the underlying methodology. Criticism and strengths of the methods used will be presented as well as argumentation for its trustworthiness, accompanied by an analysis of the gathered data.

3.1 Methodology

There are three approaches that can be used in order to acquire information, viz. the deductive, inductive, and abductive approach. These three influence the design of the research project (Saunders, Lewis & Thornhill, 2012). The authors have chosen to go about gathering their data via an inductive approach as this technique moves from particular instances to conclude with general statements (Williamson, 2002; Saunders et al., 2012), as well as since this thesis is an exploratory study and little is known about the topic.

In addition, there are two major traditions of doing research, namely the positivist and interpretivist. Here the interpretivist approach has been chosen, much since it refers to a qualitative research model and interpretivism, soft data, (Ritchie & Lewis, 2003; Williamson, 2002), which emphasises how people interpret the world around them (Williamson, 2002). The interpretivist approach has been used in an attempt to gather data from AIs that reflects what their opinions are on investments made via equity crowdfunding and the topic as a whole. In addition, Ritchie & Lewis (2003) states that it also emphasises the details and understanding of concepts and theories opposed to positivism, which argues for more scientific methods and forecasting. This further strengthens the choice of an interpretivist approach, as the chosen topic more or less is a blank sheet of paper rather than a map as relatively research has been conducted on the topic.

3.1.1 The Qualitative Method

Qualitative data take the form of words and images, whereas quantitative data take the form of numbers (Denscombe, 2007). Garwood (2006) states that an underlying assumption that needs to be taken into account if one looks at quantitative research, is that everything can be measured. This differs from the qualitative research that focuses on feelings, emotions and other subjective meanings from which people interpret the world. This type of research therefore produces “soft data” that is hard to reproduce, argued to lack accuracy and usually consists of small samples (Sumner, 2006).

The authors have chosen to go about gathering the primary data through a qualitative method, as the authors need to delve into, as well as to make sense of, emotional and socially constructed values about the research topic and the participants (Saunders et al., 2012), as the focus of the thesis is attitudes. Something that the authors argue could never be achieved via a quantitative questionnaire or similar due to its flat and numeric nature. Cameron was definitely onto something when he said that “Not everything that can be counted counts, and not everything that counts can be counted.” (1963, p. 13).

3.1.2 Case Study

The authors have chosen a case study research design as this, according to Kumar (2011), is very useful when investigating an area about which there is little known research. The case study method was chosen, since its idea is to highlight one particular instance instead of the wide scope (Denscombe, 2007). The case study design therefore makes a good fit with the exploratory study between equity crowdfunding and the AIs’ perspective of it.
The choice of using a single embedded case study (see Figure 4 below) is according to Saunders et al. (2012) a sensible one, as one of the few cases where it fits is when one is examining a subject that few have considered before and when it is unique (Yin, 2009). Further on the application of an embedded instead of a holistic single-case design will be made where each embedded unit of analysis is an individual Swedish AI. This design sets a clear focus on the unit of analysis and helps the researcher to get an in-depth understanding of the chosen phenomenon in its context (Xiao, 2010).

![Diagram of basic types of designs for case studies](image)

Figure 5 - Basic Types of Designs for Case Studies (Yin, 2009)

The case in a case study is, according to Flick (2006), broadly defined. Using Figure 4 above as guidance, the case would therefore be equity crowdfunding in the context of entrepreneurial funding, where the embedded units of analysis would be the AIs (see Appendix 1). Also, according to Kumar, it is of paramount importance to treat the study population (the AIs) as one entity as well as to not sample the population entirely randomly (2011). Something which once again can be argued to be relevant to this study with reference to the chosen sampling methods.

### 3.1.3 Semi-structured Interviews

Semi structured interviews are defined as qualitative interviews and are interviews where the researcher have a list of questions and topics that needs to be covered (King, 2004). These topics may vary from time to time and they are there to keep the researcher within some sort of frame (Saunders et al., 2012; Denscombe, 2007), hence the *semi* structure. The
choice of using a semi structured interview approach allowed the authors to probe on some questions to withdraw as much information from the interviewee as possible. This method also allowed the authors to meet and interview the AIs in a less formal way. This was thought to give a more personal response than the structured way of conducting interviews, as establishing personal contact was seen as an advantage for the authors in order to fulfil the purpose.

It is important to minimize the risk and potential cause of harm when gathering the primary data (Saunders et al., 2012), in this case, in the form of interviews. All of the interviewees were therefore well informed before the interviews what main questions the authors would address so that they would have time to prepare and provide the authors with as much information in their answers as possible. They were also made fully aware of the fact that there were no pressure on them to participate and that if they choose to do so their identity would be protected at all times i.e. anonymity would be provided. The authors did this in order to minimize malpractice and to respect the interviewees by applying the ethical principles of informed consent, ensuring them of their confidentiality as well as their right to withdraw at any time (Saunders et al., 2012). To do this the names of the interviewees were changed to AI 1, AI 2 etc., also, the information from their answers was removed so that no one could be able to identify them.

Flick (2006) argues, much in the same way as Saunders et al. (2012) do, that this is of paramount importance if one wants to act in an ethical way, further on stressing that not even the colleagues, friends or family of the sampled participant should be able to identify the chosen interviewee. In addition the authors believe that respect comes in both ways and that this consent and confidentiality resulted in more honest as well as extended answers from the participants.

In the interviews, the authors asked the interviewee for permission to record the interview in addition to the physical note taking, where one of the authors took notes on the computer and the other two on paper. In all cases this was fine. The interview questions used were based on the authors’ interview guide (see appendix 2). During the interview one of the authors had ‘major command’ of asking questions, this in order for the authors not to talk at the same time. The other two did however of course had the possibility to ask questions at any time, if they thought that something needed to be expanded upon.

### 3.2 Method

#### 3.2.1 Population & Sampling

The chosen population for this report is all Swedish AIs, but as previously argued, the authors were not be able to interview all Swedish AIs for a number of reasons. Some of these reasons include it being time consuming, but also since AIs are hard to track and get in contact with. This is where sampling comes in, which enables the researcher to reduce the amount of data to be able generalise and draw conclusions about the entire population out of which the sample is drawn (Davidson, 2006).

Convenience sampling is a technique where the researchers select the most readily accessible sample units (Phua, 2004), and snowball sampling is a method where the sampling originates from an initial subject who supplies the names of other actors (Atkinson & Flint, 2004). In the same way that a snowball, which is set in motion, increases its size as it gathers more snow as it rolls. Snowball sampling is a good and in some cases the only choice when a population is more or less hidden (Saunders et al., 2012). The AIs escape a clear
definition and due to their stealth and anonymous nature when it comes to being identified (Mason & Harrison, 2008), the use of a snowball and convenience sampling technique was therefore highly suitable.

3.2.2 Data Collection

3.2.2.1 Primary Data

The collection of the empirical data was made via semi-structured interviews in first hand, as this personal contact is argued by Saunders et al. (2012) to be highly significant in order to get an expanded answer rather than a sentence or two. Also it is easier for the researchers to elaborate on the points of interest (Denscombe, 2007). This personal contact can be argued to involve or exclude the use of telephone and Skype interviews (face-to-face). In order to fulfill the research questions and get a reasonably large sample size, the authors chose to include these types of collection methods. In some cases this was the only way as the AI was travelling, lived abroad or did not have the time on his/her hands that an ordinary interview would require. Even for the entrepreneurs it is hard to get in contact with AIs as there are no lists of them (as mentioned in section 2.2). Hence the authors knew it was going to be a challenge finding AIs who both had the time and willingness to participate in the study. Therefore the authors could not solely rely on face-to-face interviews, but had to utilize every communication channel necessary to obtain the necessary data to get the AI perspective on the subject matter.

<table>
<thead>
<tr>
<th>Angel investor nr.</th>
<th>A1</th>
<th>A2</th>
<th>A3</th>
<th>A4</th>
<th>A5</th>
<th>A6</th>
<th>A7</th>
<th>A8</th>
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<td>Interview</td>
<td>Electronic</td>
<td>Electronic</td>
<td>Skype</td>
<td>Skype</td>
<td>Skype</td>
<td>Skype</td>
</tr>
<tr>
<td>Duration (Hr:MM:SS)</td>
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<td>00:50:37</td>
<td>-</td>
<td>-</td>
<td>00:32:45</td>
<td>00:29:27</td>
<td>00:31:28</td>
<td>00:32:40</td>
</tr>
</tbody>
</table>

Table 1 - Collected Data

In a few extreme cases the AI could not even participate in an interview over telephone. Here the authors had no other option but to establish the contact electronically (see Table 1 above), sometimes later following up via telephone to let the AI expand on the answers that were thought to need elaboration. This continuous interaction is enough to establish a personal collection with the AIs.

