Crowdfunding: An Exploration of Funder and Entrepreneurial Heuristics

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Abstract

While crowdfunding practice has grown rapidly in the last ten years, related knowledge is still at an early stage of development. To date, many research efforts have sought to understand the determinants of campaign performance in rewards crowdfunding. Although the accumulated knowledge has been foundational, questions have arisen regarding the transferability of findings between types of crowdfunding and the lack of knowledge about individual funders and entrepreneurs. As such, scope remains for further work, especially related to understanding funder characteristics along with similarities and differences between types of crowdfunding. In addition to rewards, equity crowdfunding is an interesting area for further research as it offers a crowd-based funding option distinct from traditional sources. This thesis explores both the role of heuristics in the decision-making practices of funders and entrepreneurs along with how heuristics knowledge may be transferable between equity and rewards environments. The work draws on critical realism and the adaptive toolbox theory from the fast-and-frugal view of heuristics as a theoretical lens. Because two decision-making environments were explored, a comparative case study approach was used. Data from semi-structured interviews was transcribed and coded before being analysed thematically and formed into data structures. These represented the three main actors in each environment: the funder, the entrepreneur, and the platform managers-consultants. The findings show that specific funder types are likely to use heuristics related to financial-gain/value, emotion-and-values/brand, or momentum/impulse drives. Interpretation using the theoretical lens led to the probable use of six fast-and-frugal heuristics: tallying, take-the-best, recognition, satisficing, imitate-the-majority and imitate-the-successful. These heuristics were ecologically rational based on the type of funders using the heuristic and their interaction with structures and opportunities in the online environments in which they were used. Correspondingly, the portfolio of ecologically rational heuristics the entrepreneur uses in the three phases of a campaign were explained. This thesis contributes by building an understanding of the use of funder and entrepreneur heuristics in equity and rewards crowdfunding.

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Chapter 1: Introduction

1.1 Research Justification and Aims

Although crowdfunding[1] has grown rapidly over the last ten years (Ziegler *et al.*, 2021; Paresys, 2021), research efforts have lagged somewhat. Consequently, while some foundational knowledge has been built, mainly relating to rewards (product) crowdfunding, there remains substantive scope to build additional knowledge. Valuable contributions can be made by exploring funder decision-making and the extent to which knowledge is transferable between types of crowdfunding (McKenny *et al.*, 2017; Dushnitsky and Fitza, 2018; Pollack *et al.*, 2019). In addition to rewards, equity crowdfunding (shares) is an interesting area for further research as it offers entrepreneurs a route to obtain capital distinct from traditional sources. As such, equity and rewards crowdfunding can be used to explore funder decision-making and understand the transferability of knowledge between the two types of crowdfunding.

While some insightful research related to decision-making has been carried out (Allison *et al.*, 2017; Bi, Lui and Usman, 2017; Block, Hornuf and Moritz, 2018; Vismara, 2018a), few studies have considered heuristics as possible decision-making strategies. The fast-and-frugal view, which considers heuristics as effective decision-making strategies under conditions of uncertainty, in contrast to the heuristic-and-biases approach, provides a means to insightfully conduct research that addresses the contribution areas mentioned above (Tversky and Kahneman, 1974; Gigerenzer, 2008; Bingham and Eisenhardt, 2011). Accordingly, this research has two aims. The first is *to build knowledge about funder and entrepreneurial heuristics in equity and rewards crowdfunding*. The second is *to understand how entrepreneurial knowledge of heuristics is transferable between equity and rewards environments*. The knowledge generated in achieving these aims will provide valuable contributions in areas where gaps have been identified.

Note: [1]see section 2.1 for a definition and explanation of the four types of crowdfunding.

1.2 Theoretical Considerations

The research draws on the adaptive toolbox theory from the fast-and-frugal view of heuristics as a means to understand which heuristics are used, why they work in the decision environments in question, and how entrepreneurs can positively influence those environments (Gigerenzer, 2008; Bingham and Eisenhardt, 2011; Gigerenzer and Gaissmaier, 2011; Artinger *et al.*, 2014). The use of this theoretical lens is supported by a body of evidence built up over the last thirty years.

As crowdfunding takes place in an online environment with recognised information asymmetry issues and a high level of uncertainty (Knight, 1921; Courtney, Dutta and Li, 2017), it is reasonable to assume that heuristics are used in decision-making (Tversky and Kahneman, 1974; Gigerenzer, 2008). Research into heuristics grew after seminal work by Tversky and Kahneman (1974), who suggested that they simplify the complex process of assessing probabilities and assigning values to less complex judgements. Their view was that heuristics were helpful but could lead to severe errors of judgment due to inherent biases. Since the 1970s, numerous studies related to what has become known as the heuristics-and-biases approach have been reported in the literature, including in entrepreneurial finance (for example, Adomdza, Astebro and Yong, 2016). The focus of many of these studies has been to understand how cognitive biases influence outcomes.

In parallel to the heuristics-and-biases approach, an alternative fast-and-frugal view, focusing on the positive use of heuristics, has gained traction over the last thirty years (see Gigerenzer, Hoffrage and Kleinbölting, 1991, Goldstein and Gigerenzer, 2002; Gigerenzer, 2008; Bingham and Eisenhardt, 2011; 2014; Artinger *et al.*, 2014; Gilbert-Saad, Siedlok and McNaughton, 2018; Guercini and Milanesi, 2020). Gigerenzer, a primary scholar in the field, has argued that heuristics should be regarded as valuable, evolved decision-making strategies that work well when decision-makers' capabilities match the environmental conditions. Correspondingly, the adaptive toolbox theory has been developed to identify and understand the use of fast-and-frugal heuristics. The theory has three elements this research draws on related to identifying which fast-and-frugal heuristics are used, why they work, and how decision-making can be improved (Gigerenzer, 2008). The adaptive toolbox provides a means to achieve both research aims as it can produce knowledge about heuristics that can then be

compared to provide insights into transferability. Figure 1 brings together assumptions about the two decision environments.
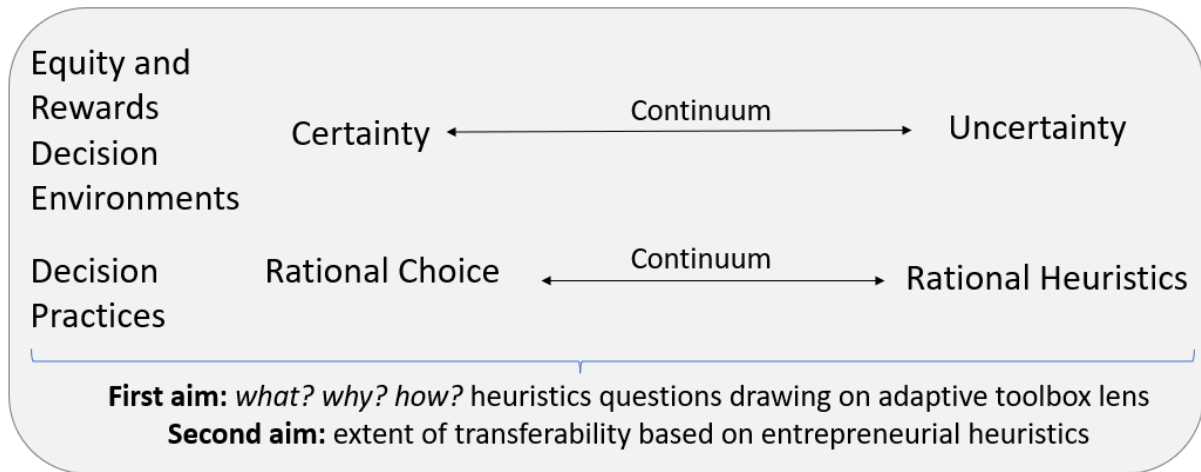
Figure 1: Theoretical Assumptions (author's own)

Assumptions related to decision environments include a high degree of information asymmetry (Courtney, Dutta and Li, 2017) and uncertainty of outcomes resulting from the uniqueness of individual campaigns (Knight, 1921). As for decision practices, heuristic-based decision-making contrasts with decision-making based on rational calculations, in which people are motivated by rewards and costs (Scott, 2000). Heuristics are tools that allow decisions to be made while ignoring some information but are still accurate under conditions of uncertainty (Mousavi and Gigerenzer, 2017). The first research aim is met by asking *what*, *why*, and *how* questions drawing on using the adaptive toolbox theory; the second by considering the similarities and differences between entrepreneurial heuristics.

1.3 Thesis Overview

1.3.1 Literature Review and Research Questions

Research related to crowdfunding and heuristics is reviewed, areas of contribution are identified, and research questions are formulated. Providing context, an initial section on enabling factors explains why crowdfunding has grown rapidly over the last ten years and continues to be an interesting area for further research. A crowdfunding-in-entrepreneurship section then identifies the general areas of contribution related to funder and entrepreneur decision-making practices and the transferability of entrepreneurial heuristics knowledge.

Finally, a heuristics-research section provides an understanding of areas of contribution related to what heuristics are used, why they work in equity and rewards environments, and how entrepreneurs can positively influence their use. Following the research aims, the research questions are formulated as follows:

1. What are the heuristics investors and entrepreneurs use in equity crowdfunding decision-making?
2. Why are the identified investor heuristics ecologically rational in equity crowdfunding environments?
3. How can entrepreneurs in equity crowdfunding use knowledge of heuristics and their ecological rationality to influence investor decision-making positively?
4. What are the heuristics backers and entrepreneurs use in rewards crowdfunding decision-making?
5. Why are the identified backer heuristics ecologically rational in rewards crowdfunding environments?
6. How can entrepreneurs in rewards crowdfunding use knowledge of heuristics and their ecological rationality to influence backer decision-making positively?
7. How transferable is entrepreneurial knowledge regarding heuristics between equity and rewards crowdfunding environments?

These questions explore funder and entrepreneur characteristics through a study of decision-making practices and consider to what extent entrepreneurial heuristics knowledge is transferable between equity and rewards crowdfunding environments.

1.3.2 Research Design

Critical realism is selected as the philosophical framework as it supports knowledge production in the exploratory environment in which the research takes place. A robust comparative case study approach is used as it allows the research questions to be addressed in an equity case (one, two, and three), a rewards case (four, five, and six) and then a comparative focus (seven). Purposeful sampling, based on an intensity and chain focus, is employed to select knowledgeable participants for semi-structured interviews. The equity sample includes twenty-four contributors who are entrepreneurs, investors, and platform managers-consultants. Similarly, the rewards sample comprises eighteen participants who

are entrepreneurs and platform managers-consultants. An interview guide and data management plan are developed to support the robust collection and processing of data.

Interviews are carried out from February to October 2020 using in-person, telephone or video formats. The transcription process, carried out manually by the researcher, results in 161,779 words of raw data. Gioia Methodology, drawing on in vivo and descriptive coding, is used to thematically analyse the data resulting in data tables (see Appendices I to N), data structures and process models that describe the data and justify the findings. NVivo is used to organise the data and conduct the analysis. Reflection and reflexivity are included throughout the data collection and analysis process. The reflection focuses on the content of the interviews and reflexivity on the processes involved in collecting and analysing the data (see Appendices G and H for additional details).

1.3.3 Findings

The findings are presented in three sections. The equity case findings are summarised in the equity model, which describes decision-making in the equity crowdfunding environment. The model uses the themes and aggregate dimensions from data structures for investors, entrepreneurs, and platform managers-consultants. Each theme is comprised of concepts described and explained in a narrative infused with supportive participant quotes. For investors, three themes emerge: *Financial Gain*, *Emotion and Values*, and *Momentum Drives*. For the entrepreneur, the themes are a *Pre*, a *Private* and a *Live Phase*, while for the platform managers-consultants, they are an *Equity Environment*, *Attractive Campaigns* and *Decision Making* by investors.

The rewards case findings are, likewise, summarised in the rewards model. This model uses the themes and aggregate dimensions from the data structures for backers, entrepreneurs, and platform managers-consultants. The themes are described and explained in a narrative with supportive participant quotes. *Value*, *Brand,* and *Impulse Drives* emerge as themes for the backers, while for entrepreneurs, it is *Pre*, *Live* and *Post Phases*. The themes for the platform managers-consultants are the *Rewards Environment*, *Attractive Campaigns*, and *Decision Making* by backers.

Finally, the comparative findings are described and explained based on similarities and differences between the equity and rewards case findings. Similarities are found in four areas.

For equity investor and rewards backer data structures, *Financial Gain* and *Value Drives*; *Emotion and Values and Brand*; plus *Momentum* and *Impulse Drives* are similar. The *Pre* and *Live Phases* are similar for equity and rewards entrepreneur data structures. For equity and rewards platform manager-consultant data structures, concepts like *Due Diligence/Screening* and themes like *Attractive Campaigns* are similar. Conversely, each of the four areas shows differences related to underpinning concepts, themes, regulatory environment, and the effort required by entrepreneurs.

1.3.4 Discussion

The discussion answers the research questions and articulates contributions to knowledge. The structure follows from the findings, with questions one, two and three answered in an equity section, questions four, five and six in a rewards section, and seven in a comparative section.

Question one provides a framework based on the three drives identified in the findings and explains the types of investors and the probable fast-and-frugal heuristics they use. *Financial-Gain Driven* investors include *High-Net-Worth Individuals-Angels* who use tallying and *Portfolio Builders* who use take-the-best. *Emotion-and-Values Driven* investors include *Family and Friends* who use recognition plus *Community and Customers* who use satisficing. *Momentum Driven* investors include *High-Risk-High-Rewards Punters* who use imitate-the-majority and imitate-the-successful. Question two takes the framework from question one and explains why each investor type and heuristic paring is ecologically rational. Question three builds on the answer to question two and explains how entrepreneurs can use heuristics knowledge, gained from experience and observation, to influence investor decision-making positively through the three phases of a campaign.

The rewards case provides corresponding answers for questions four, five and six. *Value Driven* backers include *Early Birds* who use take-the-best and *Price Responders* who use tallying. *Brand Driven* backers include *Brand Connection* who use recognition and *Gifting Motivation* who use satisficing. *Impulse Driven* backers include *Impulse Buyers* who use imitate-the-majority and *Friends Influence* who use imitate-the-successful. Question five takes the framework from question four and explains why each backer type and heuristic paring is ecologically rational. Question six builds on the answer to question five and explains

how entrepreneurs can use heuristics knowledge to influence backer decision-making positively through the three phases of a campaign.

The comparative focus provides insights into transferability of entrepreneurial heuristics knowledge. Similarities are found based on the commonality of heuristics in the pre and live phases of campaigns.

1.3.5 Conclusion

The conclusion summarises the contributions, considers implications for policy and practice, addresses limitations and directions for future research, and ends with some concluding remarks. The first contribution area relates to decision-making practices as a funder and entrepreneur characteristic and is in the form of two frameworks of heuristics used in the equity and rewards environments. The frameworks identify funder types and corresponding heuristics, explain why these combinations are ecologically rational, and describe how entrepreneurs can use heuristics knowledge to influence decisions positively. The second relates to the transferability of entrepreneurial knowledge of heuristics between the two environments. *Pre* and *Live Phases* are parts of campaigns where significant transferability is found.

Policy implications describe how concerns related to risky investor behaviour could lead to the strengthening of equity regulations later this year. Correspondingly, practice implications describe the impacts of possible regulation changes on equity crowdfunding, which could be seriously impacted by any reduction in access for retail investors. Limitations related to the research design and use of theory are explained. In terms of design, selecting participants and quality are considered. Concerning theory, the suitability of the adaptive toolbox theory is considered, along with alternative explanations of the findings. Future research suggests that confirmatory work could build on the exploratory findings regarding heuristic use and transferability. Finally, the concluding remarks reflect on the contributions made by the research and end by taking a broader view of the equity crowdfunding model in the UK.

Chapter 2: Literature Review

2.1 Introduction

As the research aims to contribute to crowdfunding and heuristics literature, this chapter reviews previous work in those areas. The context in which the recent growth of crowdfunding has occurred provides essential background understanding, so the chapter starts with a review of enabling factors. It then considers the research regarding crowdfunding from the entrepreneurship-related literature. A review of research related to heuristics follows. Finally, a summary leads to the theoretical framework and research questions.

Regarding a definition of crowdfunding, the most widely cited is that provided by Mollick (2014, p. 2):

> Crowdfunding refers to the efforts by entrepreneurial individuals and groups – cultural, social, and for-profit – to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries.

The definition encompasses the four main types of crowdfunding and is general enough to apply to a wide range of model variations through 'relatively' and 'using the internet' instead of referring to platforms. The four main types have distinct characteristics. Rewards crowdfunding provides products as the 'reward' and satisfies retail customers via unique offerings. Equity crowdfunding offers shares to investors in exchange for ownership and the prospect of future returns. Loan crowdfunding offers agreed returns to investors via a debt contract that is repayable in small instalments over a specified period. Finally, donation crowdfunding provides an opportunity to support (good) causes where the rationale is not based on a financial return or receiving a product. While 'crowdfunding' applies to all four types, 'backer' is usually used to describe someone who funds a rewards or donation campaign, whereas 'investor' describes someone who funds an equity or loan campaign. This thesis follows the 'backer' and 'investor' convention and also uses the general term 'funder' as a person who supplies funds to any campaign.

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2.2 Crowdfunding Enablers

Four enabling factors have contributed to crowdfunding becoming a recognised alternative funding source for entrepreneurial ventures, as Figure 2 below shows. These four factors are explained in order of relative importance.

Growth of crowdfunding as an alternative funding source			
Capital access	Technology advances	Regulation development	Crowdsourcing growth
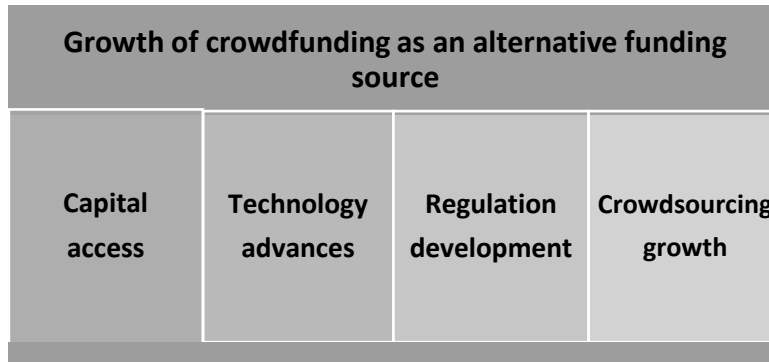
Figure 2: Factors Contributing to the Growth of Crowdfunding (author's own)

2.2.1 Capital Access

While the literature reports that the challenges early-stage ventures face in accessing funding are long-standing (Cassar, 2004; Cosh, Cumming and Hughes, 2009; Bruton *et al.*, 2015; Block *et al.*, 2018), the seeds of recent crowdfunding growth lie in the 2008 financial crisis and subsequent response by policymakers. This section explains how the crisis impacted access to capital for early-stage ventures and how crowdfunding became part of the response to address those capital needs.