The authors initiated their search for primary data sources by using their network and therefore begun the search for AIs by applying a convenience sampling technique to later on, in some cases, let this evolve into a snowball sampling method. Both of the sampling methods used by the authors are non-probability sampling techniques (non-random) and were used due to the reasons stated previously.
Due to the challenge of contacting the all so elusive AIs, the authors had to use all channels available at hand when beginning the convenience sampling method. Primarily the authors used three different channels, the first one being family, which eventually through the snowball method, connected the authors with further AIs as shown in Figure 5 above. The second channel was a Swedish newspaper containing a special edition, listing successful AIs. The authors then used various different Internet sources and search engines to find the contact information of the listed AIs. Out of the ten listed, the authors got in contact with three in total, one over telephone and two electronically. In the case of the remaining seven Angels, no contact information was found on four of them, two did not follow up on the emails sent out and one did not have the time for an interview before the deadline of the thesis. The last channel the authors used was a guest lecture on the authors’ University, eventually connecting them with one AI.

3.2.2.2 Secondary Data

Secondary data can be divided into three categories; Documentary, including magazines, newspapers etc., Survey, containing academic surveys etc., and Multiple source, involving books, journals and so forth (Saunders et al., 2012).

For this study, the authors gathered documentary as well as multiple sources of secondary data and collected this data using electronic sources such as Scopus and Google Scholar. The authors also used search engines, as well as the university library in Jönköping. The newspaper and magazine articles gave the authors a good foundation for the background and the journal articles and books made this foundation not only deeper but also wider, and further provided the authors with the information needed for the frame of reference.

The authors were in addition to journal articles and similar sources very reliant on one in particular, namely the Crowdfunding Industry Report (2014). The reason for this is due to the novelty of equity crowdfunding, and the little research has been conducted on the subject. The Crowdfunding Industry Report compiles the industry data in such an extensive way that the authors in some cases could not find any other source for the statements made and data put forward within the report.

The two responsible organisations behind the report are CrowdSourcing.org, an objective and professional organisation entirely dedicated to crowdsourcing and crowdfunding (Crowd-
funding.org, 2014), as well as Massolution, an advisory, research and implementation firm specialising in crowdfunding solutions (Massolution, 2014).

### 3.3 Data Analysis

The case study data analysis involved a lot of hard work and should not be underestimated as it involves vast amounts of gathered data that needs to be systematically transcribed, re-arranged, interpreted and analysed (Evers & van Staa, 2010). The same authors further add that a qualitative data analysis is not supposed to produce either numbers or magic, but instead, if it is performed in a systematic and creative way, it will produce new and reliable extensive knowledge.

The initial step before analysing was to transcribe the gathered data, i.e. listening to the recorded interviews and writing them down word-by-word (Saunders et al., 2007). This was done in order to be able to work with the data more easily and to be able to compare the findings in a more effective way. The interviews were transcribed by one of the authors in order to try and capture the way in which arguments and comments were brought forward by the interviewee, making sure nothing was left out or disregarded. Something that according to Saunders et al. (2007) is highly time consuming but also of great importance when it comes to transcribing qualitative data. As some of the interviews were held in Swedish, the quotes that will appear in the following sections have been translated in such a way that the reader can understand them. The focus therefore lies on the essence of what was said and hence the translations are not made word-for-word.

For the data analysis the authors chose to adapt the three stages of analysis and coding brought forward by Williamson (2002), which includes:

1. Transcribing the data
2. Familiarising oneself with the notes and data
3. Structuring and categorising the data

It is further stressed by Williamson (2002) that in order to keep the creativity flowing, the researchers can mix up the steps before they are finished with them, as long as one keeps good track of what has been done.

This was something that had to be implemented since some of the interviews were conducted early in the process and others later, as some of the AIs had extremely tight schedules. Additionally, by using this technique the authors could go back in the literature when transcribing, handling and structuring the data, therefore constantly analysing it. This helped the authors to develop a better understanding and a realisation of, for example, how important the legal issues and corporate governance issues surrounding equity crowdfunding were to experienced investors.

### 3.4 Method Critique

It is important that the methods used in this study are evaluated and criticised. Convenience samples are often given very little credibility as the sampled population is selected on the ease of acquiring them from the researchers’ point of view, and hence the data gathered is argued by many to be very weak and biased (Saunders et al., 2012). Although the authors collected the first channel of Angels from a convenience point of view, this had to be done due to the stealth of the AIs when it comes to being identified, as mentioned earlier.
The snowball sampling technique has also received some criticism as it is argued to potentially create homogeneity due to the fact that the selected individuals most likely will make further contact with people similar to themselves (Lee, 1993), and therefore the data could be biased. In addition to this, it is however also worth stressing that as (Swedish) AIs are heavily reliant on their network and work in clusters, it would be hard to find someone that did not know about the other. Also due to the AIs anonymity, and their cluster nature, once one AI was found the AI had further contacts that the authors could draw use of.

Using interviews as a way to gather empirical data might be frowned upon by some as there really is no way to tell if the data received by the interviewee is true or not (Denscombe, 2008). To provide some validity of the data, the researchers used triangulation to back up the findings with that of previous scholars as well as by comparing the interviews with one another to find common themes between them. Also, as the AIs are argued by the authors to be experts within the same field (investing) their testimonies are highly credible.

The choice of using an exploratory case study has received some critique for its great flexibility in the reason of its lack of specific and theory-based presumptions (Streb, 2010). Further on, using a single case study can be argued to be vulnerable as you do not diversify the risk but gather all your data from only one type of case, it is therefore better from an analytical point of view to use a multiple case study (Yin, 2009). As the phenomenon of equity crowdfunding is new, little theory-based assumptions can be made and hence the authors had to explore the topic. A single case was also something that was used due to the topic of the thesis. Gathering data from other groups than AIs would have been excessive and unnecessary, as the authors believed that the AIs themselves had the best knowledge of investing, seen from their view.

### 3.5 Trustworthiness

According to Denscombe (2008), it is not easy to judge if qualitative data is trustworthy or not since it usually is valued on the wrong criteria, i.e. on the basis quantitative research. For case study research, analytical generalisation is the correct type of generalisation method (Yin, 2012), as single case studies usually cannot be generalised to a population (Yin, 2009). Denscombe (2008) however argues that the ordinary four bases of trustworthiness should not be abandoned, as it still is important to address the need for verification.

Due to this, the authors have chosen to address the trustworthiness using the four bases brought up by Denscombe (2008) below, and then arguing for how the authors have achieved this much desired qualitative trustworthiness in their study.

- **Validity (credibility)**
  In order to argue for validity and credibility of the research, the three authors have used triangulation when conducting the research to get different views on the topic. Not only in the form of themselves but also by using various different sources to back up theory and findings, i.e. theory that already exists (secondary data) on crowdfunding.

- **Reliability (dependability)**
  The authors cannot argue for reliability and dependability of the thesis as this is depending on whether or not the research would be the same if it was conducted by a different researcher at another time (Denscombe, 2008). It is hard to say if a remake of the research would yield the same results. However, as time is an important factor and perspectives and regulations changes with time, the authors would argue that the research is unique and hard to recreate.
• **Generalizability (transferability)**
Denscombe (2008) states that when arguing for qualitative generalizability, one should look at whether or not the research findings could be applicable to any other case, e.g. to another country. Here it could be argued that the research indeed is applicable to other north European countries, due to their low psychic distances in relation to Sweden. The authors further believe that they have provided the reader with a broad understanding and thick description of AIs, crowdfunding and equity crowdfunding, which also strengthens the transferability of the research (Denscombe, 2008).

• **Objectivity (confirmability)**
It is important to be objective when conducting qualitative research (Denscombe, 2008). This is something that the authors have tried to implement as much as possible. The use of semi-structured interviews could be argued to not be objective (see section 3.1.3), the authors however lift forward their complete awareness of objectivity from start to finish, not making personal values and beliefs cloud their judgement and data gathering.

To conclude the trustworthiness section, the authors believe that the reader by now will have a good understanding of how the case of AIs and their perspective of equity crowdfunding is unique. This is something, which according to Eriksson and Kovalainen (2008) reflects the appropriateness of the research to the reader, stressing that the main aim of a qualitative study never is to provide generalizable results.
## 4 Findings

In this chapter, the qualitative empirical data findings will be presented. In some cases, the interviewed AIs said similar things during the interviews. The authors have therefore only provided quotes that varied, or that brought something extra to the table.

### 4.1 AI Awareness of Equity Crowdfunding

From the interviews conducted, it was found that all of the interviewees had previously heard about equity crowdfunding as well as about a few success stories and common newspaper articles. Although most of the examples that were mentioned concerned donation- and reward-based crowdfunding, this was stressed by several of the AIs to be due to the novelty of equity crowdfunding. It was further stressed by AI 2 that crowdfunding is not a new thing and that "People have always used their own networks [for help with funding]." (Personal Communication, 2014).

Furthermore, AI 1, AI 2 as well as AI 5 stated that they had been in contact with a successful crowdfunding mogul and therefore had broad knowledge of the phenomenon. However, none of them had in-depth knowledge of anything more than the concept itself. AI 5’s definition of equity crowdfunding was the most accurate description the authors obtained, who described it as: “A way of increasing and spreading the availability to invest for inexperienced investors, not only by contributing with money, but also to be able to get a share of the company.” (Personal Communication, 2014).

### 4.2 AI Attitudes Towards Equity Crowdfunding

The overall attitude towards equity crowdfunding was mostly positive. AI 4 was very positive and in line with AI 1 who was “generally positive” and stated that it is an “important subject, especially the equity part of crowdfunding” (Personal Communication, 2014). AI 8 perceived the concept to have “high potential” (Personal Communication, 2014). AI 2 believed that as an option when banks are not interested, the phenomenon is a “positive and a good idea” (Personal Communication, 2014). AI 2 further added that as banks are hard to get funding from, crowdfunding is a very good supplement to this and to other ways of receiving funding. Especially due to the small amounts that it generates today.

AI 1 stated that the typical crowdfunding model (donation- or reward-based) is unfair. On the contrary, the AI liked the idea of equity stakes, adding that things needed to be done in order for it to work better. Although the general opinion was positive, all AIs expressed concerns towards the underlying regulations. AI 1 said that “you have to be precautionous.” and continued by stating that “it all depends on how it is structured.” (Personal Communication, 2014). These constraints will be discussed further in section 4.5.

So why can traditional crowdfunding be seen as unfair? Two of the AIs mentioned the example of Oculus who launched a campaign on Kickstarter to help fund the development of their first product. They successfully raised $2.4 million in donations from around the world, without equity, through reward-based crowdfunding. What the AIs perceived as possibly unfair and what made people in general raise their eyebrows was that they not too long after, about 18 months, sold their business to Facebook for 2 billion dollars. Several of thousands of funders helped Oculus with a kick-start in return for goodies, including posters and t-shirts, so a few could fulfill their dream, a dream that later was sold to make a fortune. Leaving many people wondering how much they would have made if they only had owned a substantial share of the company. To be clear, neither Oculus nor Kickstarter did something
wrong, because like AI 5 expressed it, “Formally they [the funders] had nothing to be disappointed at, because it was exactly what they signed up for.”, but then later added that “it might feel as if it would have been more fun if they had gotten a share of it [the profit].” (Personal Communication, 2014).

AI 4 stated that “In Sweden there is a lack of risk capital for young ventures and the more alternatives there is, the better.” (Personal Communication, 2014). According to AI 4 “The more businesses that are created and financed, the more will need further capital and competence in the future which is positive for the whole ecosystem and society.” (Personal Communication, 2014). AI 4 further explained that equity crowdfunding “is not to be considered as competition to what AIs and VCs do, but an alternative to the latter. More of a supplement.” (Personal Communication, 2014). AI 2 also believed that it is more of a supplement, and stressed that AIs cannot have too many projects and still be active.

AI 5 stated “trends come and go.” (Personal Communication, 2014) and AI 7 that “Just because there is much noise around crowdfunding, one should not think that it is something that is established and accepted.” (Personal Communication, 2014). AI 6 was very dubious to the concept, especially from an entrepreneur's perspective. It all depends on the business idea, if its something the entrepreneur absolutely does not want to share information about “then you should not go this way.” (Personal Communication, 2014).

AI 5 explained that investments are being made further down the food chain today than earlier and more investments are being made in start-ups than 10-15 years ago. “The next step is to make it available for hundreds of smaller investors.” (Personal Communication, 2014). Further stating, “We are standing on the right side of history.” (Personal Communication, 2014). AI 8 said, “It is absolutely better than nothing. It is a thrilling alternative in the bud, which certainly can be controlled.” (Personal Communication, 2014). Notwithstanding, equity crowdfunding is seen as a good alternative to other sources of finance and as AI 3 specified “All ways to get small firms to survive are better than the alternative.” (Personal Communication, 2014).

“I love the potential of the crowd.” (AI 1, Personal Communication, 2014). When it comes to the future of crowdfunding many of the AIs seem positive to a further growth of equity crowdfunding. AI 4 stated:

“but even if it grows rapidly both short- and long-term you have to understand that it is partly a cyclic interest that becomes more interesting for the investor when the stock market is strong and vice versa when the stock market falls.” (AI 4, Personal Communication, 2014).

AI 2 seemed somewhat sceptical when stating: “I think the trend [of equity crowdfunding] will increase, but it is somewhat limited. I mean, it still is a name of something that has always been around.” (Personal Communication, 2014), further referring back to the own campaign to raise capital back in the 90s.

4.3 Benefits Of Equity Crowdfunding

4.3.1 Crowd Investors

AI 2 stated that one potential benefit of equity crowdfunding could be the crowds unawareness of how investments really are made, and will therefore invest more spontaneously than an AI would. “An Angel Investor is tougher when it comes to price negotiations and percentages.” further adding that “If you believe you can do without an Angel Investor and its experience, you might as well try to crowdfunding your business as you’ll get a better price for doing so.” (Personal Communica-
tion, 2014). Potentially it allows the entrepreneur to give up a smaller amount of equity stake. This is however not agreed upon by AI 6, who states that it is always better to take the help from an AI. AI 7 stated that if an entrepreneur is in need of capital they do not really care where it comes from and they cannot because today “there are no structures around seed investments (early-stage investments), none.” (Personal Communication, 2014).

### 4.3.2 Early Stage Funding

The general opinion of the AIs was that it is better for entrepreneurs to get early stage funding from equity crowdfunding than the alternative, to fail before even starting. This was where equity crowdfunding was argued to be highly important, for entrepreneurs that need a push in the form of investment capital.

AI 5 was keen on highlighting that “The pros are that the entrepreneur can get funding in an even earlier stage than what one get with traditional help from venture capitalists and angel investors, if you have a suitable project.” (Personal Communication, 2014). AI 1 said that for an entrepreneur to get help with the early-stage risk and to get the much needed funding to take the time to develop the plans is very nice. Where the capital comes from is less relevant as it is good for entrepreneurial ventures in the early stages of the business life cycle to get going.

AI 6 said that, as an investor, “one should be highly aware of the risks of investing in early stages of a company.” (Personal Communication, 2014) and most AIs do not invest in someone or something until they have something to show, namely beyond the proof of concept. AI 1 specified this by saying that:

“I don’t do idea stage. They [the entrepreneurs] have to have brought in something to get started. Usually it is after the proof of concept. If it is a technology, the first presences on the App Store for example or the first test of a product in the hands of the consumer. So it needs to be some sort of pilot that have been done…Which is typical for angels I think.” (Personal Communication, 2014).

AI 5 built upon this by further stressing that “As you have crowdfunded… you have already gotten a validity check of your product and obviously you know that a great amount of people are not only interested but willing to give you some of their money as well.” (Personal Communication, 2014). AI 5 further saw a company that previously had been equity crowdfunded as something positive, if it was a successful campaign. This is mainly because of the proof of concept that the product has gotten.

AI 1 further added, since AIs look around 200 deals a year and chose to invest in 5 of them it is hard to be an entrepreneur. “To be an entrepreneur up against those statistics sucks. So if you could find that line of money from somewhere else, sweet.” (Personal Communication, 2014). AI 5 mentioned the same problem, being approached by a few proposals a week by interested entrepreneurs. Many AIs do not have the time required to look for proposals, a process which is very time consuming according to AI 5.

### 4.3.3 Non-Financial Aspects

Another benefit noticed was the chance for entrepreneurs to market themselves to their segment and future customers. “If you have a fun idea, you are able to reach a greater group of customers via social media such as twitter and Facebook.” (AI 2, Personal Communication, 2014). AI 7 pointed out the promotional effect, stating that “the PR value is high, it is absolutely the best thing. It really fits the activities where you need to build a brand and increase brand awareness.” (Personal Communication, 2014). To conclude, the benefit of marketing through funding, the authors end with the statements made by AI 1 and AI 8: “They [the investors] are building up a
fan-base and eventually a customer base.” (Personal Communication, 2014). “Potentially, you have a market that evangelize the message, that is where you have a huge upside, there is the strength.” (Personal Communication, 2014).

4.3.4 Who Is It Most Suitable For

There is no limit as to who will find it to be an attractive way of getting early-stage capital according to AI 1 (Personal Communication, 2014). The authors did however find that many believed that the types of products that are especially good to crowdfund are products that “you can touch and things which are easy to relate to.” “Something that everyone can see themselves as a customer to.” (AI 5, Personal Communication, 2014). AI 1 expanded this by stating “The crowd wants something they can be able to touch or something that is so impactful that they can put their reputation behind it.” (Personal Communication, 2014). AI 8 believed it will work for projects with good causes and thus getting “closer to the origin of crowdfundng where you did it for a good cause and for something you believed in... and the best would be if it stayed there” (Personal Communication, 2014). AI 2 said, “Fun projects.” (Personal Communication, 2014). It is a very suitable alternative for things that a reputable investment bank would never invest in according to AI 7, i.e. “dodgy stuff.” (Personal Communication, 2014). Additionally, AI 6 believed that the projects that receive the most funding is “Business models that are easy to get... Because really, who invest in something they do not understand?” (AI 6, Personal Communication, 2014). Moreover, AI 5 stated that the wider your prospective clientele is the better are your chances to run a successful campaign.