The 2008 financial crisis led to a contraction of lending to small and medium-sized enterprises (SMEs) that extended over several years (Elliot, 2011; Mac an Bhaird, 2014). Taking the United Kingdom (UK) as an example and comparing 2005-7 to 2011-12 shows that rejections for term loans increased from six to twenty-three per cent, with a similar pattern for overdrafts. Higher credit risk ratings, poor financial management practices and lower sales were reasons for rejections (Armstrong *et al.*, 2013). Similar findings were reported in research for the UK House of Commons Independent Commission on Banking, which noted that some borrowers were discouraged and were not applying for loans even when eligible (Nightingale, 2011). Conditions like those in the UK were seen across the Eurozone (Mac an Bhaird, Vidal and Luecy, 2016).

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In response to capital access issues, policymakers considered what kind of policy responses could counter economic-performance challenges and prevent future crises. Undercapitalised banks using high-risk-derivative-based growth strategies had been identified as a critical element of the 2008 crisis, so stricter capital requirements were applied to banks. However, this reduced overall bank-based lending, so non-bank lending was encouraged to make up shortfalls (Wehinger, 2012). In addition, entrepreneurship was promoted to boost economic performance by bodies such as the Organisation for Economic Co-operation and Development (OECD) and the European Commission (OECD and The European Commission, 2013). Overall, these conditions supported the emergence of crowdfunding as one alternative source of finance for ventures. Interestingly, as a supplier of capital to the developing world, the World Bank was also an early promoter of crowdfunding as one solution to SME funding issues (Best, Neiss and Swart, 2013).

2.2.2 Technology

Over the last ten years, as part of the broader movement toward digitisation of commerce, advances in technology have facilitated the expansion of crowdfunding. Web 2.0, which is aligned with the fourth industrial revolution, allowed entrepreneurs opportunities to share funding requests via the rich interactive environments created by platforms (Belleflamme, Lambert, Schwienbacher, 2014; Best, Neiss and Swart, 2013; Bouncken, Komorek and Kraus, 2015; Brunetti, 2016; Skilton and Hovsepian, 2018). Four factors, shown in Figure 3 below, have contributed to technological advances.
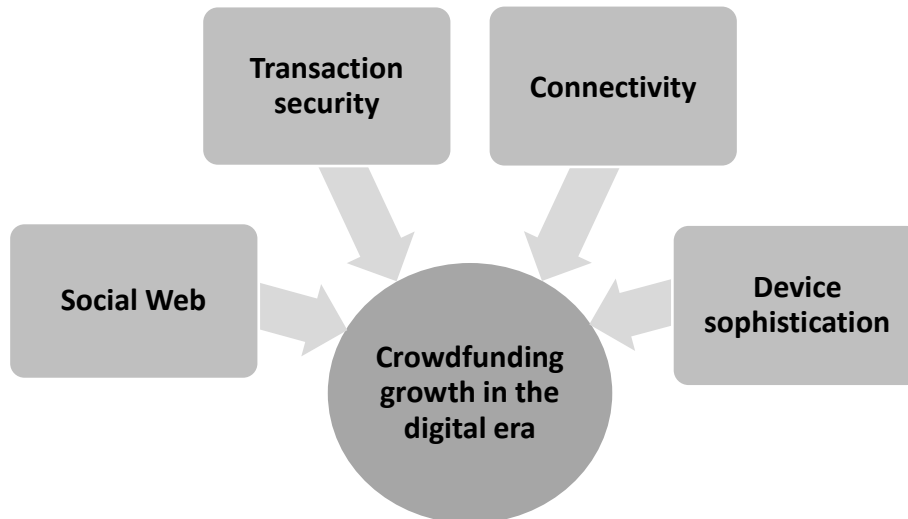
Figure 3: Technological Factors Facilitating Crowdfunding Growth (author's own)

Global growth in the social web has seen more people using social networking apps to connect and share experiences, including crowdfunding content of interest. Opportunities can be shared to app users' networks rapidly, leading to experienced crowdfunding investors influencing less experienced followers (Kim and Viswanathan, 2019; Vismara, 2018a). The security of online transactions has improved, resulting in increased levels of trust (Moody, Lowry, and Galletta, 2017), which has encouraged potential funders to participate. Connectivity improvements, including fibre broadband and 4G, have enhanced access and user experiences (Oughton *et al.*, 2018). Finally, device sophistication, including improved processor speeds and software upgrades, has further boosted growth.

2.2.3 Regulation

Regulators have focused more on debt and equity crowdfunding as the risk of monetary loss is more significant than for rewards or donation crowdfunding. As such, this section looks at regulation in the United States (US), Europe and the United Kingdom as illustrative areas where there has been significant activity.

Crowdfunding regulation has been viewed as striking a balance between allowing ventures to raise capital while protecting investors from undue risks (Bradford, 2012; Hornuf and Schwienbacher, 2017; Bradford, 2018). In the US, regulators have been wary of allowing retail investors access to debt and equity crowdfunding. These have been regarded as securities and subject to costly Securities and Exchange Commission (SEC) registration requirements

that are prohibitive when set against the typical values of crowdfunding capital requests. In contrast, rewards and donation crowdfunding have not been subject to SEC registration requirements and have proliferated (Bradford, 2018). Although regulators in the US have adopted a cautious approach, exemptions have been granted to investors with higher levels of wealth or sophistication, allowing them to access opportunities with higher risks and greater rewards (USSEC, 2022). However, one challenge of limiting access to wealthier individuals is that this reduces the number of investors participating, making the process less like crowdfunding.

In Europe, the European Commission has taken the view that crowdfunding should be given space to grow as a new form of financing with the potential to become an important funding source for SMEs (Klöhn, 2018). The Commission has sought to expand equity and debt crowdfunding further and has introduced regulations to unify the rules for investment platforms across EU member states as part of a 'fintech action plan' (European Commission, 2022).

In the UK, an EU member until 2020, debt and equity crowdfunding follow the laws in the Prospective Directive, which is incorporated into the Financial Services and Market Act 2000 (FCA, 2021a). The Financial Conduct Authority (FCA), acting as the regulator, has supported crowdfunding and has taken an approach in which regulation has been refined in conjunction with crowdfunding platforms (Crowdcube, 2022a; Seedrs, 2022a). Significantly, the FCA has allowed for the promotion of crowdfunding opportunities to retail investors as long as they self-certify that no more than ten per cent of their total assets are invested at any one time (FCA, 2021a).

Overall, efforts have been made to facilitate debt and equity crowdfunding and protect investors. The regulations vary between jurisdictions, with the US having stricter controls, the UK much less, and the EU somewhere between. Crowdfunding has received governmental support and is considered a positive development in fintech innovation (Innovate Finance, 2018; European Commission, 2022).

2.2.4 Crowdsourcing

Crowdfunding growth is part of the crowdsourcing trend, which sees functions once performed by employees outsourced to an external network (Howe, 2006; Brabham, 2013).

The crowdfunding phenomenon has roots in past practices of pooling resources from a crowd to achieve a shared objective, and examples of such practices go back a long way. Well-known instances of financial pooling appeals include for funding to build the Statue of Liberty in New York (Harris, 1986) and Grey's Monument in Newcastle upon Tyne (Morton, 2017). More recently, micro-tasking, wikis, and open-source software have become established crowdsourcing areas (Hossain and Kauranen, 2015). The Amazon Mechanical Turk is one example of a working crowdsourcing platform (Amazon, 2022). It allows businesses and individuals to outsource work to a distributed virtual workforce and is also used as a research tool (Mason and Suri, 2012). Overall, in an environment where outsourcing has become more commonplace, the uptake of crowdfunding, which facilitates the allocation of funds to ventures from a distributed network, would be expected to follow the broader trend.

2.2.5 Summary

This section has explained the four enabling factors that have contributed to the growth of crowdfunding over the last ten years. Primarily, capital supply restrictions for SMEs due to the global financial crisis of 2008 led to the need for alternative funding sources. Under the prevailing conditions, governments, and international bodies, such as the OECD, saw crowdfunding as part of a package of measures to stimulate recovery. Secondly, technological advances, including the social web, transaction security, connectivity, and device sophistication, which are part of the fourth industrial revolution, have facilitated growth in web-based finance globally. Thirdly, regulation has developed at differing speeds depending on pre-dating laws in jurisdictions and the corresponding views of regulators regarding how to balance opportunities to raise capital with the risk of loss to investors. The US, for example, has been more cautious, the UK less so and the EU between the two. Fourthly, crowdfunding is part of the growing crowdsourcing trend, where activities previously conducted by employees are outsourced to external networks.

2.3 Crowdfunding Research

2.3.1 Development of the Literature

Research efforts have followed the development of crowdfunding itself and have multiplied over the last ten years. For reasons outlined in section 2.2 above, crowdfunding has been viewed positively and has garnered the attention of entrepreneurship researchers and those from associated fields. Significantly, prominent voices in entrepreneurship research regard crowdfunding as a distinct source of venture funding that warrants specific attention (McKenny *et al.*, 2017; Pollack *et al.*, 2019).

Development of the literature began with an initial exploratory period from 2011 to 2013, focusing on understanding the general dynamics of crowdfunding. This period has been followed by research efforts focusing on specific crowdfunding types. A significant proportion of this research has been in rewards and confirmatory in nature, using established theories and data from the Kickstarter platform obtained through web-extraction techniques and analysed quantitatively (Pollack *et al.*, 2019). While the resulting knowledge contributions, which have mainly focused on the determinants of campaign performance, represent valuable additions, questions have arisen regarding generalisability to other types of crowdfunding (Dushnitsky and Fitza, 2018). In addition, the Kickstarter data gathered has been campaign centred and shows outcomes at the end of the funding period, so less knowledge has been built about the characteristics of funders (the crowd) or entrepreneurs (Pollack *et al.*, 2019). The current research addresses these gaps through its aims. The sections which follow review relevant literature and develop an understanding of the current state of knowledge, highlighting why an exploration of heuristics drawing on the adaptive toolbox as a theoretical lens will lead to valuable contributions in line with the aims.

2.3.2 Initial Research

Early exploratory work up to 2013 sought to understand the dynamics of crowdfunding as an emerging phenomenon (Ordanini *et al.*, 2011). One view of crowdfunding saw it as an extension of crowdsourcing and was uncertain whether it would become a viable alternative to traditional sources of finance (see 2.2.4 above). Crowdfunding was recommended for ventures looking to raise smaller amounts with innovative products and access to a crowd who would consider overall value rather than only financial gain (Schwienbacher and Larralde,

2012). Another view of crowdfunding saw its potential as a funding tool for social entrepreneurship, suggesting that crowdfunding increased the legitimacy of social ventures by encouraging the participation of ethically minded funders (Lehner, 2013; Lehner and Nicholls, 2014). As a new phenomenon with the potential to democratise access to finance, increasing the legitimacy of crowdfunding was also of interest to organisations like the World Bank (Best, Neiss and Swart, 2013). They promoted crowdfunding as an alternative source of finance for developing countries and saw its potential to address early-stage funding needs, as Figure 4 below shows.
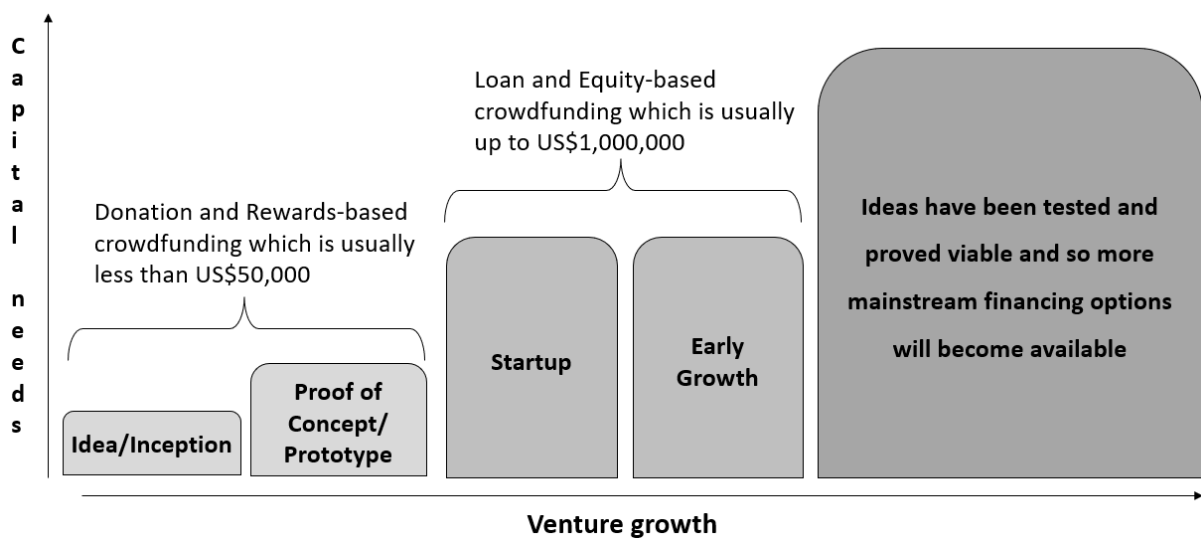
Figure 4: Crowdfunding and the Funding Lifecycle[1]

Note: [1]adapted from Best, Neiss and Swart, 2013, p.16

In this view, ventures could consider using rewards crowdfunding to test the market for their products and then use equity or loan crowdfunding to fuel later-stage growth (Belleflamme, Lambert and Schwienbacher, 2014).

2.3.3 Rewards Research

Since 2014, numerous studies have been reported in the literature. In contrast to initial research, many efforts have used large data sets, drawn from Kickstarter campaigns, and quantitative analysis. The focus has been on knowledge building by taking established theories, such as signalling, forming and testing hypothesis with the data. The literature has explored a number of themes in addition to signalling such as legitimacy, social capital and linguistic style. While this approach has produced knowledge about the determinants of

campaign performance, understanding of the characteristics of funders and entrepreneurs in campaigns is still lacking. The rest of this section systematically reviews the main themes in rewards research and draws out the areas where building knowledge of participant characteristics would be most beneficial.

One of the first studies to use a Kickstarter data set, and the most widely cited to date, argued that networks and project quality were key factors in campaign success (Mollick, 2014). Following Mollick's exploration, other scholars sought to broaden their understanding of the determinants of campaign performance and employed established theories in knowledge-building efforts. The drive was to extend theory to crowdfunding as a novel setting. For example, in response to findings that associated underlying project quality and personal networks to campaign success, questions arose relating to possible information asymmetries between entrepreneurs and potential backers (Mollick, 2014). Signalling theory (Spence, 1973; 2002) was used to investigate how entrepreneur-originated signals, and those from backer endorsements, bolster or reduce each other's effects. While the work found evidence that entrepreneur signals from media use and previous crowdfunding experience offset each other, those from backer comments supported and validated the entrepreneur-originated signals (Courtney, Dutta and Li, 2017). Thus, besides building knowledge related to crowdfunding, the work also added knowledge about how signals interact more broadly and filled an identified knowledge gap in applying signalling theory (Connelly *et al.*, 2011).

Likewise, questions about how legitimacy is established led to work that built crowdfunding knowledge while extending understanding of legitimacy in a novel setting. Organizational legitimacy (Suchman, 1995) helps explain why some entrepreneurial ventures develop into successful businesses and others do not (Tornikoski and Newbert, 2007). An investigation of how crowdfunding ventures demonstrated legitimacy found lower funding targets and shorter campaign durations demonstrated legitimacy by setting reasonable expectations. Additionally, entrepreneurs could use the video pitch to appeal to backers 'leveraging emotional rather than financial reasoning' (Frydrych, Bock and Kinder, 2016, p. 1). While these insights were useful in terms of understanding the factors entrepreneurs should focus on in decision making they did not provide much knowledge regarding backers and their decision making. Subsequent work on legitimacy has taken a similar organisational level view (Fisher *et al.*, 2017; Lewis, Cordero and Xiong, 2021; Taeuscher, Bouncken and Pesch, 2021),

leaving a knowledge gap with regard to how projections of legitimacy by entrepreneurs influence decision making.

Research related to the linguistic style used by entrepreneurs provides some insights into the drives that influence funders. A study comparing the campaigns of social and commercial entrepreneurs, drawing on language expectancy theory, found that a style that makes pitches relatable and understandable is influential for social backers (Parhankangas and Renko, 2017). The findings are insightful as they suggest the crowd of backers can be thought of as sub-groups of funders who are influenced in differing ways. As Parhankangas and Renko (2017, p. 228) note:

> traditional financial theories from the funding of commercial enterprises do not easily translate into the context of social ventures since the drivers of funder decision making in the two contexts may differ.

This observation suggests the need for research that explores the drivers of funder decision making of sub-groups in the crowd of funders. This work could build on the finding that 'financial/utility' drives are primary in rewards crowdfunding and that nonfinancial motivations, such as helping others and supporting ideas or belonging to a community were secondary (Cholakova and Clarysse, 2015. p. 159). A subsequent study that considered text, speech and video confirmed that linguistic style was influential regarding campaign outcomes (Kaminski and Hopp, 2020). Significantly, Kaminski and Hopp argued for the need to view crowdfunding from the funder's perspective, to balance the entrepreneur focus of previous research. Additionally, they noted that because of the way in which products were viewed inside a campaign, comparison with similar products, as is a feature of environments like Amazon.com, would be difficult and so funders would use heuristics to make decisions. While heuristic-based decision making was proposed as a possible mechanism there was no explanation of how heuristics would work in practice, nor how the personal values and affective reactions of sub-groups of funders could influence their use (Davis *et al.*, 2017; Nielsen and Binder, 2021).

In addition, research drawing on social capital theory (Nahapiet and Ghoshal, 1998) has provided insights into entrepreneur and funder interactions. Entrepreneurs network relations, commitment to fund fellow entrepreneurs and a shared sense of project value were found to influence campaign outcomes (Zheng *et al.*, 2014). An investigation of patterns

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whereby early contributors accelerate campaign success found that the 'internal social capital' an entrepreneur develops starts a 'self-reinforcing mechanism' (Colombo, Franzoni and Rossi-Lamastra, 2015, p. 75). Pattern elements included social learning, word-of-mouth effects and feedback from backers via comments. While these components were discussed the research did not explain how they relate to decision making in terms of backer cognitive processes. Proposing possible cognitive mechanisms would further contribute to knowledge of backer characteristics and build on the work using econometric analysis. Subsequent research investigating the role of social capital for serial crowdfunders supported the above described effect without offering further insights into cognitive processes (Butticè, Colombo and Wright, 2017; Skirnevskiy, Bendig and Brettel, 2017). The lack of understanding of the decision-making mechanisms of funders was further highlighted in a recent systematic review of the literature (Cai, Polzin and Stam, 2021).