The types of investors equity crowdfundng will attract are the masses who want to do good according to AI 1. Those who are interested in an idea. “People like to be on a winning team. They like the appeal of being on something that eventually could succeed.” (AI 1, Personal Communication, 2014). AI 5 believed early adopters will be attracted as well as people who believe it is fun to make investments. AI 2 thought that it would attract investors who like these fun projects. AI 6 insisted that it is for individuals (small savers) who may feel it is an easy way to invest, “This feels fun! ...and then you invest spontaneously for a couple of grand.” (Personal Communication, 2014). However, according to AI 7 “for it to be bigger it must attract more types of investors, not just truckers and lottery ticket buyers.” (Personal Communication, 2014). AI 8 stated that it will be hard to attract more professional investors due to the valuations (which will be mentioned in section 4.5.2) and because of the standards these investors require on the material which should be more elaborated than the current ideas. “You will not get intellectual capital.” in the form of AIs for example, (AI 8, Personal Communication, 2014).

Just as many AIs believed that some businesses are better suited for the use of equity crowdfundng, it was argued that some projects or services do not fit this type of funding. AI 5 stated that if developing business software for example, it will be harder and the use of equity crowdfundng might not be the best alternative. Similar thoughts were expressed by AI 8 who said that “it will not work on business to business.” (Personal Communication, 2014). Furthermore, it is desirable that the entrepreneurial venture is in the early stages according to AI 5 who said that “equity crowdfundng is more complicated in the later stage.” (Personal Communication, 2014).
4.4 Constraints Of Equity Crowdfunding

4.4.1 Ownership Structure and Corporate Governance

As mentioned earlier, raising capital through equity crowdfunding is beneficial for the entrepreneur as it allows the entrepreneur to potentially give up a smaller amount of equity stake. However, it can also be seen as a disadvantage. Reinforced by AI 2 who said that when raising capital by offering equity stake “it is no longer your own company, you have to think about others than yourself when making decisions and some people will try to rip you off.” (Personal Communication, 2014).

Moreover, time or the lack of it could as well become an issue for the entrepreneur taking other investors on board. The entrepreneur is expected by many investors to make some time for them, because according to AI 3 “Many of the investors think they have the right to a portion of the entrepreneur’s time. That much time does not exist.” (Personal Communication, 2014).

Another disadvantage expressed by the AIs was that it is not good to have too many investors. This argument is supported by AI 5’s statement where too many investors can result in a very complicated administrative process in the future, with a big group of people consisting of too many unqualified investors. AI 1 said that the biggest disadvantages of equity crowdfunding for the entrepreneur is “if they structure it improperly and perhaps is giving away too many shares of the company and not getting anything in return.” (Personal Communication, 2014). Another prevailing problem is the fact that you have to follow the rules in the statute according AI 3. The entrepreneur must convene general meetings and more important decisions and for that there is usually no time in a small start-up. An experience AI 3 testified about, concerning the problems when being involved with too many investors. Giving the example of when the majority of the investors decide that they want their possessions liquidated it can force the organization, even though they are too small, to make an IPO where they later cannot afford the demands of the stock exchange.

AI 1 expressed concerns regarding how the equity is structured, meaning how a raise actually turn into equity. Which according to the knowledge of AI 1 is still a big question mark. Both at EU- and Swedish level. AI 1 further stated that there clearly is a corporate governance issue. “It all depends on how much equity the crowd acquires through the process because if problems occur it is the owners that must take responsibility.” (Personal Communication, 2014). As for now it was clear that most AIs were not sure how equity crowdfunding is dividing the riches. What type of ownership does one get? A-shares or different kinds of share? “An Equal playing field would be beneficial, but [I] do not know what that would look like.” (Personal Communication, 2014).

Another problem with equity crowdfunding, more specifically in the second investment round, regards the way the ownership is structured. For an AI it is hard and sometimes even unattractive to invest if one do not know who the major shareholders in a crowd-funded company really are.

“If the owners are just some random mom and pop in some other country or some other part of town who just thinks it is fun to own a share or some portion of a share in a company... If that represents a large portion of the ownership, that’s very scary.” (AI 1, personal communication, 2014).

This is in accordance with AI 7 who said “it is never fun with a hard project and many shareholders in an early-stage. It reduces the value of the company. You want to be able to gather all owners in a room and discuss what to do.” (Personal Communication, 2014). This is agreed upon by AI 8 who
said that it is a big no if an entrepreneurial venture has too many investors. Adding, “when things are tough and you need advice, knowledge and help, that bridge is burned [if you have raised capital through equity crowdfunding]” (Personal Communication, 2014). Further, if someone owns a large percentage of the entrepreneurial venture it might according to AI 5 be hard to change that in the future.

AI 1 said that if meeting “someone who had raised money from crowdfunding, especially not equity crowdfunding, that is appealing.” (Personal Communication, 2014). Further saying that raising capital through equity crowdfunding can create problems in the future where AIs or institutional investors might find them less attractive (Personal Communication, 2014). AI 6 however sees a previously equity crowdfunded project as a major problem “I want to know how many shareholders there are and who they are. How are you even supposed to make decisions on the annual general meeting?” (Personal Communication, 2014).

### 4.4.2 Pre-Money Valuation

“Pre-money valuation being the valuation of the entrepreneurial venture before bringing in real investment rounds, issuing shares, in an official manner” (AI 1, Personal Communication, 2014). This was a concern AI 1 stressed regarding if the entrepreneurs were informed about pre-money valuation or not. According to AI 1:

> “Some people say they need 10 million SEK. They make up numbers, [since] it is very exciting to say you are asking for a lot of money, and they say I will give you 20 %, 30 %. [But] they do not actually know what the percentage equals or how many shares they will need to issue later, so they dilute earlier shareholders value, so I think it needs to be a clear understanding from the entrepreneur of what they should give up.”

(Personal Communication, 2014).

This argument is strengthened by AI 2 who stated that there is “always the problem of buying on expectation and selling for the real value. Since it is very hard to validate a company.” (Personal Communication, 2014). Similar concerns were expressed by AI 8 when saying that it is problematic to valuate a businesses based solely on ideas and prototypes, especially when the people involved are lacking knowledge. This is expanded further by AI 2 saying that the small investors, the crowd, are generally not as knowledgeable regarding investments as AIs are, and hence the crowd do not know how investments really work in practise. “There is always the problem for a new investor of paying too much money in the early stages [of funding rounds].” and hence most people will get disappointed (AI 2, Personal Communication, 2014).

### 4.4.3 Dilution

People who are inexperienced do not understand the effects of later investment rounds where their share will decrease if they do not have the financial muscles to help the company grow further. AI 1 stated that it is bad “if the investors do not assume the risk and have no willingness to put in additional capital.” (Personal Communication, 2014) in a later stage. AI 5 believed that the ones who initially invested in a project will probably not be able to keep up with their investments for future investment rounds, and will hence get their initial shares diluted. It was also added that because of this, the crowd might be scared away (AI 5, Personal Communication, 2014). AI 2 explained that this is due to the rules of investing. If you are to invest in early stages of a company you generally have to be prepared to have enough capital to keep your amount of shares for future investment rounds to come as well.
AI 5 gave an example where someone who owns 1‰ of an entrepreneurial venture today probably will expect to own 1‰ of the venture when it is being sold, but in reality that will probably not be the case. Continuing by saying that a business that makes it to the phase of acquisition or IPO has most likely been financed by a significant amount of larger institutional investments along the way, diluting the shares of early investors. Concluding that the majority of the investors are lacking the knowledge of how it all works.

People will think it is fun to make investments the first time because like AI 1 expressed it:

“'It's like buying the base BMW, it is not a real BMW, it’s like a shitty four cylinder engine, no trim, nothing special, but you can say that you drive a ‘beemer’. I think this is equivalent for investors. I’m an angel investor, oh really? Yes, I invested a 100 dollars.”’ (Personal Communication, 2014).

AI 1 further added “when more money is needed, people will get upset. Not to mention when things take time, people will have no patience wanting to see their investment pay off.” (Personal Communication, 2014).

Oculus created dissatisfaction within the realm of traditional crowdfunding and according to AI 5 this will happen with the first successful equity crowdfunding campaigns as well. As already mentioned, when the entrepreneurial ventures are being sold, people will realize how diluted they were and bad headlines will cover the newspapers, billboards and loads of dissatisfied blog post will be posted. AI 5 continues, “if the development of the shareholding agreements goes in the right direction with standard agreements, and if the awareness among the investors is spread, it could work.” (Personal Communication, 2014).