Although no studies have explored the use of heuristics in rewards crowdfunding directly, work investigating persuasion has produced insights into possible heuristic-related mechanisms. Allison *et al.* (2017) drew on the elaboration likelihood model of persuasion (Petty and Cacioppo, 1986) to examine how persuasion worked in crowdfunding. For backers with more motivation, and the ability to make careful evaluations, information like an entrepreneur's education level mattered more. These funders used central-route processing in which they engaged in more cognitively demanding evaluations akin to rational-choice decision making based on factual information. Conversely, for backers who were inexperienced and funding for the first time, situational cues like taking on a group identity were a strong influence. These funders used peripheral-route processing in which they were less cognitively engaged and made evaluations influenced by factors such as conforming with peer groups and the perceived passion of the entrepreneur. While Allison *et al.* (2017) did not link these two mechanisms of persuasive influence to heuristics, the peripheral route does suggest the use of shortcuts by the part of the crowd of backers who are less experienced. Earlier work found that 'electronic word of mouth' in the form of the number of 'Like' counts and the positive comments a campaign received were used by backers drawing on peripheral-route processing (Bi, Liu and Usman, 2017, p. 17). Both 'Like' counts and the number of comments are easily observable features of campaigns and could be used as heuristics.

The role observational (social) learning plays in rewards crowdfunding is a further factor influencing possible heuristic-based decision-making mechanisms. Rational herding effects related to observational learning has been used to explain why there is a U-shaped relationship between early and later stage funding patterns (Chan *et al.*, 2019). As crowdfunding is conducted in an open system allowing funders to observe the actions of others, observational learning is likely to play a role in the decision-making of most backers. However, the way in which heuristic-based decision-making strategies are influenced by observational learning has not yet been reported in the rewards literature (Chan *et. al*, 2019; Colombo, Franzoni and Rossi-Lamastra, 2015), leaving a knowledge gap.

In terms of whether knowledge generalises to other types of crowdfunding, there is acknowledgement in the limitations section of many studies that contributions may only apply to rewards crowdfunding (for example, Mollick, 2014; Butticè, Colombo and Wright, 2017; Courtney, Dutta and Li, 2017; Parhankangas and Renko, 2017). Some research efforts have addressed generalisability issues through work that includes both rewards and equity crowdfunding; however, there are few such studies. In the case of Scheaf *et al.* (2018) the justification was driven by the aim to investigate the effectiveness of signals across differing contexts. Whether knowledge gained from rewards generalises to other types of crowdfunding was addressed directly by Dushnitsky and Fitza (2018), who conducted a cross-platform analysis of campaign success factors between rewards and loan crowdfunding. They found that patterns were not generalisable across platforms and recommended that cross-platform studies be undertaken. The Dushnitsky and Fitza (2018) study did not include equity platforms so it is not known whether commonalities exist between rewards and equity environments. This thesis answers this call with its second aim to explore the transferability of knowledge between rewards and equity crowdfunding. Transferability relates to how findings from rewards crowdfunding are relevant in equity environments and vice versa. For the current study, transferability focuses on how useful an entrepreneur would find the knowledge gained in a rewards environment to be in an equity environment and vice versa (Lincoln and Guba, 1985; Smith, 2018; Tracy, 2010). This research effort will build knowledge in an area where it is currently lacking (Pollack *et al.*, 2019).

2.3.4 Equity Research

Equity crowdfunding has been an area of ongoing interest to scholars and is second to rewards in terms of the number of studies published (Pollack *et al.*, 2019). Accordingly, this section provides a critical overview of equity crowdfunding research relevant to the research aims. Some themes are similar to rewards, including a focus on understanding the determinants of campaign performance and corresponding use of signalling theory. Differences include studies that consider interaction of equity crowdfunding with traditional forms of finance for early stage ventures, namely, business angels and venture capitalists.

As the rise of equity crowdfunding was partly a response to the 2008 financial crisis and resulting capital access issues (see 2.2.1), whether lower quality ventures preferentially used crowdfunding was a question researchers sought to answer. A study drawing on pecking order theory (Myers and Majluf, 1984) found that ventures on platforms had higher debt levels and were less profitable than comparable firms that did not use equity crowdfunding (Walthoff-Borm, Schwienbacher and Vanacker, 2018). Later research from the UK and German markets supported the view that lower-quality entrepreneurial ventures preferentially use crowdfunding (Brown *et al.*, 2018; Blaseg, Cumming and Koetter, 2021). Although the three studies provided convincing evidence, the data they based their findings on was from the early stages of equity crowdfunding (e.g. Walthoff *et al.* (2018) is from Crowdcube between 2012-15) when the concept was less accepted and the effects of the 2008 financial crisis were more prevalent. A somewhat contrasting view of venture quality emerged from a study of what happens to businesses after an initial equity campaign. While eighteen per cent of ventures failed, thirty-five per cent secured additional funding via private equity or a second crowdfunding round, and none that had been backed by experienced investors (angels or venture capitalists) subsequently failed (Signori and Vismara, 2018). Interestingly, the findings were based on data collected from Crowdcube from 2011 to 15, similar to collection period for Walthoff *et al.* (2018). In fact, Equity crowdfunding platforms apply stringent selection criteria when choosing which ventures are allowed to run campaigns, with only around ten per cent of those that apply passing the criteria to list, so a venture failure rate below the national average is not surprising (Kleinert *et al.*, 2021).

Work that sought to understand why equity crowdfunding could challenge traditional forms of finance argued that reduced transaction costs and benefits from having access to crowd

communities would be crucial to growth (Agrawal, Catalini and Goldfarb, 2014; Belleflamme, Lambert and Schwienbacher, 2014). In common with the rewards literature, questions about information asymmetry arose, and correspondingly, signalling theory was used to develop understanding. Signals related to equity retention by entrepreneurs and the quality of board members were found to positively impact funding success (Ahlers *et al.*, 2015). While a surprising finding for Ahlers *et al.*, (2015) was that social (alliance) capital was not impactful on funding success, subsequent work did show that two human capital signals, business education and entrepreneurial experience, mattered for campaign outcomes (Piva and Rossi-Lamastra, 2018). Additional research reported that entrepreneurs' investor updates during campaigns positively impacted the number of investors and the amount collected. Easier language and content related to additional funding and external cooperation agreements increased investment (Block, Hornuf and Moritz, 2018). While all three of the studies built knowledge of how signals that originated from entrepreneurs influenced campaign success, none offered an explanation of how investors processed signal information when making decisions. This is an area where further work is needed to build knowledge.

While signalling approaches have provided insights into campaign success factors, equity investment drivers have also been investigated. Early work, drawing on cognitive evaluation theory (Deci and Ryan, 1985), found that 'financial/utility' drives rather than 'nonfinancial motivations' were primary in equity crowdfunding (Cholakova and Clarysse, 2015. p. 159). However, this work did not look at the sub-groups of investors who make up the crowd, such as participants with more experience, like angels, and those with less, like retail investors. Subsequent research that investigated the decision making of retail participants found that the criteria used were closer to those employed by rewards backers rather than for angel or venture capital investors (Lukkarinen *et al.*, 2016). Instead of investment decisions being driven by an assessment of factors such as the team, market and business concept, retail participants focused on relatability of the ventures' products and campaign elements that were easy to observe like the funding target and duration. Lukkarinen *et al.* (2016) concluded their investigation by concurring with a suggestion from Frydrych, Bock and Kinder (2016) that 'emotional and social criteria may be more important to equity crowdfunders than financials' (p. 36). Thus, further research exploring the emotional and social drives of both equity and rewards funders are likely to be important to this ongoing debate. A systematic review of the

equity crowdfunding literature supported this suggestion, recommending future research that built knowledge related to the factors that determine investment decisions (Mochkabadi and Volkmann, 2020).

While gaining an understanding of the investment drives that influence sub-groups of investors is a key first step, developing knowledge of the cognitive processes of individual investors acting on those drives is an important second step. Insights into the cognitive processes of retail investors has been found in work that considers information cascades and associated observational learning effects. An information cascade is a recognised learning process in entrepreneurial finance whereby retail investors are influenced to make investing decisions by observing more experienced and informed investors (Welch, 1992), and has roots in social learning (Bandura, 1977). Vismara (2018a) found that investments in the early part of a campaign are vital in attracting later stage investors, which increases the chances of campaign success. The mechanism whereby this information cascade occurs is dependent on observational learning through which later investors change their evaluations of investment desirability by observing the behaviour of previous investors. The idea of learning from other investors was linked to participation in the online discussion groups by Estrin, Gozman and Khavul (2018), which they argued led to retail investors gaining 'a taste for the investment process itself' (p. 434). Although information cascades may be manipulated to encourage the participation of retail investors towards achieving campaign targets (Meoli and Vismara, 2021), they should be considered in any explanation of decision-making mechanisms along with intrinsic motivations. Like Vismara (2018a), Estrin Gozman and Khavul (2018) divide the crowd into two groups and noted that investors with more experience were focused 'on the standard bundle of factors', like the team, the idea, and the model, while in contrast, investors with less experience focused on fewer factors connected to 'the product or the entrepreneur' (p. 434). The focus on a few key pieces of information as an approach to decision making suggests heuristic processing of information.

While no studies were found that directly explored use of heuristics in equity crowdfunding, they have been mentioned in a number of papers adding weight to the need for the proposed research. Noting the speed at which some campaigns collected funds, Moritz, Block and Lutz (2015, p. 319) suggested that crowd investors could be using heuristics because of 'time and knowledge limitations', which they argued was in line with previous research into the

decision-making practices of business angels and venture capitalists. They pointed out a knowledge gap related to the heuristics used by investors and how entrepreneurs could influence heuristic-based decision making. Mohammadi and Shafi (2018) studied gender differences in investment patterns and found females were less likely to contribute to firms they perceived as higher risk compared to males, or invest in businesses led by females. They suggested women are biased in their view of other women and made a corresponding call for future research into 'what cognitive shortcuts or rules equity crowdfunding investors will employ' (p. 285). Drawing on processing fluency theory and visual heuristics Mahmood, Luffarelli and Mukesh (2019) demonstrated that the level of processing difficulty serves as a heuristic for investors and influences their perceptions of ventures and subsequent funding decisions. Significantly they commented:

> …by providing evidence for the cognitive foundation of investors' decision making, our work adds to extant research suggesting that investors use heuristics to speed up and facilitate their evaluations of ventures' (p. 42)

This point further supports the need for exploratory research into what kind of heuristics are used in equity crowdfunding.

2.3.5 The Entrepreneurial Journey

While much of the extant research regarding the determinants of crowdfunding performance has included the entrepreneur's perspective, the previous rewards and equity sections focused on funders, their decision making and possible use of heuristics in the live phase of campaigns. Therefore, the entrepreneurs' perspective involving processes in the three main phases of campaigns, pre, live and post, are now considered and includes entrepreneurial decision making and use of heuristics. These are areas where further knowledge building efforts are needed (McKenny *et al.*, 2017; Pollack *et al.*, 2019).

Early research efforts considered the factors influencing the type of crowdfunding entrepreneurs choose and found that the size and purpose of the fund raising effort was key. If the funding target was small and the product was likely to be easily understood and valued by the crowd of potential funders then rewards crowdfunding was the preferred option. Conversely, for larger sums and established businesses with an existing customer base and network, equity crowdfunding was a better fit (Best, Neiss and Swart, 2013; Belleflamme, Lambert and Schwienbacher, 2014). In addition to the primary purpose of raising funds,

validation of a business idea and raising brand awareness have been identified as significant motivations for entrepreneurs (Junge, Laursen and Nielsen, 2022). The stage of venture development was found to influence the type of crowdfunding that was suitable. For startups that are still in the proof-of-concept stage, rewards crowdfunding provides an opportunity to validate a product concept, gain feedback from customers and raise brand awareness (Gerber, Hui and Kuo, 2012). Whereas, for ventures with an existing track record of sales, equity provides an opportunity to validate the business as an investment proposition, as well as bringing brand building benefits (Brown, Boon and Pitt, 2017).

However, crowdfunding comes with some costs. It is a public campaign and as such involves divulging product and business information that may be useful to competitors. Campaigns are recorded by platforms and third-party information providers and this creates an entrepreneurial history that can be found by anyone with access to the internet. The comments sections of campaigns represent a potential future hazard if they include unanswered questions about the viability of the venture. Ultimately, if the campaign fails to reach its target this becomes a public failure for entrepreneurs which may then work against them when they apply for finance in the future (Leboeuf and Schwienbacher, 2018). So, entrepreneurs need to balance benefits and costs carefully in their decision making about whether to launch a crowdfunding campaign. Interestingly, Junge, Laursen and Nielsen (2022) challenge the previously held view that crowdfunding was for low-quality ventures without alternative options (Walthoff-Borm, Schwienbacher and Vanacker, 2018). Rather, they argue that the three motives for crowdfunding entrepreneurs reported, raising funds, getting validation, and gaining awareness influences entrepreneurs to select the type of crowdfunding according to the life-cycle stage of their venture. This offers an avenue for future research to explore and ties in with understanding more about how crowdfunding is used in conjunction with other sources such as business angels, who may act as a 'lead investor', providing initial funding a campaign (Coakley and Lazos, 2021, p. 341).

Once an entrepreneur decides to crowdfund they need to select the type of crowdfunding and a platform on which to run a campaign. As the focus of much of the early research was on campaign success factors in the live phase, the pre-phase has been largely ignored (Ralcheva and Roosenboom, 2020). Most of the knowledge to date about the pre-phase relates to the campaign screening process carried out by platforms, with equity having been

the main area of interest. Rewards crowdfunding has fallen within existing regulations for ecommerce, involves smaller sums and is considered lower risk, whereas equity crowdfunding involves larger sums, greater risk of loss, and updating of regulations to allow retail investors to participate (Bradford, 2018; FCA, 2021a) (also see section 2.2.3).

What literature there is on the pre phase provides some significant insights into the entrepreneurial journey as it highlights the process dimensions of crowdfunding not apparent in much of the extant literature, which focuses on the live phase of a campaign (Ralcheva and Roosenboom, 2020). One such study of rewards crowdfunding analysed Kickstarter campaigns over a four-year period when the screening process for new campaigns changed from more to less stringent. While the main finding was that relaxing screening was beneficial to the platform as it increases fee revenues, for entrepreneurs and backers it was detrimental as the overall quality of campaigns was lowered (Wessel, Thies and Benlian, 2017). In terms of equity screening, a study involving fifty platforms in twenty-two countries found that around ten per cent of ventures that apply to a platform pass the screening, with around fifty per cent of those campaigns then succeeding (Kleinert *et al.*, 2021). The screening process, also referred to as due diligence, involves checks of an entrepreneur's background, credit history and project quality indicators, and leads to a higher percentage of successful campaigns in the live phase than otherwise would be the case (Cumming, Johan and Zhang, 2019). In both rewards and equity the entrepreneur's choice of platform is likely to be a key element in trust building with funders (Moysidou and Hausberg, 2020), with the established platforms being favoured by the majority. Furthermore, while platforms have been found to support entrepreneurs by providing a structured environment that reduces transaction costs and includes campaign management training, little is known about the step-by-step decisions entrepreneurs need to make in this preparation phase (Loher, 2017).

As mentioned previously, most of the extant research of rewards and equity crowdfunding is based on data relating to live campaigns. Correspondingly, sections 2.3.3 and 2.3.4 provided reviews of this literature, much of which is from an entrepreneurial perspective as it relates to campaigns successfully managed by entrepreneurs. As indicated previously, signalling theory (Spence, 1973; 2002) has been one of the most useful theoretical lenses through which to understand how entrepreneurs can reduce information asymmetries with funders. Typically, studies have contributed to crowdfunding literature, extended understanding of

the theory and offered implications for practice. The latter is of most interest to entrepreneurs. For example, Scheaf *et al.* (2018) recommend entrepreneurs think carefully about their communications and in so doing produce a high-quality campaign video. Furthermore, Wehnert, Baccarella and Beckmann (2019) found that a successful crowdfunding campaign can be an effective signal for sustainability-orientated products where attributes are less easily accessible to consumers. While numerous studies have identified signals and presented evidence based on campaign-sourced data sets (see Vismara, 2018b for a discussion), what is not known is how these signals compare with what entrepreneurs themselves say they focus on in the management of successful live campaigns. Thus, research that provides insights into the elements of campaign decision making by entrepreneurs would make a useful contribution.

In terms of what happens after a crowdfunding campaign the literature is scant as most studies have focused on the outcomes of successful campaigns using available data. Two areas of interest have been, one, whether the venture was able to gain further funding as this indicates success, and two, the rate of failure (Schwienbacher, 2019). In relation to success, Signori and Vismara (2018) found that thirty-five per cent of start-ups who raised on Crowdcube were able to gain another round of funds from the crowd or professional investors. In the case of rewards, Mollick and Kuppuswamy (2014) found that over ninety per cent of ventures who ran successful campaigns were still in business, with revenues over £100,000 and an average 2.2 employees, one to four years after completion. As regards failure rates, eighteen per cent of start-ups who raised on Crowdcube were found to have failed (Signori and Vismara, 2018). A similar rate of seventeen per cent was found in a study of ventures who had used Crowdcube or Seedrs (Walthoff-Borm, Vanak and Collewaert, 2018). The latter study matched ventures that used crowdfunding with similar businesses that did not crowdfund; these had a much lower failure rate of two per cent. For rewards crowdfunding, Kickstarter's own statistics report a failure rate of sixty per cent related to all the campaigns launched on the platform, with the majority of failed campaigns collecting less than twenty per cent of their campaign target (Kickstarter, 2022e). Overall, little is known about what happens after crowdfunding campaigns (Vanacker, Vismara and Walthoff-Brom, 2019). Understanding more about how entrepreneurs use different types of crowdfunding with other forms of finance over the life-cycle of a venture would be valuable (Junge, Laursen

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and Nielsen, 2022). In rewards crowdfunding, understanding the consequences for entrepreneurs of frequent delays in delivery of products would be beneficial, especially with regard to how such delays influence the success of subsequent campaigns (Mollick, 2014).

Entrepreneurs who have decided to crowdfund are faced with managing the three phases of their campaign towards a successful outcome. For first-time crowdfunders the challenge is particularly daunting as they are confronted with making decisions in an environment where they are uncertain about outcomes and do not have the benefits of knowledge gained from past experience. In conditions where judgements are made under uncertainty, heuristics are used as they allow decisions to be made that are good enough, using limited information and within short time frames (Tversky and Kahneman, 1974; Gigerenzer, 2008). To date very few studies have considered how entrepreneurs use heuristics in crowdfunding (Troise and Tani, 2020), even though this is an area that would contribute to the wider body of knowledge on entrepreneurial decision making (Shepherd, Williams and Patzelt, 2015). Holcomb *et al*. (2009) developed a useful model of entrepreneurial learning that brings together context, learning processes, heuristics, decision making, actions and outcomes that could be helpful in understanding the decision-making practices of entrepreneurs.