4.4.4 Laws & Regulations

AI 7 believed that equity CFPs know that “they are living on borrowed time” but they are too “busy making money so their business can survive” and they are currently trying to expand their platforms geographically (Personal Communication, 2014). AI 7 gave the example of the online gambling industry, which was not allowed in the U.S., so they set up in Costa Rica. After a while the U.S. got tired of it and managed to shut them down, but as they had been doing it for a few years, they still earned millions. Similarly, in Turkey they have death penalty on gambling. Still, gambling companies have made billions in Turkey by having a structure, which allows for it to work. The same could apply to equity crowdfunding. “In the future they might have to be set up in e.g. Singapore, Hong-Kong or any other country where there are softer regulations.” (AI 7, Personal Communication, 2014).

Further stating that ECFs could be structured any way, “it is up to the Swedish financial supervisory authority.” (AI 7, Personal Communication, 2014). However, “they will not completely forbid them overnight” (AI 7, Personal Communication, 2014). The authorities will most likely decide under what regulations a certain platform falls, change a regulation and decide what kind of security company that business is and what rules that the company needs to follow. Giving them the ultimatum where they will suggestively have “six months in which to implement them.” (AI 7, Personal Communication, 2014).

According to AI 7, if equity crowdfunding is just a fad which people think is cool, the concept will fragmentize, resulting in many different platforms. This will most likely get the attention of the governments who will establish regulations. The websites can then not just build a nice front but are forced to create a fully legit business in order to survive. If they are successful with this, it will be very interesting. The AI continued saying that:
“many businesses will have to shut down as soon as the first regulations are implemented, similarly to the companies in the financial sector who found loopholes which they did not believe was or was not regulated, but then later became regulated.” (Personal Communication, 2014).

According to the same AI, the attitude within the industry is quite energetic, just like within the internet culture in general where most things are allowed as long as they do not harm anybody. This approach will soon get equity CFPs in trouble hence, the business must be regulated. This is in line with the thoughts of AI 8, who stated that if the industry does not becomes regulated, it will turn out to be a “fad with a bittersweet aftertaste.” (Personal Communication, 2014).

AI 5 agreed with the vague and unclear way it works legally today but further believed that the equity crowdfunding ownership contracts probably will be structured better further down the road. AI 7 stated that people have been sceptical to internet phenomena in the past, being sceptical in general, but the problems have many times been solved. “You should not care about stuff like that.” (Personal Communication, 2014). “What you should focus on is what the biggest problems are today and the biggest problem is that they [the CFPs] are cheating, it should be regulated - they will get smacked in the face.” (Personal Communication, 2014). Equity CFPs have to look themselves in the mirror and ask:

“What do we need to do in order for it to work?”, those who do that will survive. But those who cannot manage the change needed are not managing their business the right way, and will probably only survive for a little while.” (AI 7, Personal Communication, 2014).

AI 4 agreed with the understanding of future growth of equity crowdfunding, just as the other AIs, and additionally believed that due to the almost non-existent regulations of today’s market, many small investors will probably “get burned” by bad investments in the future, which in turn would result in bad publicity for equity crowdfunding. This is strengthened with the thoughts of AI 7 who believed there will be scandals, both from stuff that boarders to criminal activity and immorality, but as well non-serious projects.

AI 8 also believe there is a high possibility of fraud when unregulated. “It could go either way. If it goes the way I think it will go, it will act as a parallel alternative of raising capital but chances are that scandals will happen.” (AI 8, Personal Communication, 2014). This is not only believed to be bad as the result would be the interference of governments applying real regulations that would draw the attention of investors once again (AI 8, Personal Communication, 2014).

AI 3 stated that it will be hard to get through a structural transaction. Further explaining that investors “must sign complicated documents e.g. warrants and long U.S contracts written in legal-ese.” (Personal Communication, 2014). Also, due to law, the way you are able to market your stock when you are not publicly listed differs according to AI 1. Furthermore, the AIs wondered what would happen when an investor wants to sell their share? Where should they sell the shares and to whom? Because like AI 2 stated, the investors have “no liquidity.” (Personal Communication, 2014). One solution could be to get listed on the stock market but that would be very expensive, and as AI 2 stated, it “makes no sense if you are a small business.” (Personal Communication, 2014).

AI 3 stated that it is important to highlight the fact that no one knows for sure what the future might hold, as no equity crowdfunded company has been around for that long yet. Therefore all the future aspects are just qualified guesses from industry experts. This is in line with AI 7’s argument that “it is impossible to know how things will be regulated.” (Personal Communication, 2014). Maybe it will be enough if the CFPs implements a few rules. AI 8
said that the CFPs have to do something before they break down. To obtain a more long term approach “by increasing requirements and creating some sort of committee which helps the entrepreneurs seeking funds, as well as making it fair to the ones investing.” (Personal Communication, 2014). “It will increase the costs, it will not be as easy, but it will decrease frauds and flagrant fiddles.” (Personal Communication, 2014).

4.4.5 Intellectual capital

AI 5 believed that by using equity crowdfunding all the way and never bring in institutional capital you will miss out on networks, recruitment, markets and new exit possibilities. So by keeping to only this source of funding you are making it harder for yourself. By utilizing this service, entrepreneurs are missing out on potential expertise of an AI or VC. They miss out on valuable knowledge and a potential business coach. Like AI 2 put it, someone who “invests with the heart and long term.” (Personal Communication, 2014).

4.5 Filling the Equity Gap

“Of course it could be a supplement to fill the first part of the equity gap as the amounts funded usually are too small for VC’s and AI’s to contribute with.” (AI 2, Personal Communication, 2014). AI 1 agreed with this and stated that: “We talk about this ‘missing middle’, this gap, early on, money that is clearly needed but is perceived as too high risk [for ordinary AI’s to invest in], and the idea of impact angels is to fill that gap but even [they] aren’t filling that gap.” therefore equity crowdfunding is an important contribution to the field of early stage funding (AI 1, Personal Communication, 2014). “It’s a tough business, 9/10 business start-ups fail.” (AI 6, Personal Communication, 2014).

AI 2 however stated that equity crowdfunding might not even cover the equity gap as most Swedes do not have the requested capital to invest themselves. “We are too few wealthy Swedes, with too little private equity.” (AI 2, Personal Communication, 2014).

AI 2, AI 5 and AI 6 all stressed the fact that people in the US have more money per capita in comparison to Sweden and recognized that the size of the market will have an impact on the results on possible equity crowdfunding attempts. Suggesting that raising capital in Sweden is harder compared to America where the market is bigger and additionally (AI 2, Personal Communication, 2014). This is supported by AI 3 who argued that raising capital in Sweden will be much more challenging than raising capital in the US due to the differences of each individual market. According to AI 5, the market is not only different but also sometimes as much as 50 times bigger in the US. Further stressing the importance for EU sites to be international. Swedish sites, for example, have to expand in order to make at least the European Union their base. They need the bigger access.

AI 8 believes that the disadvantages are greater for the investor in comparison to the entrepreneurs. The risks are not as high for the entrepreneur, but for the investor, “if not a 100 times at least twice as high.” (Personal Communication, 2014).

4.6 Suggestions for Improvements

AI 1 mentioned a suggestion where the company that has decided to use equity crowdfunding sets up a separate company, which essentially is a fund. They do this themselves or with help of a fund manager. The crowd then invest in this fund, and not in the company, and this fund will only invest in that company. The fund will then own a certain percentage of the company and have a decided voting right in that company. According to the AI this makes more sense since it is easier to understand and consist of shared rules, “how to fund and shared responsibility” (Personal Communication, 2014).
Similar to the suggestion above AI 7 mentioned a growing strong platform currently existing in the U.S. where investors can buy-in with an AI. The experienced AI has a project in which to invest in but need more capital and the crowd can support the AI with that capital and the crowd will get shared profit on the amount invested. This model where the crowd becomes co-investors with a professional and where the AI deals with the stocks and voting rights is a model AI 7 believed in. The crowd will keep track on how the business is doing by the AI sending them reports. The AI then function as a fund broker. AI 6 agreed and said that “a mutual fund is easier. Especially from the entrepreneurs perspective and for me as an AI when I see that a fund is the owner.” (Personal Communication, 2014). “If the investors can go together in a mutual fund. It would solve many of my doubts. The business idea is spread so easily.” (Personal Communication, 2014).

AI 8 talked about investor syndicates and the possibility of equity CFPs taking bigger responsibility. What was being said was in line with the already mentioned suggestion of creating a fund where the people interested of pursuing equity crowdfunding pool their capital and someone is selected to run the investors’ applications. The problems are however many. Firstly, the problem of selecting who should manage this fund, keep the accounts and decide what to do with the capital. By doing this it is no longer crowdfunding but an investment collective where everybody get a smaller shares and hence nobody have any influence, it is just capital being invested. Moreover, this might be a problem if the company wants to grow or has grown and are moving to the second investment round. How is it done and how does one communicate?

AI 8 further suggested the creation of an angel network with an open back end where daring speculators who think it is fun have the opportunity to do it as an angel group. “Okay, at least now we have a professional valuation of the company, we have a professional management who are willing to invest their own money at a high risk.” (Personal Communication, 2014). A company seeking 5 millions get angels to invest 3-4 million and since their is a gap left as it can open up to equity crowdfunding, meaning you do not need to be educated but you can do it on the same premises. You will get another control of the investment.