2.4 Heuristics Research

While the previous section explained how the current study will contribute to knowledge in the crowdfunding literature and found references to heuristics in some studies, it did not review the heuristics literature itself. Specifically, understanding heuristics knowledge related to entrepreneurial activity and the fast-and-frugal view is relevant to the current research. Accordingly, the rest of section 2.4 addresses these two areas.

2.4.1 Heuristics and Entrepreneurial Activity in Finance and Consumer Fields

Heuristics are strategies that allow decisions that are good enough to be made based on limited information and with reduced cognitive load. While heuristics are likely to have been part of human decision-making processes for a long time, their history in terms of scholarly interest is relatively short. One of the first proponents of heuristics to solve problems, Pólya, promoted their use in mathematics education and general problem solving (Pólya, 1945). Satisficing, in which the decision process involves searching through alternatives until specific

criteria are satisfied, was one of the first heuristics described in the management literature and has influenced thinking in related fields (Simon, 1956). Significantly, Simon's insight that individuals are bound by their limited mental capacity in decision making, in contrast to the classical view, is a foundational distinction underpinning the arguments for the use of heuristics (1972).

It was not until the seminal work by Tversky and Kahneman (1974), however, that ideas about heuristics, and their associated biases, came into more precise focus in the literature. Their work led to a much greater understanding of how heuristics, they labelled 'representativeness', 'availability' and 'adjustment and anchoring', could lead to systematic reasoning errors because of people not following the rules of probability theory, leading to biased judgments with potentially costly consequences. Many studies have followed the heuristics-and-biases approach, focusing on understanding the consequences of biases that result from using heuristics in decision-making (for example, Busenitz and Barney, 1997; McCray, Purvis and McCray, 2002; Zhang and Cueto, 2015; Singh, 2020). In entrepreneurial finance, the planning fallacy bias was found to positively impact funding from close contacts. This bias results in entrepreneurs underestimating the time it will take to complete tasks. However, the planning fallacy has a persuasive effect on close-contact potential investors by positively influencing their beliefs about future venture success (Adomdza, Astebro and Yong, 2016). The framework of heuristics developed by Tversky and Kahneman (1974) has gained wide acceptance, and was used by Holcomb *et al.* (2009) in their work involving heuristics influence on entrepreneurial learning (see section 2.3.5). The fast-and-frugal view is an alternative to the heuristics and biases approach (Gigerenzer, 2008), and is discussed in the next section.

Research efforts have investigated the influence of heuristics and biases in investment and consumer buying environments. A study of angel decision-making processes found some evidence of heuristic use. Angels were found to rely on past events, an availability heuristic, and identified significant features in categories of events, a representativeness heuristic, in decision-making processes (Harrison, Mason and Smith, 2015). This work drew on the framework of entrepreneurial learning and heuristics presented by Holcomb *et al.* (2009), and found evidence of a mechanism whereby angels learn individually and socially, drawing on heuristics in their decision making. Numerous cognitive biases resulting from heuristics have

been explored, with many studies reported in the behavioural finance field. For example, a study of value investing sought to overcome known cognitive biases by using a heuristic formula based on principles identified from the work of Benjamin Graham, a well-known value investor (Otuteye and Siddiquee, 2015). This research and similar studies' motivation was to understand how investment performance could be improved. The study also shows the broad definitions of heuristics used by scholars, in this case 'profitability, financial stability, susceptibility to bankruptcy, and margin of safety', and how they can be employed to come to decisions in complex and uncertain environments (p. 140). In another behavioural finance example in which the drive was to measure the effects heuristics have on decisions, the heuristics were given the broad labels of 'salience', 'representativeness' and 'mental accounting' (Yalcin, Tatoglu and Zaim, 2016, p. 1064). The broad labelling of heuristics is cited as a weakness by scholars following the fast-and-frugal view, who claim lack of specificity limits usefulness (Gigerenzer, 2008).

Some studies have used heuristic-based models to understand behaviour in consumer buying environments, which are more representative of rewards crowdfunding. For example, an investigation of how online reviews influence buying decisions used a heuristic-systematic model and found that buyers used the perceived credibility of sources and quality of reviews as heuristics (Zhang *et al.*, 2014). As with the heuristics mentioned above, these are labels with broad meaning. In another example, marketing focused research into consideration set formation, a phase where consumers narrow the brand options they will consider, identified a conjunctive heuristic, similar to satisficing in which the brand had to meet certain criteria to be considered, as the most common means of forming sets (Laroche, Kim and Matsui, 2003). In this case the heuristic processing part of the decision process was in narrowing the available options.

2.4.2 Development of Fast-and-Frugal View

The fast-and-frugal view of heuristics began as a response to the growth of the heuristics-and-biases approach. Gigerenzer, a leading scholar in the field, argued against some of the assumptions of Tversky and Kahneman's work and built up a body of evidence to support claims. The fast-and-frugal view has gained traction in the last thirty years and expanded from the psychology literature into management and economics-related areas. The body of knowledge can be broadly grouped into three phases, as Figure 5 shows.
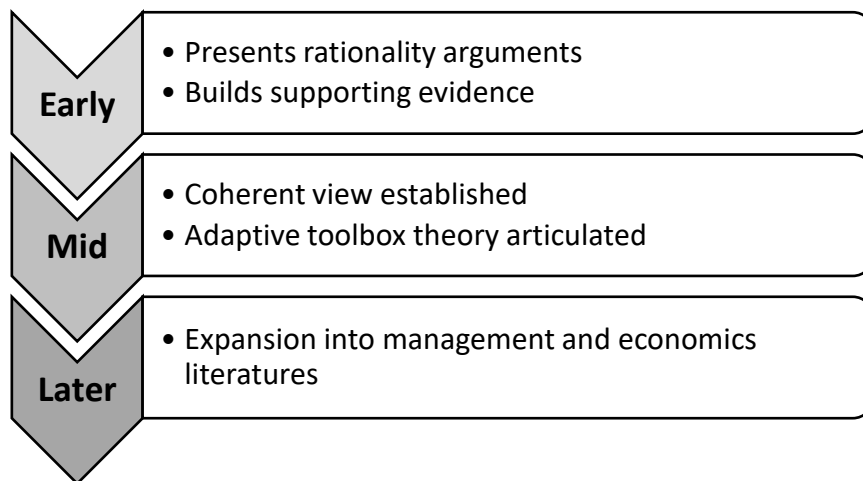
Figure 5: Development of Fast-and-Frugal Literature (author's own)

Early-stage literature argued against the reasoning put forward in support of the heuristics-and-biases approach. Tversky and Kahneman had argued that people violated the laws of probability in their judgements because they used 'intuitive heuristics' leading to systematic reasoning errors (biases), which led to sub-optimal decision making (Tversky and Kahneman, 1974; 1983). Gigerenzer challenged the underlying assumption that people could make decisions optimally, casting doubt on the focus on understanding biases and their consequences in decision-making. The experiments cited by the heuristics-and-biases approach as evidence of systematic reasoning errors and consequent irrationality were questioned (Gigerenzer, 1993). As an alternative, the theory of probabilistic mental models (PMMs) was introduced to explain how humans reason intuitively within an environment when attempting a task (Brunswik, 1955; Gigerenzer, Hoffrage and Kleinbölting, 1991). This theory was used to explain mental processes that support the use of fast-and-frugal heuristics, and gained support in the literature (Johnson-Laird, 1994).

Fast-and-frugal view advocates started to build a body of evidence supporting its arguments. The research program focused on understanding components of fast-and-frugal heuristics, which were said to have an information search step, a stopping step, and a decision step. Computer simulations demonstrated how heuristics like take-the-best, a one-reason decision strategy, could outperform alternatives like multiple regression, which took account of many factors, following the reasoning of classical rationality (Gigerenzer and Goldstein, 1996). As more evidence was gathered, simplicity-leads-to-robustness arguments were put forward

and supported by experiments that demonstrated how effective decisions could be made quickly, using minimal information, by utilising the way the information was structured in the environment (Todd and Gigerenzer, 2000; Schooler and Hertwig, 2005). During the mid-development period Gigerenzer argued with Kahneman and Tversky about the validity of each other's views, with Gigerenzer calling for 'narrow norms and vague heuristics' to be replaced with the 'construction of detailed models of cognitive processes' that specified 'the conditions under which different heuristics work' (Gigerenzer, 1996).

Kahneman (after Tversky passed away in 1996) has repeatedly asserted that the arguments, and evidence, for the heuristics and biases approach are valid, including in his Nobel Prize acceptance speech (Kahneman, 2003). Gigerenzer and his co-researchers have continued to gather evidence in support of fast-and-frugal heuristics. For example, one of the most frugal heuristics, the recognition heuristic, which depends on the capacity for recognition, was shown to outperform multiple regression, benefitting from a less-is-more effect, in experiments that compared how well participants recognised city names (Czerlinski, Gigerenzer and Goldstein, 1999; Goldstein and Gigerenzer, 2002). However, some parts of the fast-and-frugal view have been challenged, particularly the assumptions underpinning probabilistic mental models, which in turn has cast doubt on the validity of heuristics like take-the-best under certain conditions (Dougherty, Franco-Watkins and Thomas, 2008).

In the mid-period literature, the theoretical basis of the fast-and-frugal view and accumulated supporting evidence were brought together in two key papers (Gigerenzer, 2008; Gigerenzer and Gaissmaier, 2011). These provided a coherent account of commonly used heuristics, including how and why they worked. On the theoretical side, the adaptive toolbox theory drew from Darwin's work, taking a modular view of the mind as a system that included heuristics, building blocks and associated capabilities. Building blocks comprised search, stop and decision steps. On the evidence side, five principles underpinned accumulated knowledge. These included evidence from models that could be tested experimentally using computer simulations, which helped counter the vagueness criticisms directed at labels like representativeness or system 1 and 2 used in the heuristics-and-biases approach. Tractability and robustness were accounted for in that the heuristics were used to find solutions to intractable problems and worked in noisy decision environments. Evolved capabilities, like recognition, were included and formed part of frugal heuristics like recognition and fluency.

Significantly, the reason heuristics worked in specific environments, the concept of ecological rationality, was described and linked to the scissors analogy put forward by Simon (1990). This analogy proposes that rational behaviour should be understood as if influenced by two blades of a pair of scissors, one representing the structure of the task environment and the other the person's capabilities. In addition to understanding what heuristics were used and why they worked, a design dimension was introduced to investigate how decision-making could be improved in environments like business and healthcare. During the mid-period, the arguments for ecological rationality, as a valid normative theory of action, began to be taken seriously, although Hands (2014, p. 408) suggested it lacked 'any knock-down arguments for replacing rational choice theory as the dominant view'.

Later research saw the expansion of the fast-and-frugal view of heuristics into management and economics literature (e.g. Artinger *et al.*, 2014; Mousavi and Gigerenzer, 2017; Gilbert-Saad, Siedlok and McNaughton, 2018; Luan, Reb and Gigerenzer, 2019; Guercini and Milanesi, 2020). The arguments presented positioned fast-and-frugal heuristics as viable decision strategies under conditions of uncertainty. The role of ecological rationality was stressed in explaining why heuristics could perform better than logic or statistical techniques in uncertain decision environments. In addition to focusing on heuristics at an individual level, organisational heuristics have been explored. Building on early work suggesting managers in internationalising ventures learn portfolios of heuristics (Bingham and Eisenhardt, 2011), Loock and Hinnen (2015) argued for further research into shared organisational heuristics using the fast-and-frugal perspective. The crowdfunding decision environment offers the opportunity for an exploration of funder and entrepreneur heuristics as both types of participant make decisions during the three phases of a campaign (see section 2.3.5).

2.5 Theoretical Framework and Research Questions

2.5.1 Key Arguments from Findings

The review identified rewards, equity and heuristics literatures as areas of potential contribution. Specifically, funder and entrepreneur decision making, in terms of drives and mechanisms, along with the transferability of entrepreneurial knowledge between types of crowdfunding are areas where knowledge gaps have been identified (McKenny *et al.*, 2017;

Dushnitsky and Fitza, 2018; Pollack *et al.*, 2019). Rewards has been studied more than other types of crowdfunding, reflecting the success of the Kickstarter platform in North America, its resultant impact on entrepreneurship, and the availability of large data sets that could be analysed quantitively. A second area of interest for scholars, especially in the United Kingdom and Europe, where there has been rapid growth, has been equity (Ziegler *et al.*, 2021). As with rewards, equity research has used campaign level data, and has provided an entrepreneur perspective related to the determinants of crowdfunding success. Equity as the emerging area of crowdfunding generating current interest, and rewards as the area where more of the knowledge has been built to date are comparable types of crowdfunding, that can be studied to achieve the aims of this thesis. Heuristics allow 'good enough' decisions to be made using minimal information and have been shown to be effective and efficient in uncertain environments (Tversky and Kahneman, 1974; Gigerenzer 2008; Holcomb *et al.*, 2009; Bingham and Eisenhardt, 2011), and as such offer a means to understand and contribute to decision-making knowledge. The evidence from the review supporting the above-mentioned gaps are summarised below, after which the theoretical framework is presented, followed by the aims and research questions.

The rewards review found that the body of knowledge has been built from studies that have been confirmatory in nature with established and relevant theories, such as signalling (Spence 1973; 2002) having been used to form hypothesis which were tested using campaign data. As such, the focus has been on the determinants of campaign performance, which relates to an entrepreneur perspective. The backer perspective has received much less attention, with leading voices in the field making this point (McKenny *et al.*, 2017; Pollack *et al.*, 2019; Kaminski and Hopp, 2020). Therefore, references to backer characteristics, including the ways in which they make decisions have been scant. The following evidence relates to the influences on, and possible mechanisms of, backer decision making.

A study of how campaigns demonstrated legitimacy (Suchman, 1995) found that lower funding targets and shorter campaign durations were influential in campaign success (Frydrych, Bock and Kinder, 2016). There was also evidence that entrepreneurs could use the video pitch to leverage 'emotional rather than financial reasoning' (p. 1). Further insight into drives was found in work related to the linguistic style used by entrepreneurs (Parhankangas and Renko, 2017). A linguistic style that made pitches relatable and understandable for social

backers was found to be influential. This suggested the crowd can be thought of as sub-groups of funders who are influenced by different drives. However, a study by Cholakova and Clarysse (2015, p. 159) suggested that only 'financial/utility' drives were significant influences. Overall, the drives that influence sub-groups of backers in their decision making is an area that warrants further investigation.

Social capital theory (Nahapiet and Ghoshal, 1998) provided further insights into entrepreneur and funder interactions. A 'self-reinforcing mechanism' of influence was noted with components including social learning, word-of-mouth effects and feedback from backers via comments (Colombo, Franzoni and Rossi-Lamastra, 2015, p. 75). While this provided insights, the work, and subsequent studies, did not propose a cognitive mechanism to explain how backers made decisions (Butticè, Colombo and Wright, 2017; Skirnevskiy, Bendig and Brettel, 2017; Cai, Polzin and Stam, 2021). Some insights into decision-making mechanisms, and possible heuristic processes, was provided by a study of persuasion using the elaboration likelihood model (Allison *et al.*, 2017). While backers who used central-route processing made careful evaluations using available information about entrepreneurs, those using central route processing were influenced by conforming with peers and the perceived passion of entrepreneurs. The peripheral route suggests the use of cognitive shortcuts by the part of the crowd who are less experienced. The link was not made to heuristics in this or another study into persuasion (Bi, Liu and Usman, 2017). Observational (social) learning and rational herding are likely to be influential in heuristic-based decision mechanisms, although the connection has yet to be proposed (Chan *et. al*, 2019; Colombo, Franzoni and Rossi-Lamastra, 2015). Overall, the use of heuristics by sub-groups of backers is a further area that warrants investigation and has the potential to provide a credible cognitive mechanism of how decisions are made under uncertainty.

Similar to rewards, the equity review found that further research into the drives of sub-groups of investors, and the cognitive mechanisms used by investors to make decisions were areas where more knowledge was needed. Unlike rewards where data from one platform in North America has been used in the majority of studies, equity data has mostly come from a spread of European sources, with Crowdcube and Seedrs from the United Kingdom being the most frequently used. There has been an entrepreneurial focus to much of the research, with investors receiving less attention as the following examples show. The rise of equity

crowdfunding was partly a response to capital access issues resulting from the 2008 financial crisis, and so whether lower quality ventures were more likely to crowdfund was investigated. While evidence from the United Kingdom and German markets supported the lower quality venture view (Brown *et al.*, 2018; Walthoff-Borm, Schwienbacher and Vanacker, 2018; Blaseg, Cumming and Koetter, 2021), a contrasting view of quality, in which ventures went on to gain additional funding was noted by Signori and Vismara (2018), who used data from the same UK platforms as the other studies. In common with rewards, signalling theory has been used to gain insights into which signals are influential for campaign performance, with equity retention by entrepreneurs and the quality of board members being important (Ahlers *et al.*, 2015). In addition, entrepreneurs' investor updates during campaigns positively impacted the amount collected and number of investors (Block, Hornuf and Moritz, 2018). While this is useful knowledge in relation to entrepreneurs it did not provide clear insights about drivers of investor decision making or cognitive processes.

In terms of drivers of investor decision making early work identified 'financial/utility' drives as primary, but did not consider the motivations of sub-groups of the crowd (Cholakova and Clarysse, 2015, p. 159). A subsequent investigation of the decision making of retail investors found they were closer to rewards backers than angels or venture capitalists. Significantly, Lukkarinen *et al.*, (2016) concluded that emotional and social drives may be more important than financial motivations, supporting the need for further work. A more recent systematic review of the literature added weight to the need for more knowledge to be built (Mochkabadi and Volkmann, 2020). Regarding decision making mechanisms, some work in equity has considered observational learning effects amongst investors. Vismara (2018a) looked at information cascades (Welch, 1992) and found that early stage campaign contributions were key, as they attracted later stage investors via a cascade mechanism. In terms of where learning took place, the online discussion groups were found to play a significant role (Estrin, Gozman and Khavul, 2018). Some studies have also made reference to heuristics as explanations for observations of decision making speed or apparent bias (Moritz, Block and Lutz, 2015; Mohammadi and Shafi, 2018). Significantly, a study drawing on processing fluency theory and visual heuristics suggested 'that investors use heuristics to speed up and facilitate their evaluations of ventures' (Mahmood, Luffarelli and Mukesh,

2019). Overall, as with rewards, there is a strong argument for further work investigating both the drives of sub-groups of investors and the heuristics they use.

Regarding the entrepreneur perspective of crowdfunding, most of the extant research in rewards and equity relates to the live phase of campaigns, with the pre and post phases receiving much less attention despite being areas where more knowledge is needed (McKenny *et al.*, 2017; Pollack *et al.*, 2019). Entrepreneurs, especially those considering crowdfunding for the first time, are faced with uncertainty and complexity as they prepare to make decisions about how to raise funds for their ventures. Therefore, as with funders, it is reasonable to assume that they use heuristics and focus on key pieces of information within their environment (Holcomb *et al.*, 2009).

The pre, live and post phases are considered in turn. Entrepreneurs, especially those considering crowdfunding for the first time, are faced with uncertainty as they prepare to make decisions about how to raise funds for their ventures. The type of crowdfunding that fits their requirements is one of the first decisions. For smaller funding targets and easily understood products rewards should be preferred, while for larger sums and an established business, equity should be a better fit (Best, Neiss and Swart, 2013; Belleflamme, Lambert and Schwienbacher, 2014). Crowdfunding has benefits like gaining feedback on new product ideas, business validation and brand building (Gerber, Hui and Kuo, 2012; Brown, Boon and Pitt, 2017). However, there are costs, including divulging information to competitors and the risk of public failure (Leboeuf and Schwienbacher, 2018). More recent motives reported by entrepreneurs are raising funds, gaining validation and increasing awareness (Junge, Laursen and Nielsen, 2022). After making a strategic choice about whether to use crowdfunding as an option, an entrepreneur enters a formal period of preparation, the pre-phase. Most knowledge of this period relates to campaign screening processes carried out by platforms. Screening is more stringent for equity than rewards due to the larger sums involved and risk of loss for investors (Bradford, 2018; FCA, 2021a). In equity screening (due diligence) results in around ten per cent of campaigns being accepted onto platforms, of which around fifty per cent succeed (Kleinert *et al.*, 2021). Aside from screening, little is known about the process-decisions entrepreneurs make in the pre-phase (Loher, 2017), and the need for research in the area has been noted (Pollack *et al.*, 2019).

Most extant research corresponds to the live phase of campaigns and has been summarised above, however, the focus was on funders and related gaps in knowledge, even though most studies have taken an entrepreneur perspective. Signalling theory, as an example, has been one of the most useful lenses to understand what entrepreneurs can do to reduce information asymmetries and improve the chances of campaign success. While many studies have identified signals (Vismara, 2018b), what is not known is how these compare with what entrepreneurs themselves say they focus on in terms of decision making related to the management of live campaigns.

Moving on to the post phase, like the pre phase few studies have investigated what happens after crowdfunding (Vanacker, Vismara and Walthoff-Brom, 2018). Of interest has been whether a venture was able to go on and obtain additional funding, as an indicator of success, and the rate of failure (Schwienbacher, 2019). Around thirty-five per cent of ventures that raised on Crowdcube were able to gain another round of funds from the crowd or a professional investor (Signori and Vismara, 2018), while ninety per cent of ventures who raised via Kickstarter were still in business with an average of 2.2. employees, between one to four years after campaign completion (Mollick and Kuppuswamy, 2014). Rates of failure of around eighteen per cent have been reported for ventures that raise on Crowdcube (Signori and Vismara, 2018; Walthoff-Borm, Vanak and Collewaert, 2018), while corresponding information for Kickstarter was not found, the rate of failure for all the campaigns that have listed on the platform is sixty per cent (Kickstarter, 2022e). Two areas in the post phase which the literature does not currently account for are, firstly, in understanding how entrepreneurs use different types of crowdfunding with other forms of finance over the life-cycle of a venture (Junge, Laursen and Nielsen, 2022), and, secondly, the decision making of the entrepreneur as they manage the delivery delays common in rewards campaigns (Mollick, 2014).

Overall, entrepreneurs, particularly, those crowdfunding for the first time, are faced with making decisions under uncertainty. Few studies have considered how entrepreneurs use heuristics in crowdfunding (Troise and Tani, 2020), even though building knowledge would contribute to both the crowdfunding literature and to what is known about entrepreneurial decision making more broadly (Holcomb *et al.*, 2009; Shepherd, Williams and Patzelt, 2015).

The academic study of heuristics is relatively short and began with work by Pólya (1945) and Simon (1972), whose notion of bounded rationality is core to arguments for their use. Tversky and Kahneman (1974; 1983) brought heuristics and their associated biases into focus. Their seminal paper presented evidence of how people make systematic reasoning errors by, for example, not following the rules of probability theory, leading to biased judgements with costly consequences. Subsequently, many studies were carried out to understand heuristics and their consequent biases, building up a large body of knowledge (e.g. Busenitz and Barney, 1997; Zhang and Cueto, 2015). In entrepreneurial finance, Angels were found to rely on past events, an availability heuristic, and identified significant features in categories of events, a representativeness heuristic, which are both associated with the heuristics-and-biases approach (Harrison, Mason and Smith, 2015). Under the heuristics-and-biases approach heuristics are defined broadly, which reflects the way their proponents consider they work in human cognition.

An alternative view of heuristics as useful tools for decision making under uncertainty has been championed by Gigerenzer who argued against the assumptions and evidence underpinning the heuristics and biases approach (Gigerenzer, 1993). Instead Gigerenzer argued the way people reason intuitively within an environment when attempting a task could be explained using the idea of probabilistic mental models (Brunswik, 1955; Gigerenzer, Hoffrage and Kleinbölting, 1991; Johnson-Laird, 1994). Fast-and-frugal view proponents gathered evidence for their use through a series of experiments in which they strove to demonstrate that fast-and-frugal heuristics were rational decision strategies under uncertainty. In doing so, the concept of ecological rationality was put forward as an alternative to classical rational choice as a means to explain why particular heuristics worked by drawing on a combination of the decision makers capabilities and the way information was structured in the environment (Gigerenzer and Goldstein, 1996; Todd and Gigerenzer, 2000; Schooler and Hertwig, 2005). In addition, less-is-more arguments were made which presented evidence that making certain decisions based on minimal amounts of information could be more accurate than optimisation strategies like multiple regression (Czerlinski, Gigerenzer and Goldstein, 1999; Goldstein and Gigerenzer, 2002). The fast-and-frugal view has faced opposition from Tversky and Kahneman, who maintained their view was correct, and scholars who doubted the validity of probabilistic mental models (Gigerenzer, 1996; Kahneman, 2003;

Dougherty, Franco-Watkins and Thomas, 2008). Even so, the fast-and-frugal view continued to gain traction with Gigerenzer articulating the adaptive toolbox theory as a coherent account of how heuristics, like take-the-best, followed an ecologically rational three step cognitive process involving information search, stopping for evaluation and then a final decision step. In the last ten years the fast-and-frugal view has gained traction in economics and management with studies presenting arguments as to why these kind of heuristics are ecologically rational in the uncertain decision environments. Some studies have gone beyond individual level heuristics and taken an organisational level view, with Bingham and Eisenhardt (2011) demonstrating that managers in internationalising ventures learn portfolios of heuristics. Crowdfunding offers the opportunity to contribute to both individual level heuristics, through the decision making of funders regarding campaigns, as well as organisational level heuristics, through the decision making of entrepreneurs as they manage campaigns in the pre, live and post phases.

2.5.2 Framework and Questions

The key arguments above are incorporated into the theoretical framework shown in Figure 6 below which presents the three groups of participants in rewards and equity crowdfunding: entrepreneurs, funders and platform managers.

Pre Phase of Campaign

The **entrepreneur** plans the campaign making decisions using ecologically rational heuristics

The **funder**, influenced by drives, makes decisions using ecologically rational heuristics

Live Phase of Campaign

The **entrepreneur** manages the campaign making decisions using ecologically rational heuristics

The **funder**, influenced by drives, makes decisions using ecologically rational heuristics

Post Phase of Campaign

The **entrepreneur** manages the post phase making decisions using ecologically rational heuristics

The **funder**, influenced by drives, makes decisions using ecologically rational heuristics

Crowdfunding platform managers providing an online environment that has structures and opportunities

Figure 6: Theoretical Framework of Heuristics (author's own)

The research questions are based on the knowledge gained from the literature review. The seven questions are:

1. **What are the heuristics investors and entrepreneurs use in equity crowdfunding decision-making?**

2. **Why are the identified investor heuristics ecologically rational in equity crowdfunding environments?**

3. **How can entrepreneurs in equity crowdfunding use knowledge of heuristics and ecological rationality to influence investor decision-making positively?**

4. **What are the heuristics backers and entrepreneurs use in rewards crowdfunding decision-making?**

5. **Why are the identified backer heuristics ecologically rational in rewards crowdfunding environments?**

6. **How can entrepreneurs in rewards crowdfunding use knowledge of heuristics and ecological rationality to influence backer decision-making positively?**

7. **How transferable is entrepreneurial knowledge regarding heuristics between equity and rewards crowdfunding environments?**

The three core questions ask *What*, *Why* and *How* and correspond to the two types of crowdfunding of interest, equity and rewards, and the three goals of the adaptive toolbox theory. Although drives are not mentioned in the research questions they are part of the reasoning as to why a particular heuristic is ecologically rational. In addition, asking the same questions for equity and rewards environments allows for a comparative focus that provides insights into the transferability of knowledge between equity and rewards environments. Accordingly, the research will produce knowledge that satisfies the aims and offers an original contribution to crowdfunding and heuristics literature as per the gaps identified in this review.

Having established the aims and drawn research questions from the literature in chapter two, chapter three justifies the methodological approach. The findings are then presented in chapter four, followed by the answers to the research questions in chapter five, along with the contributions. Finally, chapter six concludes the thesis.

Chapter 3: Research Design

3.1 Introduction

The next step in the research process was to develop a robust design to gather and analyse the data needed to answer the research questions. Design elements included a philosophical framework, an approach, a sampling strategy, a data collection method and a means of data analysis. An evaluation of options was made for each element, and the most suitable option was selected. This process led to the selection of critical realism, a case study approach, a purposeful sampling strategy, interviewing to collect data and the Gioia Methodology for data analysis. This chapter provides the rationale for each choice and explains how each element worked in practice.

3.2 Critical Realism as the Philosophical Framework

The literature review found that most crowdfunding and heuristics research has used positivist frameworks. Consequently, there were reasons to adopt a similar framework for the current research, particularly around producing knowledge that would be regarded as a robust contribution. However, building knowledge about funder characteristics via a study of heuristics presented data accessibility challenges. The quantitative data used in most crowdfunding research was project-level and collected from successful campaigns using extraction techniques. While this data could be used to learn about the determinants of campaign success, it did not reveal much about how funders made decisions, as evidenced by the lack of related research. An alternative way to collect quantitative data would have been to survey funders; however, aside from access to enough qualified participants, this would have been at odds with the exploratory nature of the research aims. As the literature review revealed, an exploration of the use of heuristics along with comparative cross-platform work was justified.

A constructivist philosophical framework was then considered, but some fundamental issues in its use reduced its appeal. The most significant was the assumed socially constructed nature of reality (Alvesson and Sköldberg, 2018). While parts of crowdfunding, such as the dialogues in the online chat, could be seen as socially constructed, some elements were part of an external reality, such as the platforms and regulations which determined how crowdfunding

operated in a given jurisdiction (Bradford, 2018; FCA, 2022a). Relatedly, the adaptive toolbox theory focused on funders' capabilities and structures in the decision environments, which again involved considering an external reality (Gigerenzer, 2008).

Critical realism was selected as the most suitable philosophical framework because its underlying tenets aligned with the research requirements. Figure 7 shows how critical realism was used.
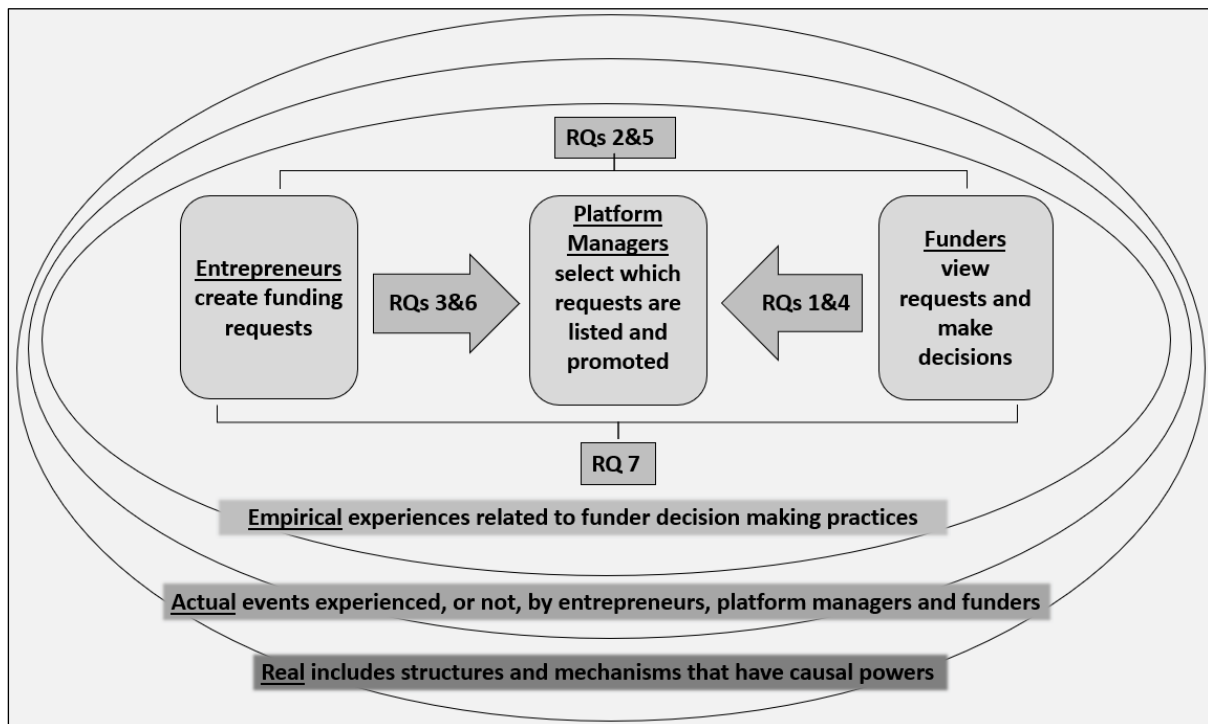
Figure 7: Using Critical Realism (author's own)

While Bhaskar (2008) introduced critical realism in the 1970s, other scholars contributed to its ongoing development and propagation as a metatheory (Sayer, 1992; Collier, 1994; Fleetwood, 2014; Danermark, Ekström and Karlsson, 2019). Based on Sayer's (2000) view, the following five tenets of critical realism were considered in relation to the current research. Firstly, critical realism distinguishes the objects of science, which are seen as intransitive, and the theories and discourse about the objects, which are seen as transitive. Objects like the regulator, platforms and campaigns are intransitive, whereas any contributions to knowledge resulting from using the adaptive toolbox theory would be transitive. Critical realism also distinguishes between the *real*, the *actual* and the *empirical*. The real includes everything that exists concerning crowdfunding. The regulator, platforms and campaigns are part of the real,

and they have structures and powers that give them the capacity to act in specific ways, described as causal powers. For example, the FCA as the regulator of equity crowdfunding, has the capacity to review regulations and also the power to require platforms to follow updated guidance. Understanding causal powers is the underlying drive of critical realism and should be valuable in understanding the ecological rationality of fast-and-frugal heuristics.

Critical realism allows for a causal criterion whereby the existence of something unobservable can be supported by plausible evidence. For example, crowd dynamics may act as a causal criterion when explaining the use of heuristics. Furthermore, the *real*, the *actual*, and the *empirical* are considered part of a stratified ontology, contrasting with positivism's 'flat' ontology. A significant difference is that the *real* can contain structures and mechanisms that may remain dormant until activated. In addition, critical realism contends that emergence can lead to two or more elements combining to form new phenomena. Digitally-based crowdfunding emerged from the need for capital, technological advances, supporting regulation and a trend toward crowd-based behaviours (see section 2.2).

Another distinctive feature of critical realism is how it approaches causation. Critical realism looks for causal mechanisms, how they work, and under what conditions they are activated rather than looking for a regular pattern of events to explain causation. This view is likely to be valuable in the study of crowdfunding as it takes place in a dynamic environment where the underlying mechanisms may not be directly observable.

Finally, critical realism considers social phenomena to be meaningful. An interpretive element must be considered as meaning has to be understood rather than counted or measured. For example, if data were gathered by interviewing, there would be a double hermeneutic loop to consider. The results from subsequent analysis would be based on my interpretations of participants' interpretations expressed as answers to interview questions.

3.3 Comparative Case Study Approach

With critical realism as the philosophical framework, the next step was to select an approach to data collection, analysis and presentation. As the research would progress by collecting data in response to the research questions, each question requirement was considered in turn. Question one asked what heuristics are used by investors and entrepreneurs and could

be addressed by questioning participants with knowledge of decision-making practices. Question two asked why the identified heuristics were ecologically rational and was more theoretical in that it required understanding constructs and causal mechanisms in the decision environments. Answering would require a combination of the answers from question one and a conceptualised understanding of ecological rationality. Question three asked how entrepreneurs could use knowledge of heuristics and their ecological rationality to influence investment decisions positively. A combination of questions one and two answers and participants' responses could be used to address question three. Questions four to six mirrored questions one to three for the rewards decision-making environment. Question seven asked how transferable is entrepreneurial knowledge regarding heuristics between environments and required answers to related questions, for example, one and four, to be compared and contrasted. A comparative case study strategy was considered to see if it could satisfy the abovementioned requirements.

While there has been extensive debate regarding what cases are and how they are defined (Ragin and Becker, 1992; Gerring, 2004), there is consensus around the necessity to set the boundaries of any case. As Patton (2015, p. 259) explains:

> Despite differences in emphasis, a common thread in defining a case for study is the necessity of placing a boundary around some phenomenon of interest – and where the boundary is placed is both arbitrary and fundamentally critical because that boundary-setting process determines what the case is and therefore the focus of inquiry.

The 'phenomena of interest' were the heuristic-based decisions of individual funders and entrepreneurs. As mentioned above, the research questions set both practical and theoretical requirements regarding the boundary of any case. So the point was, could the research be approached as a comparative case study in which the equity environment was one case and rewards the other. This option would involve making two comparable cases within an overall case study strategy.

Making a case in which there were both empirical units, in the form of campaigns in which individual funders and entrepreneurs made decisions and , along with theoretical constructs, like ecological rationality, was within the parameters of accepted practice and would be categorised as a blend of finding and making a case (Ragin and Becker, 1992). A comparative approach follows the basic logic of case study research, is widely used (Rihoux and Lobe, 2009;

Bartlett and Vavrus, 2016), and is recognised to enhance rigour (Yin, 2018). The equity and rewards cases were comparable, as different manifestations of the same basic phenomena in which funds for an entrepreneurial venture are collected from crowds made up of individual funders. Both involve an entrepreneur pitching for funds via a video, and offer individual funders various options for what they get in exchange for their money. Figure 8 below describes the comparative approach used.