“A combination is where it will all go in the end. Long-term, it is less risky and a healthier system where everyone can join in but everyone is forced to behave, reducing fraud and fair valuations. The entrepreneurial venture gets capital, supporters and professional guidance.”

AI 5 talked about good shareholder agreements that will work in future investment rounds. Where you have to be pedagogical towards the people making the investments and explain what it all means. These investors are most likely to be inexperienced. Two types of agreements were mentioned where the first one was an agreement that cannot be changed. Which can make it more difficult to get investors in the future. The other option was to reach an agreement subject to change, which could be negotiated in the future, but at the same time very hard to implement since you cannot negotiate with all parties. The angel further stated that it is a challenge and the AI did not really know how to do it.

Finally, AI 5 is predicting equity crowdfunding to, to some degree, pursue the same development as the trade of shares. More clearly, it will reach a wider layer of the population like the stock market in the 1990’s where it blossomed and became a popular “sport” and where it even became normal for the average Joe to choose this option as a choice of investment. “The same could happen for equity crowdfunding.” (Personal Communication, 2014). AI 6 however believed that CFPs will keep the role it has today in the future, as a financial meeting place for unquoted businesses.
5 Analysis

In this chapter the findings are merged with the literature presented in section 2, frame of reference. By combining the two, the results will be analysed through the lens of established literature and own interpretations to be further discussed in chapter 6. As a result of the analysis, a previous model of company growth stages have also been re-written with regard to the empirical findings, now focusing on the equity gap.

5.1 AI Awareness of Equity Crowdfunding

When looking at theory of AIs by Wetzel (1983), it states that the population of AIs is unknown but once you have found one you will find yourself with a cluster of AIs since they are connected by an informal network. The authors interpret it as communication flowing within the realm of AIs and a rapidly growing phenomenon like equity crowdfunding will consequentially not come unnoticed. A few had even been communicating with someone from the industry and despite the novelty of the phenomenon, the majority of the AIs grasped the meaning of the concept.

Crowdfunding is not a new thing; “People have always used their own network [for help with funding]” was expressed by one of the AIs. Supported by theory the AI is right. Crowdfunding has been around for a long time, but sending mail within own networks requesting funding can not be considered as equity crowdfunding as it is not technically an open-call, as explained by Belleflamme et al. (2011). An open-call has to target an unknown group of people (Crowdfunding Industry Report, 2013), much like Joseph Pulitzer’s newspaper ad did back in 1884 (NPS, 2014). The use of own networks is interpreted by the authors as making use of family and friends, as described by Wetzel (1983) and Coveney and Moore (1998), which is not classified as crowdfunding.

5.2 AI Attitudes Towards Equity Crowdfunding

The reason for the positive attitude is reasoned to be since AIs are well aware of the difficulties associated with raising external capital for the entrepreneur. Some AIs are approach by as many as 200 potential projects yearly, many which they have to reject. Hence, the general perception of equity crowdfunding was positive as “it is positive for the whole ecosystem and society” that more businesses are being created. The equity gap causes many entrepreneurial ventures not to reach their full potential (Coveney & Moore, 1998) so “the more alternatives there are [for raising capital], the better”. Which sums up the general AI standpoint. AIs represent the largest pool of funding for entrepreneurial ventures (Wetzel, 1983; Avdeitchikova et al., 2008). However, since the equity gap causes many entrepreneurial ventures to fail (Coveney & Moore, 1998), one can make the assumption that they can not fill the equity gap by themselves and that the informal venture capital market is not efficient enough.

When summarizing the attitude, the general feeling the authors got when conducting the respective interviews was that all AIs were positive toward the underlying ideology behind equity crowdfunding. That is, helping more entrepreneurial ventures reaching their full potential (Coveney & Moore, 1998) by tapping a previously unutilized source of capital (Hemer, 2011). However, serious concerns were raised about the actual process of raising capital through equity CFPs. In other words, the ideology can be hard to implement in practise without frictions, and this is according to the authors a suitable explanation to why it is yet to be recognized as an important and accepted tool for raising capital. As of now equity crowdfunding has high potential, but that is all there is.
5.3 Benefits of Equity Crowdfunding

5.3.1 Crowd Investors
It was expressed that an uninformed crowd who invest more spontaneously could potentially benefit the entrepreneurs by allowing them to give up less ownership. It was further expressed that the all so professional AI is tougher in negotiations, leading to entrepreneurs having to give up more ownership when receiving the same amount of AI capital. This is interpreted as the party with most experience, or most knowledge, has leverage when negotiating. So the quote, “If you believe you can do without an Angel Investor and its experience, you might as well try to crowdfund your business as you’ll get a better price for doing so.” is reasoned to be justified.

5.3.2 Early Stage Funding
The Crowdfunding Industry Report (2013) states that crowdfunding may shorten the path from idea to marketplace. If having a suitable project the entrepreneur can get help with the risk to develop its product from idea stage to reality and even get the product beyond the proof of concept. A suitable candidate can hence move from point A to desired point B. Interesting is, “As you have crowdfunded… you have already gotten a validity check of your product and obviously you know that a great amount of people are not only interested but willing to give you some of their money as well”. So how this capital is raised is less important because of the current experienced bottleneck. Banks and VCs are becoming less interested in financing the high risk, early stage entrepreneurial ventures (Wetzel, 1983; Coveney & Moore, 1998) and one AI denies multiple proposals yearly. So the possibility of utilizing this additional source of finance is better than possibly failing. Hemer (2011) proposes crowdfunding should be supported and recognized as one of the few useful tools for raising capital in the early stages of company growth. In the case of the AIs most of them partly supported this statement by the already mentioned, highlighting the fact that entrepreneurs can get funding in an even earlier stage than with traditional help from VCs and AIs.

5.3.3 Non-Financial Aspects
The benefits go beyond the financial aspects according the literature. Belleflamme et al. (2011) highlighted the importance of public awareness and obtaining feedback from potential future customers. The findings suggest exactly this where the chance of marketing themselves to their segment and future customers is seen as a big upside. The PR effect is something one normally would not get by using traditional sources of funding and if you have a project that relies on brand awareness it fits perfectly.

Obtaining feedback is an important factor when utilizing crowdfunding as the entrepreneur seeking funding will very soon get an indicator if the business idea is appreciated by the crowd and potential customers. Tapping the crowd of collective intelligence is what makes crowdfunding an desirable source as not even an AI or VC possesses the wisdom of a large group of people (Surowiecki, 2004), because as Lévy (1997) stated “no one knows everything, [but] everyone know something”.

5.3.4 Who Is It Suitable For
Gerber et al. (2012) state that motivation goes beyond financial aspects from the investors’ point of view. Also mentioning emotions as an influencing factor, and the sense of involvement and belongingness as well as the sense of being supportive and the sense of enjoyment. Since the crowd lacks the financial knowledge and will invest on pure gut instinct
and what they believe will work in practice, projects that play on peoples emotions will have a better chance of succeeding.

Which is in line with the findings where it was believed that products everyone can see themselves as a customer to, that are easy to relate to and projects people believe in or with a good cause are “crowdfundable” products. It has to be something so impactful that people can put their reputation behind it. It should additionally be fun projects that you can touch and with a business models people understand. Gerber et al. (2012) provide similar views as the findings received which did not come as a surprise as additionally the Crowdfunding Industry Report (2013) state that social endeavours prevails as the top crowdfunding activity.

It was believed that a project with a wider prospective clientele had a better chance of success, which makes sense, as it is people who are interested, and hence are the potential customers, who are the investors. Moreover, it attracts the masses that want to do good which can be connected to Gerber et al.’s (2012) theory about being supportive. The fact that people want to succeed and be on the winning team can be related to the researcher’s suggestion of sense of involvement and belongingness mentioned earlier, as well as enjoyment.

People who believe it is fun to make investments as well as early adopters are groups of people who potentially could be the target group for CFPs and entrepreneurs. These people are attracted to phenomena like equity crowdfunding. To potentially discover something great and be the first ones in is something that appeals to these people, especially the early adopters. It was those people who helped to finance Oculus. Findings suggest it is for people who “like the appeal of being on something that eventually could succeed”. In the case of Oculus the early adopters liked the appeal of potentially being part of revolutionizing the gaming industry.

As the Internet phenomenon equity crowdfunding is today, which the web 2.0 has enabled (Kleemann et al., 2008), it is an important tool for raising capital for people with a great social network as Buraschi and Cornelli (2013) states. Web 2.0 has made investing easier and this is something findings suggest.

## 5.4 Constraints of Equity Crowdfunding

Several disadvantages were brought forward during the interviews and basically all AIs touched upon the same issues which according to them had to be addressed in order to secure future growth and sustainability for equity CFPs. During the interviews, the constraints piled up and were the subject for discussion for the most part. It became clear to the authors that equity crowdfunding does have a lot of constraints explaining why AIs are yet to recognize the phenomenon as a legit source for a capital raise.