Equity case	Compare	Rewards case
Individual investors and entrepreneurs as the unit of analysis	Contrast	Individual backers and entrepreneurs as the unit of analysis
Including constructs from the theoretical lens and critical realism	**Answers Question 7**	Including constructs from the theoretical lens and critical realism
Answers questions 1, 2 and 3		**Answers questions 4, 5 and 6**

Figure 8: Comparative Case Study Approach (author's own)

Having two similar cases in which the processes of sampling, data collection and analysis were carried out in the same way allowed for 'cross-case item analysis', which provided a way to answer question seven 'based on in-depth knowledge about the cases studied' (Patton, 2015, p. 263 and 719). For both cases the unit of analysis was individual investors/backers and individual entrepreneurs. The focus on decision-making in campaigns, which have pre and post elements in addition to the live phase, also brought in a process aspect lacking in previous research (Pollack *et al.*, 2019). A case approach also worked with critical realism (Easton, 2010).

3.4 Purposeful Sampling

With a case study approach in place, the next step was to address the challenge of selecting knowledgeable participants from whom to gather good quality data. A sampling strategy was required that satisfied requirements for depth to answer questions one to six and comparability to answer question seven.

A purposeful sampling strategy based on 'intensity sampling' combined with 'chain sampling' was subsequently selected (Patton, 2015, pp. 267-270). The former focused on finding participants having in-depth knowledge about different aspects of crowd decision-making activities, including successful and unsuccessful campaigns in equity and rewards crowdfunding. The aim was to build up a comprehensive picture of decision-making practices. The chain (snowball) strategy focused on building relationships and then asking for suggestions regarding other knowledgeable potential participants who might be willing to contribute (Suri, 2011). This strategy drew on the goodwill and experiential knowledge built up in the sampling process. By applying the same approach to sampling for equity and rewards cases, comparability was enhanced. The concept of saturation, whereby the completeness of the data determines the number of participants targeted, was used to guide how many participants were interviewed (Bowen, 2008).

Crowdcube and *Seedrs* were selected as platform environments to search for equity campaigns for the following reasons. They were the two most prominent platforms, focused on retail investors and had a long track record in equity crowdfunding in the United Kingdom and internationally (Paresys, 2021). *Crowdcube* and *Seedrs* were regulated by the FCA and validated in that they had been used in previous equity research (for example, Vismara, 2016; Estrin, Gozman and Khavul, 2018; Walthoff-Borm, Schwienbacher and Vanacker, 2018). Similar reasoning applied to the selection of *Crowdfunder*, *Kickstarter* and *Indiegogo* on the rewards side. From a backer and entrepreneur perspective, they were all prominent platforms with lengthy track records in the United Kingdom and internationally. They had also been validated by previous research efforts (for example, Usman *et al.,* 2019; Patel, Wolfe and Manikas, 2021; Gallemore, Nielsen, and Jespersen, 2019).

3.5 Interviewing to Collect Data

With the unit of analysis as individual funders and entrepreneurs, the challenge was selecting the best method to collect good quality data efficiently. Three possible methods were considered: focus groups, observation, and interviewing.

Focus groups were disregarded because they would have been more suited to later-stage research when some initial ideas about which fast-and-frugal heuristics were used and could

be included in the discussion (Morgan, 1996). In addition, forming a group would have been challenging, as piloting work demonstrated. Direct participant observation was also disregarded as the funders were a diverse group of physically separated individuals acting in an online environment rather than a physical organisation that could be visited (Kawulich, 2005). Attempts were made to contact funders directly but were impaired by difficulties getting enough responses from knowledgeable participants. It was also doubtful whether enough depth would be provided by observation. Interviewing overcame the issues as knowledgeable individuals with experience in crowd-based decision-making in the two case environments could be contacted and data gathered efficiently and effectively. It was, however, important to understand the strengths and weaknesses of interviewing as a data collection method.

Research interviews can be categorized as one of three types. Structured interviews are standardized, with all interviewees' being asked the same questions and are similar to questionnaires (Fontana and Frey, 2008). In contrast, in unstructured interviews, there is a focus on open conversation and expression. Between these types are semi-structured interviews where the interviewee may be asked questions relating to themes. The interviewer follows a prepared interview guide, but there is scope to elaborate and follow the conversational flow into new areas of interest (Roulston, 2010). The semi-structured type was selected as themes and findings that had emerged from the literature review would be beneficial during interviewing. In addition, an advantageous feature of interviewing was its flexibility in that it would allow follow-up questions to probe and clarify meaning during interaction (Stroh, 2000). Also, because interviews were a repeated activity, there was the opportunity to develop skills through reflexivity (Roulston, 2010; 2011), leading to higher quality outputs (Cunliffe, 2003).

Critics of interviewing argue that subjectivity, bias, and consequent lack of trustworthiness make results and subsequent knowledge claims dubious (Bryman, 2016). In countering these objections, supporters of interviewing argue that the subjective nature of interviewing is, in fact, its main strength as it provides a better understanding of real-world experiences (Brinkmann and Kvale, 2015). On balance, the benefits of interviewing outweighed its drawbacks, so it was selected as the preferred data collection method.

3.6 Data Collection

3.6.1 Interview Guide and Data Management Plan

An interview guide and data management plan were essential elements in the rigorous planning and careful execution underpinning interviewing. The guide was needed to structure the interview process while facilitating the collection of relevant, good-quality data. Figure 9 shows the steps in designing the guide, a copy of which can be found in Appendix A.

Draw content from literature review	Draft Interview Guide	Pilot Interview Guide	Identify issues and revise	Finalized Interview Guide
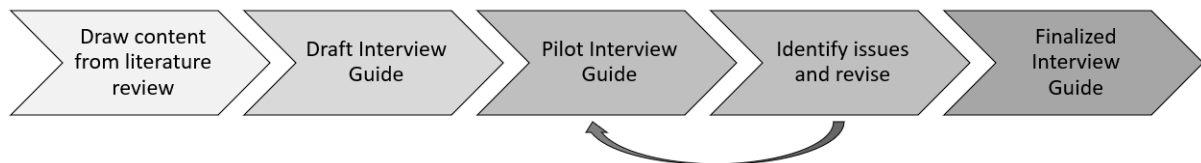
Figure 9: Process of Designing the Interview Guide (author's own)

The guide was made with three main sections following recommended practice (Galletta, 2013). The 'Opening Section' included an expression of thanks, the purpose of the research and confirmation of consent. The middle, 'Exploring Section', was designed to gather relevant data and was based on the literature review content. Finally, the 'Concluding Section' included an opportunity for the participants to add anything else they thought relevant and ask any questions they might have. The draft Interview Guide was piloted during practice interviews with six Newcastle University Alumni network members, and improvements were made based on reflection and reflexivity after each interview (Brinkmann and Kvale, 2015; Patton, 2015). It was found that most of the demographic questions could be answered through online research, which helped with the flow during the interview. The basic structure of an opening warm-up section, a middle in-depth exploration section, and a final wrap-up section worked well. The middle 'Exploring Section' was key to collecting data that would answer the research questions and two important process lessons were to keep questions open and listen attentively. Relatedly, previous findings from crowdfunding and heuristics could be used effectively by bringing in relevant points once more general and open questions about funding experience had been discussed.

Using the knowledge gained from pilot interviews and designing the Interview Guide, the Data Management Plan was then prepared. This plan was a university requirement for the research and was checked by the Research Data Manager. Preparing the plan involved explaining what was being investigated and how data would be collected ethically, following university

regulations. The plan's components included responses to data-management questions (see Appendix B) and an Information Sheet and Consent Form (see Appendix C). Putting the plan and appended forms together was valuable preparation for conducting actual interviews. After the national quarantine for Covid 19 began in March-April 2020, the university asked for a review of how the research was carried out. A 'Research Ethics During Covid-19' form was completed, submitted and approved on the 1st of May 2020 (see Appendix D). While Covid 19 delayed data collection by around six weeks due to loss of momentum and uncertainty, conducting interviews remotely from March 2020 onwards worked within the overall research design.

3.6.2 Conducting Interviews

Following the intensive purposeful sampling strategy, online searches of past campaigns were made for potential participants. LinkedIn was then used to contact those who were suitably experienced (see Appendix E template). Most potential participants who responded wanted to help and agreed to an interview via an email invite to a telephone call or video meeting. Interviews were audio-recorded using two digital recorders just in case there were technical or equipment issues. Before each interview, participants' backgrounds and areas of crowdfunding experience were researched online, and notes were made regarding potential questions.

Interviews followed the three-part structure set out in the guide. The 'Opening Section' warm-up was crucial for understanding the participants' communication style and setting a positive tone. Some interviewees were more direct and wanted to get straight into the 'Exploring Section' questions, while others wanted to know my motivations and the likely outcomes of the research before proceeding. As an interviewer, I followed the flow of the conversation using questions to redirect the interviewees toward the areas in which I sought answers while drawing on their past crowdfunding experiences as a guide to their knowledge areas.

The interviews ranged from 25 to 60 minutes, depending on the participant's experience and desire to talk. After the main body of discussion had run its course, the participant was asked if they wanted to add anything further. Although most participants did not have more content to add, almost all offered to answer any further questions by email or follow-up interview. Some participants did, though, offer some new and valuable information. One example

regarding equity crowdfunding was how valuations were calculated. Following any additional contributions, participants were then asked if they had any questions they would like to ask me, which also served to signal that the end of the interview was coming. Most participants asked about the research aims and expressed an interest in hearing about the outcomes. If the Consent Form had not been returned, the participant was asked if they could do so. Some preferred to use the digital signing service DocuSign. Finally, each participant was thanked for their time and effort.

After each interview, the integrity of the audio file was checked. The file was transferred to Newcastle University OneDrive and then deleted from the recorder following the Data Management Plan. A reflective and reflexive review of the interview was also completed. The reflection focused on the interview content and how the participant's answers ultimately contributed to answering the research questions. In general, earlier interviews were more generative and emergent and followed the flow of the conversation. In later-stage interviews, there was a move towards confirmatory data collection in which there was a drive to deepen and confirm insights through targeted questioning (Patton, 2015). Reflexivity considered how the researcher's approach, beliefs, and values influenced the interview process and data collected. During the data collection period, I developed my knowledge and skills and enjoyed interactions with participants. Accordingly, many of the later-stage interviews were more extended and in-depth. Appendix G provides more details about how reflexivity was integrated into research processes.

3.6.3 Equity Sample

Between February and September 2020, twenty-four knowledgeable participants were interviewed, as Table 1 below shows. Following the sampling strategy, potential participants were identified by searching for previously successful campaigns on the *Crowdcube* and *Seedrs* platforms, monitoring live campaigns on the same platforms, and from participant referrals. Twelve interviews were conducted to mid-June, after which there was a pause to allow for transcription, the initial identification of themes and consolidation of ongoing reflective and reflexive learning. Three areas of potential improvement stood out. One was adding perspectives from female participants. A second was adding more participants of the types already interviewed, which it was thought would help reinforce or modify emerging themes in line with the concept of saturation (Bowen, 2008). A third was adding consultants

to the platform managers grouping. The rationale was that, as participant 9 had suggested, consultants worked closely with platform managers as part of efforts to help campaigns achieve and exceed targets.

Regarding the themes beginning to emerge from the transcripts, firstly, equity-crowdfunding campaigns, it was noted, have a private phase before they open to retail investors, when they aim to gain commitment from investors already known to the business. Secondly, three categories of factors related to possible heuristic use emerged. The first was concerned with financial gain related to future returns. The second was emotion and values and how the business provided some social good. The third was momentum in the live phase when the campaign was open to investment by all registered investors. It was thought that these tentative findings could be used as a reference point in future interviews, during which additional data would either deepen or modify understanding.

Part.	Role Gender Ethnicity / Age	Organization/Startup Source → Contact	Date Start Time / Duration (mins) Mode / Words transcribed (pgs.)	Equity crowdfunding experience (platform names not provided to preserve anonymity) Relevance of experience to research
1	**Entrepreneur** Male White (UK) / 35-44	Charitable giving Fintech. Live campaign → email.	**17/02/20 & 15/07/20** 14:30 & 10:30 / 60 & 30 In-person & Zoom / 3,479 (7)	First-time raise that failed. Knowledge from failure, which contrasts with knowledge of success from other participants.
2	**Entrepreneur** Male White (UK) / 55-64	Insurance Fintech. Referral from P1 → email.	**25/02/20** 14:15 / 60 In-person / 5,857 (12)	Two successful campaigns. Knowledge from success, with a third campaign planned for July/August 2020.
3	**Platform Manager** Male White (UK) / 55-64	Equity Platform and Insurance FinTech startups. Referral from P2 → email.	**27/02/20** 15:00 / 25 Telephone / 3,511 (8)	Senior platform manager and angel investor. Knowledge from a wide range of successful campaigns.
4	**Entrepreneur** Male White (EU) / 25-34	Alcoholic drinks. Successful campaign → LinkedIn InMail.	**23/03/20** 13:05 / 25 Zoom / 2,433 (5)	Three successful campaigns, with a fourth planned for June/July 2020. Knowledge from multiple successful campaigns.
5	**Platform Manager** Male White (UK) / 55-64	Equity platform. Referral from P3 → LinkedIn InMail.	**13/04/20** 09:00 / 35 Telephone 4,918 (11)	Senior platform manager and angel investor. Knowledge from wide range of successful campaigns.
6	**Investor** Male White (UK) / 45-54	Education startup. Successful campaign → LinkedIn InMail.	**29/04/20** 13:00 / 30 Telephone / 3,125 (6)	Some experience in crowdfunding and knowledge of other sources of funding. An investor who advises startups about raising capital.
7	**Entrepreneur** Male White (UK) / 25-34	Luxury goods startup. Live campaign → email.	**29/04/20** 16:00 / 30 Telephone / 3,730 (7)	One successful campaign. Knowledge from success.
8	**Entrepreneur** Male White (UK) / 25-34	Mental health app startup. Live campaign → email.	**04/05/20** 10:00 / 30 Hangout / 3,312 (7)	A first-time campaign that failed. Knowledge from failure, which contrasts with knowledge of success from other participants.
9	**Investor** Male White (UK) / 35-44	IT & Analytics startup. Successful campaign → LinkedIn InMail.	**05/05/20** 14:00 / 40 Telephone / 4,694 (9)	Advisor to one of the platforms. Range of investment experience, including capital markets and venture capital.
10	**Investor** Male White (UK) / 45-54	Investment management. Live campaign → LinkedIn InMail.	**19/05/20** 14:00 / 30 mins Telephone / 3,781 (8)	View of professional investor who has invested in startups. Knowledge about why professional investors get involved.
11	**Entrepreneur** Male White (UK) / 35-44	Brewer. Live campaign → LinkedIn InMail.	**03/06/20** 14:00 / 40 mins Telephone / 4,449 (9)	One campaign that was successful. Knowledge from success.
12	**Entrepreneur** Male Asian (UK) / 55-64	Materials technology. Successful campaign → LinkedIn InMail.	**19/06/20** 11:00 / 40 / Hangout / 3,573 (8)	Six successful campaigns. Knowledge from multiple successes.
	Pause to allow for transcription, the initial identification of themes and reflective and reflexive learning			
13	**Entrepreneur** Male White (UK) / 35-44	Career development. Successful campaign → LinkedIn InMail.	**21/07/20** 17:30 / 30 Zoom / 3,473 (6)	One successful campaign. Selected by platform as 'case study' of a successful first-time campaign.

14	**Entrepreneur** *Female* White (UK) / 25-34	Florist. Live campaign → email.	**22/07/20** Email 606 (2)	One successful campaign. Knowledge from success and the first female helps address the gender imbalance in the sample.
15	**Entrepreneur[1]** Male White (UK) / 45-54	Personal care tissues. Successful campaign → LinkedIn InMail.	**23/07/20** 10:00 / 30 Teams / 4,248 (9)	One 'proof-of-concept' campaign in rewards and three successful campaigns in equity. The link between rewards and equity/knowledge from success.
16	**Entrepreneur** *Female* Asian (UK) / 45-54	Fashion retailer. Live campaign → email.	**23/07/20** 15:00 / 25 Zoom / 2,292 (5)	One successful campaign. Knowledge from success and the second female helps address the gender imbalance in the sample.
17	**Entrepreneur** *Female* White (EU) / 35-44	Virtual reality content. Live campaign → email.	**24/07/20** 14:00 / 40 Zoom / 2,850 (5)	One successful campaign. Knowledge from success and the third female helps address the gender imbalance in the sample.
18	**Entrepreneur** Male White (EU) / 35-44	Outdoor equipment. Live campaign → email.	**27/07/20** Email 261 (1)	Six successful campaigns. Knowledge from multiple successes.
19	**Entrepreneur[1]** Male Asian (UK) / 45-54	Home security. Successful campaign → LinkedIn InMail.	**28/07/20** 14:00 / 40 Zoom / 3,437 (6)	Two successful raises, one rewards, and one equity. The link between using rewards for proof-of-concept then using equity for growth.
20	**Platform Manager-Con.[1,2]** Male White (UK) / 55-64	Crowdfunding consultancy. LinkedIn search → LinkedIn InMail.	**29/07/20** 14:00 / 50 Zoom / 6,691 (14)	He has advised on numerous campaigns and claims a very high success rate. In-depth knowledge of success factors in equity and rewards.
21	**Entrepreneur** *Female* White (UK) / 45-54	Online education. Successful campaign → LinkedIn InMail.	**04/08/20** 11:00 / 30 Zoom / 4,223 (8)	Two successful campaigns. Selected by the platform as a 'case study' of a successful second campaign.
22	**Platform Manager-Con.[1,2]** *Female* White (UK) / 45-54	Crowdfunding consultancy. LinkedIn search → InMail.	**11/08/20** 11:00 / 40 Zoom / 5121 (10)	Advised on numerous campaigns and claims to have helped raise over £1 million in 2019 in rewards and equity. Knowledge of both rewards and equity crowdfunding.
23	**Platform Manager** Male White (UK) / 25-34	Platform. Referral from P20 → email.	**18/08/20** 13:30 / 30 Zoom / 3,396 (7)	Extensive knowledge of equity crowdfunding practice. Provides platform perspective.
24	**Platform Manager** *Female* White (UK) / 35-44	Platform. Referral from P20 → email.	**21/09/20** 14:30 / 30 Zoom / 4187 (9)	Extensive knowledge of equity crowdfunding practice. Provides platform perspective.

Table 1: Equity Interviews

Notes: [1]Four interviews provided some content relating to rewards campaigns. These four portions were added to the rewards data.

[2]Consultant.