### 5.4.1 Ownership Structure and Corporate Governance

Just as when raising capital through an AI, the entrepreneur is still giving up shares of their company when raising capital through equity crowdfunding as well. However, through equity crowdfunding, one will not access intellectual capital. This is one of the major differences and justifies why AI capital is more expensive to acquire.

A major constraint that all interviewees stressed was the fact that problems will arise from having too many small investors that will have direct ownership in the entrepreneurial venture following a successful equity crowdfunding campaign. The resulting company struc-
ture is hard to manage. This confirms that corporate governance issues might shy away AIs (Sherman & Brunsdale, 2013). All interviewees conclusively stated that they would not touch a company having raised capital through equity crowdfunding. This was perhaps the most acute concern to the AIs who stressed the difficulties in running a company with this structure. This is interpreted to be very accurate as the AIs have extensive experience from sitting on the board on numerous start-ups. Especially as one of the AIs brought up an example of having too many investors on-board, justifying how the company becomes hard to manage when board members want to take the company in different directions. The decision making process would be very complicated as well. AIs clearly want to know who the other major shareholders are.

5.4.2 Pre-Money Valuation

One of the issues that were heavily stressed was associated to the complexity associated with the difficulties process of raising capital. For example, valuing projects solely based on ideas and prototypes is close to impossible even for professional investors, they are educated guesses at best. (Cumming, Gill & Walz, 2009). One can then imagine how much chance that is involved when the crowd, with little knowledge of the actual investing process, are the investors. CFPs do furthermore not take any responsibility for how the entrepreneurial ventures are valuate, which increases the probability of a poor valuation of the company. Therefore, AI 4 makes a good point when stating that many investors will “burn themselves” on bad investments (Personal Communication, 2014). Other like AI 8 and AI 7 are moreover expecting something in the likes of a scandal to reach the press and hence damaging the reputation of equity crowdfunding severely. Nevertheless, the perception is that there is a high risk that the buzz and interest will cool off in the future if nothing changes.

5.4.3 Dilution

One major concern expressed was once again derived from an uninformed crowd, which do not understand the process of raising capital, namely the implications of future investment rounds. One equity crowdfunding round will almost certainly not be enough. For future growth additional investment rounds will be made where larger players who see the potential growth in the company will be speculators and if the investor can not contribute with its share he/she will get diluted, hence reducing the change of the investors ever seeing a return on their investment. This is something that will create a negative vibe around equity crowdfunding when the expected prosperities and profits are absent. This is another finding that exposes the many downsides of investing, but it does also demonstrate that the AIs do not expect much of the crowd. Another conclusion drawn is that it is hard for an investor of the crowd to ever see a financial return on his/her investment. However, previous research suggests that motivation go beyond the financial aspect, which is positive to the equity CFPs.

5.4.4 Laws & Regulations

Another concern was the lack of proper regulation of equity crowdfunding, which is simply interpreted as a result following the novelty of the phenomenon. When regulations eventually are established however, equity CFPs will be forced to deal with administrative processes, which are both costly and time consuming. The reason for this is, as mentioned before, that equity or equity like shares are classified as securities that are otherwise heavily regulated. This will probably also drive up the costs of using equity CFPs, which is clearly not favourable. In the USA, the JOBS act took place as of 2012 and it authorizes equity
CFPs to host transactions of such securities, but the bill is still a subject for improvement (Bradford, 2012). In a similar way, the European Commission have implemented a few directives to make it easier as well as safer to engage in securities trading within the EU. Although no laws or regulations have been customised to fit equity crowdfunding as in the case with the JOBS act, the Swedish investment deduction does make it cheaper for investors to invest. Something that indeed makes the use of equity crowdfunding more attractive for investors. It is only a question of time however before laws and regulations will be enforced and AIs are under the impression that equity CFPs might be hit hard since they might not be able to adapt quickly enough as they are too busy expanding and chasing market shares. Furthermore, although the concept of equity crowdfunding is the same worldwide, the differences in laws and regulations could hinder cross border investments and create economic frictions that crowdfunding is said to reduce (Agrawal, et al., 2011). The study by Agrawal et al. (2011) may therefore not be applicable to equity CFPs. According to the Crowdfunding Industry Report (2013) the median pledge size of an equity crowdfunded project is as much as $190,000 (~€138,000). This means that statistically, more than half of all equity crowdfunded projects in the EU have to publish a prospectus when engaging in crowdfunding, as this has to be done if the pledge size exceeds €100,000 (Commission Delegated Regulation (EC) No 809, 2012). Something that AI 3 was well aware of and related to these as “complicated documents …written in legalese.” that the investors have to sign (Personal Communication, 2014). This could be a disadvantage as investors and entrepreneurs might be shied away from equity CFPs due to a lot of paperwork. But it can also be argued to be a benefit since only the entrepreneurs that really are prepared to walk that extra mile to get funding will. At the moment however, equity CFPs are for the most part operating in a grey zone due to the lack of proper regulation and they can not do that forever. This is a reason for why the future of the phenomenon is so uncertain and a sound explanation why AIs still are so sceptical. Justifying Hemer’s (2011) findings that equity crowdfunding is yet to be recognized as an important tool for raising capital.

What one can conclude from this is first of all that much of the AIs’ uncertainty about equity crowdfunding lies with the fact that the novelty of the equity CFPs. Laws and regulations take time to establish and hence can not keep up with the fast movements of the web 2.0, but when it eventually does, equity CFPs may struggle to survive as they most likely will have to adapt.

5.4.5 **Intellectual capital**

Another major disadvantage is the fact that the entrepreneur is missing out on the experience, knowledge and network that the AI can offer (Wetzel, 1983; Harrison & Mason, 1992; Harrison & Mason, 2008). The entrepreneur will inevitably miss out on expertise that could help the company to grow. By using equity CFPs to raise capital, the entrepreneur will not be able to access what AI 8 refers to as “intellectual capital” (personal communication, 2014). This finding could of course be seen as biased since the authors are interviewing AIs.

5.5 **Filling the Equity Gap**

The amounts that entrepreneurial ventures today requests are many times too small for VCs and AIs, where the potential profit in relation to the high risk is considered unprofitable for these two players. Wetzel (1983) and Coveney and Moore (1998) state that many entrepreneurs have used AIs to fill this gap, but even they are not filling that gap and hence equity crowdfunding “could be a supplement to fill the first part of the equity gap”.

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The model represents the authors’ interpretation of van Osnabrugge’s (1998) growth stage model where equity crowdfunding has been added. As can be seen below, it is covering both the idea stage and the second staged, which is characterized by the equity gap, complementing AIs, but with a higher degree of risk.

Questions were raised concerning the Swedish population not being able to help cover this gap due to their of level wealth and the lack of private equity. Referring back to Agrawal et al. (2011) suggesting that equity crowdfunding eliminates most distance-related economic frictions this problem can potentially be somewhat overcome by the assumption that foreign investors interested can invest as well. That is the beauty of web 2.0. The entire world is the potential market from the start and borders are smudged. However, one can argue that it is not that easy. The influential factors mentioned by Gerber et al. (2012) are making it more complicated. Is someone from the U.S. feeling belongingness with someone from Sweden and can someone from Sweden identify themselves with someone from the US? Arguably, it is not as easy as just smudging borders by the creation of an online application. Just because economic distance-related frictions are eliminated does not imply that other distances are deleted.

### 5.6 Suggestions for Improvements

The AIs did as mentioned earlier weather their concerns about equity crowdfunding, but it was not without backing them up with suggestions for change. Interestingly enough, one particular solution was repetitively mentioned, namely a mutual fund. This would be a solution to the corporate governance issues resulting from having too many small shareholders. If the equity CFPs were to set up a mutual fund, channelling the investments, the crowd would essentially become non-voting shareholders. Other type of problems would emerge from implementing a mutual fund structured CFP, such as who would be the spokesperson for the mutual fund. Furthermore, since the crowd investors are not direct shareholders of a target company when investing through a fund, regulatory issues are avoided as well.
AI 7 mentioned a similar solution where for example an AI would make an open call, stating he is about to invest in a company and offers the crowd an opportunity to co-invest with him. AI 7 claims this is already an established concept in the USA and predicts that equity CFPs would not be facing such an uncertain future if structured like this. This is a suitable solution to several of the problems many of the AIs stressed. It would first of all, and similarly to the mutual fund solution, solve the corporate governance issues as it reduces the number of shareholder. Moreover and in contrast to the mutual fund solution, there would not be any uncertainties of who would be the spokesperson for the fund. This solution is very interesting as it also tackles many of the other issues brought up. For example, the entrepreneur does not miss out on intellectual capital, but still manages to utilize the crowd as a source for capital. This solution would also increase the chance of the crowd hitting successful investments.
6 Conclusion

In this chapter the authors will discuss how the purpose was fulfilled by summarizing the answers of each research questions systematically.