The second batch of equity interviews were conducted from mid-July to mid-September 2020, during which the identified areas for improvement were used as a guide. Participants 13 to 24 included six females (14, 16, 17, 21, 22 and 24), which helped provide a gender balance. Four participants had two or more successful campaigns (15, 18, 19 and 21), while another four had one successful campaign (13, 14, 16 and 17), which added to the data that had already been collected for those groupings. Two participants were platform managers-consultants (20 and 22) with experience of multiple successful equity and rewards campaigns. Finally, the platform manager perspective was further enhanced by two more participants (23 and 24), who were in senior positions with *Crowdcube* or *Seedrs*. Around forty per cent of the potential participants contacted were interviewed. Most of those interviewed had been part of either a previous (thirty-eight per cent) or a live (thirty-three per cent) campaign on *Crowdcube* or *Seedrs*. Referrals and a professional approach helped achieve this success rate.

3.6.4 Rewards Sample

In line with the sampling strategy, potential participants were identified through searches of previously successful campaigns on the *Crowdfunder*, *Kickstarter* and *Indiegogo* sites, monitoring live campaigns on the same platforms and referrals. Table 2 below shows that eighteen knowledgeable participants were interviewed between February and October 2020. Four interviews were conducted up to early March 2020, after which there was a pause to allow for reflective and reflexive learning, transcription, and the initial identification of themes. In the early stages of interviewing there was a simultaneous effort to interview equity participants, and it became evident that effectiveness could be improved by focusing on rewards or equity. As equity was an area of particular interest, a decision was made to focus on that case first and then return to rewards later in the data collection period. The approach was beneficial because blocks of time could be given to searching for potential participants, conducting interviews and transcribing. Also, by the time the focus returned to interviewing rewards participants in September 2020, the researcher's skills and knowledge had improved due to the equity work carried out.

The second round of rewards interviews followed the sampling strategy and targeted participants with specific types of experience. One area was campaign experiences with *Kickstarter* or *Indiegogo*. Another was entrepreneurs with experience as backers, while a third were consultants with platform management experience.

Part.	Role Gender Ethnicity / Age	Organization/Startup Source → Contact	Date Start Time/Duration (mins) Mode / Words (pgs.)	Rewards crowdfunding experience (platform names not provided to preserve anonymity) Relevance of experience to research
1	**Entrepreneur/Backer** Male White (UK) / 35-44	Bakery. Successful campaign → email.	**17/02/20** 13:00 / 25 Telephone / 2,617 (6)	Successful campaign on an international platform. Knowledge from campaign success and as a backer.
2	**Entrepreneur/Backer** Male White (UK) / 35-44	Bakery. Participant 1 referral → email.	**02/03/20** 16:15 / 30 Telephone / 3,168 (8)	Successful campaign on UK platform. Knowledge from campaign success and as a backer.
3	**Entrepreneur/Backer** Male White (UK) / 25-34	Performing arts group. Successful campaign and referral → email.	**04/03/20** 13:13 / 20 Telephone / 2,769 (7)	Multiple successful campaigns on a UK platform. Knowledge from campaign success and as a backer.
4	**Entrepreneur** *Female* White (UK) / 35-44	Community women's group. Successful campaign and referral → email.	**06/03/20** 10:30 / 36 Telephone / 5,167 (10)	Successful campaign on UK platform. Knowledge from the campaign.
	Pause to allow for reflective and reflexive learning, transcription and initial identification of themes			
5	**Entrepreneur[1]** Male White (UK) / 35-44	Domestic appliance maker. Previously funded → LinkedIn InMail.	**03/09/20** 13:30 / 30 Zoom / 3,933 (8)	Successful campaigns on international and UK platforms. Proved business concept using rewards and then raised for growth with equity.
6	**Entrepreneur** Male White (UK) / 25-34	Domestic appliance maker Previously funded → email	**08/09/20** Email 420 (2)	One of the most successful campaigns on an international platform. Knowledge of large-scale success.
7	**Platform Manager-Con.[1,2]** *Female* White (UK) / 25-34	Crowdfunding consultancy. LinkedIn search → InMail.	**11/09/20** 12:45 / 30 Zoom / 5,113 (10)	Previously worked for a platform plus experience of over 60 successful campaigns in rewards and equity. Scope and depth of experience.
8	**Platform Manager-Con.[1,2]** Male Catalan (EU) / 45-54	Crowdfunding consultancy. LinkedIn search → InMail.	**11/09/20** 16:30 / 30 Zoom / 2,757 (5)	Experiences from multiple successful campaigns both as a founder and a consultant. Depth of knowledge.
9	**Platform Manager-Con.[1,2]** *Female* White (UK) / 25-34	Crowdfunding consultancy. LinkedIn search → InMail.	**14/09/20** 12:00 / 40 Zoom / 4,925 (9)	Experiences from multiple successful campaigns on international and UK platforms. Depth of experience.
10	**Entrepreneur** Male White (UK) / 25-34	Domestic appliance maker. Participant 5 referral → InMail.	**15/09/20** 11:00 / 40 Zoom / 4,637 (9)	Multiple campaigns on the two international platforms. Depth of knowledge.
11	**Entrepreneur** *Female* White (UK) / 35-44	Baker. Participant 2 referral → email.	**18/09/20** 13:30 / 30 Zoom / 4,069 (7)	Successful campaign on UK platform. Knowledge from success.
12	**Entrepreneur** Male White (EU) / 25-34	Technology accessories. Successful campaign → InMail.	**23/09/20** 13:30 / 50 Zoom / 5,048 (9)	Multiple large and successful campaigns on the two leading international platforms. Scope and depth of knowledge.
13	**Platform Manager-Con.[2]** Male Catalan (EU) / 45-54	Crowdfunding consultancy. LinkedIn search → InMail.	**03/10/20** Email 164 (1)	Experiences from multiple successful campaigns in both rewards and equity. Depth of knowledge.

14	**Entrepreneur** Male White (UK) / 45-54	Space related projects Live campaign → InMail.	**06/10/20** 10:00 / 30 Telephone / 2,899 (6)	Two successful campaigns on the two leading international platforms. Depth of knowledge.
15	**Entrepreneur** Male White (EU) / 25-34	Photography related projects. Successful campaign → email.	**19/10/20** 10:00 / 40 Zoom / 4,250 (8)	Multiple successful campaigns on the two leading international platforms. Depth of knowledge.
16	**Entrepreneur** Male White (UK) / 45-54	Game-related projects. Live campaign → email.	**21/10/20** 11:00 / 50 Zoom / 8,423 (14)	Multiple successful campaigns on the two leading international platforms. Depth of knowledge.
17	**Entrepreneur** Male Hispanic (LA) / 35-44	Outdoor clothing related projects Live campaign → InMail.	**22/10/20** 11:00 / 55 Zoom / 6,791 (12)	Multiple successful campaigns on the two leading international platforms. Depth of knowledge.
18	**Entrepreneur**[1] Male Iranian (UK) / 35-44	Electric bike-related projects. Successful campaign → InMail.	**23/10/20** 16:00 / 45 Zoom / 6,982 (12)	Multiple successful large campaigns on the two leading international platforms. Depth of knowledge.

Table 2: Rewards Interviews

Notes: [1]Five interviews provided some content relating to equity campaigns. These five portions were added to the equity data.

[2]Consultant

Forty-two per cent of potential participants contacted were interviewed. Like the equity sample, this relatively high rate was helped by referrals and a professional approach. Many participants were found by looking at successfully funded campaigns (thirty-three per cent), or through referrals (twenty-eight per cent), with others coming from LinkedIn searches (twenty-two per cent) and live campaigns (seventeen per cent).

3.6.5 Transcription

Following recommended practice, the audio files were checked repeatedly until transcriptions were judged to be accurate representations, conveying what had been communicated (Kowal and O'Connell, 2014). Only one interview, rewards participant 8, had a technical issue, which led to the loss of a few words; however, this did not result in any significant loss of accuracy or meaning. The first page of each transcript included identification details and a key to the dialogue that followed (see example in Appendix F). Table 3 below shows descriptive statistics for the two samples.

Sample	Word range of transcripts	Average words per transcript	Average pages of A4 per transcript	Total words
Equity	2,292 to 6,691	3945[1]	8	87,647[2]
Rewards	2,617 to 8,423	4597[1]	9	74,132[2]

Table 3: Transcription Statistics

Notes: [1]email response from two participants not included; [2]includes the email response from the two participants

Interviews became longer as data collection progressed and consequently contained more words. This increasing length was partly due to platform managers-consultants being interviewed in the later stages of data collection. These participants had experiences in equity and reward crowdfunding relevant to the research, so the discussion expanded to cover both areas.

3.7 Data Analysis

3.7.1 Approach

The 161,779 words of raw-data transcripts presented a data analysis challenge. Although some themes began to emerge during data collection, the formal data analysis process required a robust approach that would produce credible findings. The selection of critical realism, a case study approach, purposeful sampling, and interviewing as part of the research design was made based on the assumption that the analysis would use inductive reasoning. So, the challenge was to select a suitable method for inductive analysis that would allow the data to be reduced and displayed effectively and for conclusions to be drawn and verified (Miles, Haberman and Saldana, 2020). Three methods stood out as possible options. The first was the 'general inductive approach' (Thomas, 2006, p. 237). This method met most of the requirements as it was developed for use in studies drawing on critical realism that produced textual data from which concepts, themes, and models could be derived via the interpretations of a researcher (for example, see the exploratory study by Alonso *et al.*, 2020). While the foundations of the method were suitable, there were questions about how the findings could be most effectively displayed and if an alternative method would robustly show the temporal aspects of crowdfunding to better effect. The second method considered, thematic analysis, was similar to the general inductive approach but had a similar drawback regarding displaying findings (Braun and Clarke, 2006; Braun, Clarke and Hayfield, 2019). The third method, the Gioia Methodology, met the research requirements, including robust presentation of findings and display of temporal aspects in a process model (Gioia, Corley and Hamilton, 2013).

3.7.2 Using Gioia Methodology

Gioia Methodology helps

> inductive researchers apply systematic conceptual and analytical discipline that leads to credible interpretations of data and also helps to convince readers that the conclusions are plausible and defensible (Gioia, Corley and Hamilton, 2013, p. 15).

While Gioia and his colleagues developed the approach for their work in organisational studies, its application has widened over the last thirty years. For example, Gioia Methodology was used in an exploratory study of equity crowdfunding in the United Kingdom (Estrin, Gozman and Khavul, 2018). However, the approach has faced criticism because of its rigid

application in which following the Gioia template replaces sound reasoning in some instances (Langley and Abdallah, 2011; Ravasi, 2021; Gioia *et al.*, 2022). This detraction contrasts with the flexible and innovative application recommended by Gioia, Corley and Hamilton (2013), which the current research follows, seeing the methodology as an 'exemplar' rather than a 'template' (Gioia *et al.*, 2022). Figure 10 below shows how Gioia Methodology was applied.
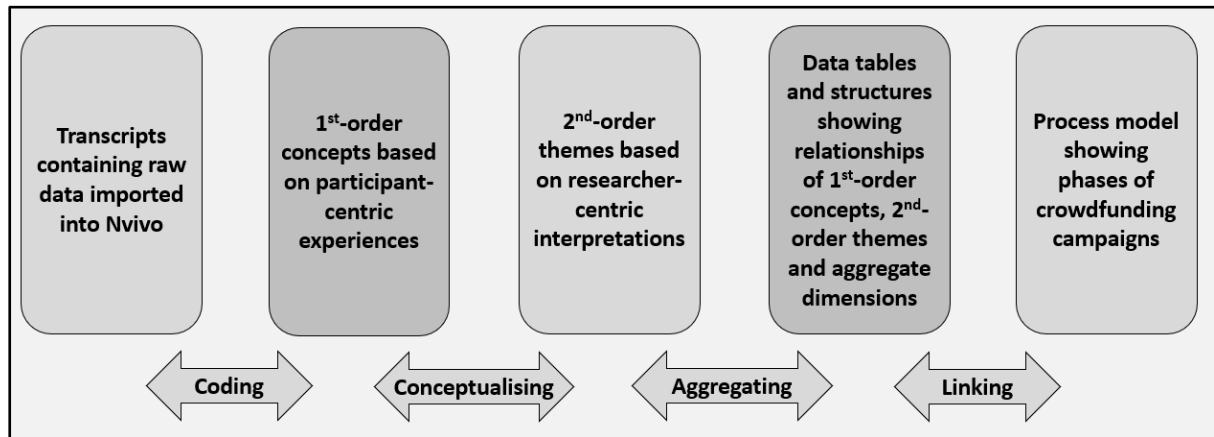
Figure 10: Gioia Methodology Application (author's own)

Regarding the principles which underpin the use of the Gioia Methodology, one adaption was made in terms of the critical realist philosophical framework employed in the current research, as social constructivism has been used in its application to organisational studies research (Gioia, 2021). Because critical realism embraces both an external reality and a socially constructed reality through the principle of stratification, there was no fundamental conflict in its use (Sayer, 2000). As for the principle of 'knowledgeable' participants who understand their world and can explain themselves clearly in interviews, this research assumed that to be true (Gioia, 2021). In addition, showing evidence to support assertions and presenting 'a plausible, defensible explanation of the phenomena' were central to the work (Gioia *et al.*, 2022, p. 232).

As Figure 10 shows, there were four steps in using the Gioia Methodology. The first step was coding the raw data contained in the transcripts, which produced 1st-order concepts based on the language used by participants. This process was carried out using NVivo and is described in section 3.7.3 below. The second, third and fourth steps involved conceptualising, aggregating, and linking and are described in section 3.7.4. Although Figure 10 shows a linear movement from left to right, the application was iterative, as the two-way arrows depict. The

data tables, which contain supporting evidence for each first-order concept, can be found in the appendices (I to N). Data structures and process models are presented in the Findings chapter.

3.7.3 Coding to Develop 1st-order Concepts

In Gioia Methodology, 1st-order concepts are based on participants' experiences, which calls for an open approach to coding that captures inherent meaning (Gioia, Corley and Hamilton, 2013; Gioia, 2021). Coding is a process whereby codes, as labels assigned by a researcher, are attached to a portion of text, capturing the essence of its meaning (Saldana, 2016). The open approach required was achieved by combining in vivo and descriptive coding. The in vivo coding used language from participants to form codes (Saldana, 2016). The majority of 1st-order concepts were based on in vivo codes. In situations where an in vivo code did not communicate the meaning effectively, descriptive coding was combined with in vivo coding. Descriptive codes summarised the topic in the text and were usually nouns (Saldana, 2016). The complete list of 1st-order codes can be found in the data tables in appendices I to N. These tables bring together representative evidence that supports the assigned codes. The following illustrative example shows how the coding strategy was applied in practice. Concepts and themes were italicised for easy identification.

Find Leads is the first concept in the Data Table for Equity Investors (Appendix J), being based on the word *lead*. The representative evidence shows three examples of how participants used the term *lead*. The quotes are arranged in order of strength and how they fit together to best illustrate the code *Leads*. The representative evidence includes two entrepreneurs and one platform manager-consultant, providing evidence of *lead* being a commonly used term justifying the choice. Similar reasoning regarding in vivo coding applied to *High-Net-Worth-Individuals-Angels* and *VCs*.

In contrast, *Portfolio Builders,* the fourth 1st-order concept in the table*,* provides an example of where in vivo coding was combined with descriptive coding. The words *building*, or *build*, and *portfolio* were used by all three participants displayed in the representative evidence quotes. Forming the concept *Portfolio Builders* combines both ways of coding as it accurately captures the original meaning in a noun phrase that follows the topic idea behind descriptive coding.

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The robustness of the coding process was supported by the research design and the researcher's actions. The purposeful sampling strategy used to select participants meant that a range of perspectives and levels of experience were included in the data, and this aided validation of emerging codes. For example, for the above-mentioned *Leads* 1st-order concept, the term *lead* was first noted as an emerging concept when coding the interview of participant 4, an entrepreneur and serial crowdfunder. The term *lead* was again used by participant 7, the next entrepreneur to be interviewed and a first-time equity crowdfunder. Then, the initial coding of the first twelve interviews further clarified *Leads* as a concept that increased awareness of *Leads* in subsequent interviews. *Lead* was then used by participant 20, a platform manager-consultant with a wide range of campaign management experience. The three sources provided validation that *Leads* was a commonly used concept. A description was then added to the data table, which for *Leads* was 'An investor who is the largest contributor to a campaign and is seen as the lead investor by others'. A similar process of validation based on participants with differing perspectives and levels of experience was repeated for all the 1st-order concepts in equity and rewards.

3.7.4 Conceptualising, Aggregating and Linking to Develop a Process Model

The second step in Figure 10 above, conceptualising, started during coding as ideas about 2nd-order themes came to mind. For example, the four 1st-order concepts in the Data Table for Equity Investors (Appendix I) *Leads*, *High-Net-Worth Individuals-Angels*, *VCs and Portfolio Builders* all shared a desire to see a financial return on their investments. In NVivo, an initial conceptual theme labelled 'Financial Gain Basis for Investment Decisions' was made with a description saying, 'About receiving financial gains from investment decisions'. Over a few months, these initial conceptualisations were refined through an iterative process to become the 2nd-order theme 'Financial Gain Drives' and the description 'Investors whose primary investment drives relate to financial gain', as shown in the data table. A similar process of iterative improvements was applied to the rest of the equity and rewards data resulting in the themes and descriptions seen in the respective data tables.

As the 2nd-order themes formed, there was a natural tendency to begin to think about aggregate dimensions. Drawing a data structure helped display the data more holistically and in considering possible dimensions. The finalised data structures showing aggregate

dimensions can be found in the Findings Chapter. Combining the data structures led to the equity and rewards models

Reflection and reflexivity were instrumental in applying Gioia Methodology. After a code was created, its accuracy was checked repeatedly through a reflective process of repeated rereading of the transcripts. A similar checking and ongoing refinement process was applied to 2nd-order themes, aggregate dimensions, and process models. NVivo was a valuable tool in supporting these activities as changes could be made quickly, helping capture creative insights. Reflexivity was enhanced by using a question framework which led me to think deeply about my role as a researcher (Patton, 2015) (see Appendix G for framework details and answers to reflexive questions. Appendix H shows samples from the Reflexive Journal).

3.8 Chapter Summary

A robust research design was developed to gather and analyse the data needed to answer the research questions. The design started with the aims and research questions and formulated a plan to produce trustworthy findings. Figure 11 shows the eight steps in the plan.