The purpose of this thesis was to explore equity crowdfunding from a professional investor point of view. The aim was to discover the attitudes and opinions of AIs on the subject matter and shed light on why it is yet to be recognized as an important tool for raising capital. This study also provides suggestions for improvements of the mechanics of equity crowdfunding. The purpose was fulfilled by answering the respective research questions that guided the research through personal semi-structured interviews with AIs:

To what degree are AIs aware of equity crowdfunding? - It became clear that the level of awareness was high among AIs. They were furthermore well aware of the concept despite the novelty of the phenomenon.

What attitude do AIs have towards equity crowdfunding? - AIs are generally positive towards the underlying ideology of equity crowdfunding, as they are well aware of the difficulties associated with raising external capital. This causes many entrepreneurial ventures not to reach their full potential, which indicates that the informal venture capital market is inefficient and confirms that there is an equity gap. A gap which historically only has been covered by AIs. Therefore, the AIs are positive to equity crowdfunding as it is seen as an alternative way of raising capital that can help bridge the equity gap. They were however sceptical to how it is currently working in practise.

What are the benefits of equity crowdfunding from an AI perspective? - The fact that projects can attract external capital already in the idea stage, in terms of growth, is seen as one of the major advantages with equity crowdfunding. Such entrepreneurial ventures are too young for AIs to invest in. Furthermore, a successful equity crowdfunding campaign can get a product beyond proof of concept, as well as creating a fan base and a buzz. The marketing aspects of equity crowdfunding can therefore be seen as a significant benefit.

For whom is it best suited according to the AI? - The type of projects that equity crowdfunding is best suited for are business models that are easy to understand. Companies with tangible products, impactful projects that the investors can put their reputation behind, fun projects, “dodgy stuff” that investment banks would never touch. Lastly, ventures in the very early growth stages currently only possess ideas and prototypes are examples of suitable characteristics. The type of investors attracted by equity crowdfunding on the other hand is most likely early adopters.

What are the constraints from an AIs point of view? - Valuing a business is practically impossible even for professional investors, especially during the idea stage. There is hence a high risk that the shares will be diluted during later rounds for raising capital, and chances for getting a return on the investment is low. Another major constraint is the fact that equity crowdfunding is still not properly regulated due to its novelty. Future laws may add costly and time-consuming administrative costs to equity CFPs. Future laws and regulations will hit many equity CFPs hard as they are too busy chasing market shares today. The biggest constraint brought forward was perhaps the company structure resulting from having too many small shareholders, which creates a complex corporate governance structure that will make the company hard to run. This will in turn shy away AIs from future rounds. Lastly, it is hard to attract intellectual capital using equity crowdfunding. Hence entrepreneurs will
miss out on experience, marketing, management and networking activities that AIs can bring to the table.

Are there possible improvements they can suggest? - The most common suggestion for how to get around the issues was the idea to set up a mutual fund to channel the crowds’ capital. The uncertainties concerning laws and regulations would thereby be avoided since funds are already heavily regulated. The same goes for the corporate governance issues since the crowd does not become direct shareholders in the company and would thus not have voting rights. Uncertainties of who would manage the fund could arise following this solution however. That problem would though be resolved following another suggested solution. That is, an AI making an open call over the Internet, announcing he/she will invest a company they see high potential in. The crowd would then be given the opportunity to co-invest and AIs would then be speaking on behalf of the crowd.

7 Discussion

This final chapter will ventilate the authors’ opinions and how they changed as the research progressed. Further, the implications of this research, suggestions for future research as well as some final methodological remarks will be brought up.

It was exciting to explore such an up to date, and rapidly growing phenomenon as equity crowdfunding. Especially when exploring it form the viewpoint of professional investors as the learning potential was huge. Before starting the actual research, the authors looked through several newspaper articles to get a grasp of the phenomenon. Most of those articles were suggesting equity crowdfunding to become the next big thing, revolutionizing the financial playing field and democratizing the process of raising capital. Initially the authors shared the enthusiasm of some of the journalists, and were at this point slightly confused to why previous research suggested that equity crowdfunding was not considered to be a legit instrument for raising capital by AIs and traditional financial institutions. Eager to explore the opinions of the expert investors, and almost convinced that either previous research were about to be proven wrong, or that eventual AI scepticism would be interpreted as fear for potential competition. Such were the basis that the authors set off to explore the Angel Investor perspective.

However, when conducting the respective interviews, it became more evident that the equity crowdfunding phenomenon is being hindered by some fundamental constraints that probably have to be dealt with in order to satisfy the enthusiasm. After the data collection was complete, the authors’ initial beliefs had shifted towards the scepticism of the AIs. It became clear that equity crowdfunding is indeed not yet seen as a legit alternative to informal venture capital and the scepticism was justified. Equity crowdfunding does still posses huge potential, both in the interviewees’ and the authors’ opinion, but it remains to be seen how it will develop in the future. The authors will follow its progress closely.

7.1 Implications

The authors argue that this thesis can provide implications for three main actors, namely for the entrepreneurs seeking capital, the investors and the CFPs.

The entrepreneurs looking for funding will find this thesis useful as a tool to gather knowledge about what the benefits and constraints with crowdfunding are, from an AI perspective. This thesis can also help to educate the crowd interested in placing an invest-
ment about the implications involved in raising capital. Also providing an underlying note that knowledge is key when making any investment decisions. Lastly, the people behind CFPs can use the Angel (professional) Investor perspective to see what room there is for improvement when using equity crowdfunding.

By conducting this study the authors further want to stress their belief that equity crowdfunding has the potential to become an important instrument for raising capital to and for many, not only the entrepreneurs. It is their hope that this thesis will not only open the eyes of the CFPs, but also the eyes of governments and politicians, so that legislations and entangled processes currently surrounding it can be improved.

Throughout this thesis it has been argued that there is little known research on the topic of crowdfunding and equity crowdfunding. Furthermore, no research has been done on the combination of AIs and equity crowdfunding. This is supported by the use of the academic database of peer-reviewed literature, Scopus, where a simple search for the keyword crowdfunding yielded 96 hits. Using the key term equity crowdfunding resulted in 7 hits, and combining the key terms of equity crowdfunding and AIs, as well as later replacing AIs with Business Angels, yielded 0 hits in both cases.

This proves that the thesis will and has contributed to the field of crowdfunding and equity crowdfunding as it expands the theoretical discussion surrounding them both. It further adds to empirical insights on regulations, laws, processes and expert opinions regarding equity crowdfunding and the industry.

7.2 Suggestions for Future Research

As the research on equity crowdfunding is fairly limited, the academe needs additional studies regarding it and its development for the years to come. Time is also key to why further research studies might not be able to base their knowledge solely on this thesis. Technology moves fast and seen to the rapid growth of equity crowdfunding in recent years, it certainly looks like this rapid industry has no plans to plateau anytime soon. Not only this but as time goes by and industry changes, so does opinions and perspectives. Scholars should therefore tread lightly when applying the authors’ research and empirical findings to future research.

As the study is limited to the Swedish AI perspective on equity crowdfunding, and all crowdfunding markets currently are regulated differently, future research could suggestively focus on the perspective on foreign AIs.

7.3 Final Methodological Remarks

Knowing what the authors know now, the methods used were indeed adequate and correct in their appliance. By this, the authors are not saying that the only way to study the AI perspective on equity crowdfunding is through a case study. In fact an ethnographic approach for example might have provided a more thorough view on the perspective of the AIs. However, the authors would like to stress the fact that in order to become anthropologists and study a specific group of people, time is an important resource, which was not at their disposal.

The authors would also like to state that they are highly aware of the potential bias that might come as a result from interviewing AIs on their perspective of equity crowdfunding.
The empirical research can be argued to speak for this bias as the constraints listed by them are outweighing the advantages.

As equity crowdfunding is a concept still under development and a subject to change due to its novelty. The authors would like to make a final remark and state that a future study would most likely not yield the same results as presented in this study.
References


Commission Delegated Regulation (EC) No 809/2004 of 30 March 2012 amending Regulation as regards the format and the content of the prospectus, the base prospec-
tus, the summary and the final terms and as regards the disclosure requirements [2012] SWD(2012) 77 final.


Appendix I

Entrepreneurial Funding

Equity Crowdfunding

AI1
AI2
AI3
AI4
AI5
AI6
AI7
AI8
Appendix 2

What do you know about equity crowdfunding?
   • What is your Attitude towards it?

What role does equity crowdfunding has as of now?
   • What type of projects do you think it attracts?
   • What type of investors?
   • What projects have better chances of successfully raising capital?

Do you think that the role of equity crowdfunding will change in the future?
   • Cover the same equity gap?
   • Attract same type of projects/ entrepreneurs?

Pros with equity crowdfunding?

Cons with equity crowdfunding? (E.g. issues with corporate governance, equity, exit routes)
   • Is it always preferable to seek capital from an Angel Investor?
   • Do you think this will change in the future?

Do you see it as favourable for an entrepreneur looking for Angel Investment to previously have raised capital through equity crowdfunding?

Future outlook for the industry?

Could you see yourself using equity crowdfunding as a platform to find projects to invest in?