Philosophical framework → Critical realism
⇩
Approach → Comparative case study
⇩
Sampling → Purposeful including intensive and chain
⇩
Data Collection → Semi-structured interviews
⇩
Sample → 24 Equity and 18 Rewards
⇩
Transcription → Manual by researcher
⇩
Analysis → Gioia Methodology using in vivo and descriptive coding
⇩
Findings → Data tables, Data Structures and Process models

Figure 11: Research Design Summary (author's own)

Critical realism was selected because its underpinning assumptions aligned with the research requirements. A comparative case study approach was adopted because it allowed research

questions one to three to be answered in an equity case, questions four to six in a rewards case, and questions seven with a comparative focus. Access to knowledgeable informants was vital and was achieved via purposeful sampling. Intensive sampling targeted individuals with the depth of knowledge needed to answer the research questions, while chain sampling drew on the goodwill and networks of participants for recommendations regarding other knowledgeable contributors. Data collection was via semi-structured interviews as they provided a balance between planning for the best outcomes and flexibility during interviews. The sample of twenty-four equity and eighteen rewards participants were interviewed via telephone or video call between February and October 2020 (four selected to respond by email). The researcher carried out all the transcription manually, resulting in 161,779 words of text. Gioia Methodology was selected as a robust means of data analysis and presentation with in vivo and descriptive coding used to form 1st order concepts. Data tables were produced displaying representative-evidence quotes for each 1st-order concept. Concepts were then developed into themes and aggregate dimensions resulting in data structures and equity and rewards models. During the interviewing, transcription and analysis processes, reflection and reflexivity were used to check and improve the quality of outputs.

Chapter 4: Findings

4.1 Introduction

Section 3.3 explained the rationale for the comparative case study approach and how the seven research questions are addressed in the equity case, the rewards case, and through a comparative focus. Accordingly, the findings are displayed and explained in three main sections. The Equity Case Findings relate to research questions one, two and three; the Rewards Case Findings to questions four, five and six, and the Comparative Findings to question seven. The Equity and Rewards Case Findings are based on data structures for the three groups of actors in the two environments. These were the entrepreneurs, the investors/backers, and the platform managers-consultants. The Comparative Findings are based on similarities and differences between the Equity and Rewards Case findings.

4.2 Equity Case Findings

The findings are summarised in the Equity Model in section 4.2.1 below, which brings together all the conceptualised 2nd-order themes from three data structures. Sections 4.2.2 to 4.2.13 include the three data structures and explain the 1st-order participant-centric concepts from which the 2nd-order themes are built, that then make up aggregate dimensions. Concepts, themes and aggregate dimensions are italicised for ease of identification.

4.2.1 Equity Model Overview
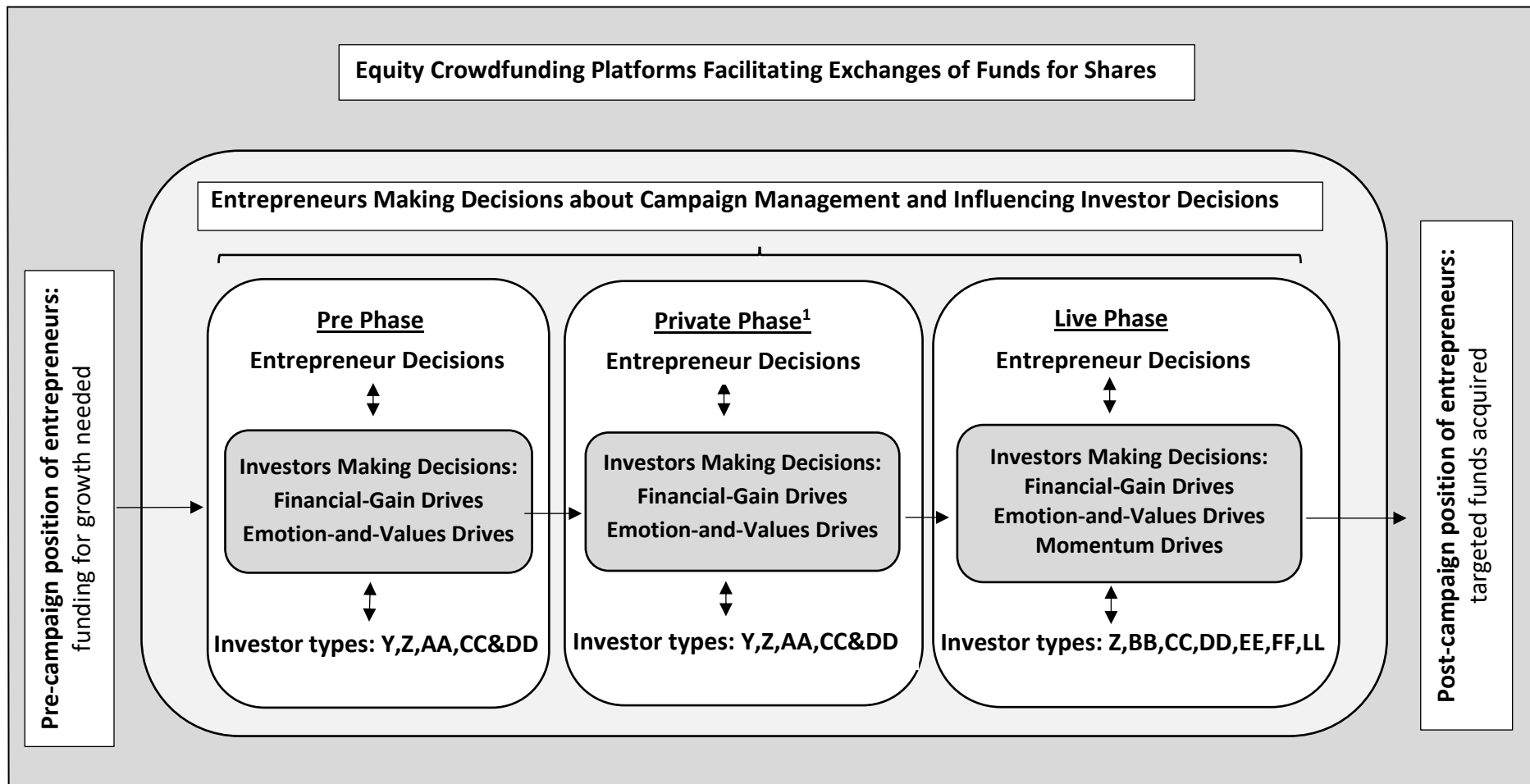
Figure 12: Equity Model

Note: [1]The Private Phase is at the end of the Pre Phase and is an important final step before the Live phase.

The Equity Model brings together the three aggregate dimensions and nine themes from the data structures into a conceptualised equity crowdfunding model that focuses on decision-making. The themes making up the model are based on 1st-order concepts which themselves are based on evidence from participants. A conceptualised account of decision-making as depicted in the model is provided below. The purpose is to provide a narrative summary of decision-making practices, which can then be used in answering research questions one, two and three. This account is mainly in the present tense as it refers to habitual actions that typically occur in the equity crowdfunding environment (recommended practice when explaining a process model using Gioia Methodology (Ravasi, 2021)).

The pre-campaign position of the entrepreneurs on the left side of the model shows that *Funding for Growth* is needed. Equity crowdfunding is selected as the preferred option, and the entrepreneurial team enters the *Pre Phase*. In this phase, the decision making of investors is driven by *Financial-Gain* and *Emotion-and-Values Drives*. The entrepreneurs look to *Find Lead Investors* to present a campaign already well on track to achieve its official target. These investors are usually *High-Net-Worth-Individuals* or *Angels* and are primarily driven by the prospect of significant *Financial Gains*. They probably take a more rational approach to investment decisions in which the likelihood of significant returns is carefully weighed against risk. Considerations like the venture having *Gained Traction*, being perceived as having *Developed (an) Attractive Opportunity* and having *Set (a) Reasonable Valuation* are probable factors in a relatively long decision-making process involving *Warming and Networking*. Once the principal *Lead Investor* is confirmed, they are primed to *Commit* when the campaign opens in the *Private Phase*. As for *Emotion-and-Values Drives*, the entrepreneurial team communicates with *Family and Friends* plus *Community and Customers* as part of *Warming and Networking*. If the venture is a *Consumer Business,* it may already have a sizeable group of *Community and Customers*, some of whom are likely to invest. *Emotion-and-Values Driven* investors probably have a long-standing connection to the entrepreneurial team and the business brand. Their decision-making will likely be influenced primarily by a *Good Video* supported by *Slide-Deck and Financials*. During the Pre Phase, *Due Diligence* checks are carried out by platform managers. Entrepreneurs must show they have *Set (a) Realistic Official Target* supported by a *Slide-Deck and Financials* and a *Good Video*.

In the *Private Phase,* a distinct final part of the *Pre Phase* in which funds are amalgamated, investor decision making continues to be driven by *Financial-Gain* plus *Emotion-and-Values Drives*. After the *Lead Investor Commits,* entrepreneurs encourage their *Network to Invest*, including *Family and Friends* plus *Community and Customers*. The duration of the phase depends on how long it takes to *Achieve 70% Plus of Target* and *Crowd Numbers*. Once the campaign is perceived to at least be on course to achieve its *Official Target,* it is ready to open to the crowd of registered platform investors.

In the *Live Phase,* investor decision making has an additional *Momentum-based Drive* along with *Financial-Gain* and *Emotion-and-Values Drives*. *Momentum Drives* arise when investors like *High-Risk-High-Rewards Punters* observe a campaign actively adding funds and *Crowd Numbers,* resulting in decisions to follow the crowd rather than miss out on an *Attractive Opportunity*. They look for campaigns that have *Achieved Momentum* with a large *Number of Investors* who go on to *Reach (their) Target and Overfund*. These activities feed the *Fear of Missing Out,* moving investors toward investment decisions. At the same time, *Financial-Gain* and *Emotion-and-Values Drives* are the primary factors in decision-making for other types of investors. *Portfolio Builders* may prioritise the *Financial Gain* and focus on the *Tax Breaks* available. *Social Good* investors may prioritise *Emotion and Values* when looking for green businesses as *Attractive Opportunities*. Other investors may want to combine *Social Good* with *Support for Female Entrepreneurs*. Some *Community and Customers* investors, like those who favour breweries, may prioritise the *Valued Rewards* they can receive due to investing. After *Hitting Official and Personal Targets,* the campaign closes, investments are collected, shares are issued, and the total funds, less the *Manageable Costs,* are passed to the entrepreneurial team, who now have the targeted funds shown on the right side of the model.

4.2.2 Entrepreneur Data Structure

The Entrepreneur Making Decisions and Influencing Investor Decision Making was the aggregate dimension from the Entrepreneur Data Structure (see Figure 13 below) and included three 2nd-order themes and twenty-four 1st-order concepts. The data table in Appendix I provides representative evidence for each concept, with quotes arranged so those that best explain each 1st-order concept come first. Each quotation has an appended identifier; for example, P17E-Ent-Jul20 represents participant seventeen from equity, an entrepreneur interviewed in July 2020 (see data tables for a full explanation of identifiers). The most impactful extracts from quotes explain concepts following the notion of 'power quotes' in the narrative supported by 'proof quotes' in the data tables. This presentation allows for understanding of 1st-order concepts in the narrative without reference to the data table (Pratt, 2009). After each quote, further explanation and interpretation are provided where relevant.

1st-Order Concepts

A. Gain Traction
B. Develop Attractive Opportunity
C. Favour Consumer Businesses
D. Warm and Network
E. Seek Professional Help
F. Find Lead Investors
G. Set Realistic Official Target
H. Make Slide-Deck and Financials
I. Set Reasonable Valuation
J. Make a Good Video

K. Get Lead Investor Commitment
L. Get Network to Invest
M. Achieve 70% Plus of Target
N. Build Crowd Numbers

O. Achieve Momentum
P. Manage Discussions
Q. Email Investors
R. Use Herd Mentality
S. Use FOMO
T. Use Algorithms
U. Attract Tax Investors
V. Attract Social Investors
W. Attract the Anonymous Crowd
X. Hit Official and Personal Targets

2nd-Order Themes

The Entrepreneur Making Pre-Phase Decisions

The Entrepreneur Making Private-Phase Decisions

The Entrepreneur Making Live-Phase Decisions

Aggregate Dimension

The Entrepreneur Making Decisions and Influencing Investor Decision Making

Figure 13: Equity Entrepreneur Data Structure

4.2.3 The Entrepreneur Making Pre-Phase Decisions

The 2nd-order theme *The Entrepreneur Making Pre-Phase Decisions* brought together ten 1st-order concepts vital to a successful campaign. They are explained in the order in which the decisions would most probably take place.

The idea behind the first concept, *Gain Traction (A)*, was to show potential investors that the business wishing to crowdfund had a viable business model. According to a platform manager-consultant, there were three components to *Gain Traction*:

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So, if you are pre-traction, trying to go onto an equity crowdfunding platform, it's quite a big ask because most serious investors won't back you till you've got traction. For me, well for most investors, traction means three things. It's a minimum viable product, first happy users, ideally paying, and third, a marketing machine so you can scale it. (P22E-PM-C-Aug20)

While entrepreneurs wanted to demonstrate that these three elements were part of their business model, platforms would check for traction components as part of due diligence. Having demonstrated that the business had traction, the next step was to *Develop (an) Attractive Opportunity (B)* for investors. Entrepreneurs whose ventures had grown rapidly wanted to convey this to potential investors, with one commenting:

Yes, it's about a seven hundred per cent growth from the original investment, so that's obviously an attractive thing for investors. In essentially three years, it's high growth. (P15E-Ent-Jul20)

Such high-growth numbers would attract existing and new investors, particularly those focused on financial gain.

In working to '*Develop (an) Attractive Opportunity*', *Favour Consumer Businesses (C)* meant there was a preference for consumer businesses over business-to-business ventures. The reason was that they were more easily understood by most retail investors, who related to products that provided solutions to everyday needs. A professional investor and part-time crowdfunding consultant shared his opinion:

Because I might be wrong on this, but I think you'll find that the more consumer businesses tend to do better on crowdfunding sites. Things like breweries for example, most professional investors don't really invest in micro-breweries as there tends to be hundreds of them. On crowdfunding platforms, you see loads of them getting funded. A big part of it is just a lot of those are things that when people see things they understand and would want to use themselves. They are the kind of things that get funded. (P9E-Inv-May20)

Breweries offered an example of a business that was easy to understand and could also offer investors free products (*Valued Rewards*) as an incentive to invest.

Entrepreneurs needed to communicate the *Attractive Opportunity* they were offering to potential investors and set out to conduct *Warm and Network (D)* activities, as one platform manager mentioned:

…the process is that before the campaign goes live, the company would tend to warm up their own community, and their own customers, and followers of the brand. (P24E-PM-Sep20)

The idea was to communicate the opportunity to as many people as possible through talking to existing contacts and using any networks available to the entrepreneurial team. This provided an opportunity to gauge levels of interest and commitment.

Some entrepreneurs decided to *Seek Professional Help (E)* from one of the crowdfunding consultancies that often work with platforms to manage campaigns, as one platform manager explained:

> Because each business that raises, they have different requirements because they are different sizes, and so a lot of them won't have the resources internally to write a storyboard for their pitch video or get together some of their coms. So, they need a bit of a helping hand from one of these businesses that specialise in that. (P24E-PM-Sep20)

Consultants brought expertise that might be lacking in a smaller business, particularly developing a communication plan and making a good video. However, consultants could also advise on many aspects of campaign management, including how to *Find Lead investors (F)*:

> What I would say in general is that you have three phases of equity crowdfunding campaigns. The first phase is gaining lead investment, and this is normally from an angel investor or a high-net-worth individual, someone who is contributing around thirty per cent of what you want to raise on the platform. (P9R-PM-C-Sep20)

So, the objective was to *Find (a) Lead Investor(s)* who would contribute about thirty per cent of the campaign target. Further *Warm(ing) and Network(ing)* by entrepreneurs would then aim to add supporting *Leads* and accumulate more of the target.

Set (a) Realistic Official Target (G) was critical in preparing for a successful campaign. An entrepreneur with experience of multiple campaigns explained:

> Whether a campaign succeeds or fails is decided before it goes live. Make sure a realistic goal is set, and sixty to seventy per cent of it should be raised pre-launch. (P18E-Ent-Jul20)

'A realistic goal' was considered a campaign target that could probably be achieved in the first few days of the live phase. If sixty to seventy per cent of the target was met before the campaign opened to platform users in the *Live Phase,* the chances of success increased.

Communicating the opportunity to potential investors included *Make (a) Slide-Deck and Financials (H)*. This tool was a PowerPoint presentation that outlined why it was an *Attractive Opportunity*. An entrepreneur explained:

> …I mean, we have a business plan, we updated the business plan, we updated the

models, the financials, things like that. We produced a slide deck. (P2E-Ent-Feb20)

This process involved updating previous plans and included valuation decisions. Deciding on an appropriate valuation was a key decision for entrepreneurs. If it was set too high or too low, this could create problems. A professional investor explained the reasoning behind *Set Reasonable Valuation (I)*:

> If you are an early-stage business and you're raising one hundred grand for one per cent of your company or something. And say you are valuing yourself basically at ten million. You're going to spend that money in the next few months or something. You're going to run out of that pretty quickly, so once you have run out and you are doing your next funding round, what are you going to be able to show that you are worth more than the ten million that you were last time. … That's why if you set a reasonable valuation at the beginning, you are in a much better place with more flexibility in the next round because a down round is a disaster. (P9E-Inv-May20)

So, the benefits of *Set Reasonable Valuation* included being in a better position for subsequent funding rounds.

The final 1st-order concept in the *Pre Phase* was *Make a Good Video (J)*, which has been reported as a significant influencer in previous research (Scheaf *et al.*, 2018). Likewise, a platform manager also suggested that 'a good video' was 'a strong influencer':

> I think the video is a good motivator. People produce business plans, but no one ever reads them, do they? But most people watch the video, and I think if you do a good video and if you outline the team particularly and the idea well, and you follow it up with a reasonably good deck, pitch deck nowadays, I think that is a strong influencer. (P3E-PM-Feb20)

The video was critical because it was something potential investors paid attention to and was a chance for the entrepreneurial team behind the venture to explain their *Attractive Opportunity*. The *Slide-Deck and Financials*, resembling a traditional business plan, would likely be viewed after the video rather than before.

4.2.4 The Entrepreneur Making Private-Phase Decisions

The Entrepreneur Making Private Phase Decisions was the second theme in the Equity Entrepreneur Data Structure and represented a relatively short period before a campaign opened to all the platform users, during which most of the official target was amalgamated. Four 1st-order concepts made up the phase and were linked to concepts previously discussed.

The first and most crucial step was to *Get Lead Investor Commitment (K)* to putting funds into the campaign. A platform manager-consultant explained the rationale behind this:

> Let's say you have a campaign of five hundred K, and your lead investor is two hundred, and you might have one hundred following that. We won't allow the subsequent investors to come on board and make pledges because this is all done in what's called the private phase until the lead investment comes through. That two hundred K has got to come first, because if it doesn't, then let's say the next one was a fifty K, so if someone comes and pledges their fifty K, the guy or girl who was going to pledge the two hundred K sees the biggest one is fifty K and gets cold feet. (P20E-PM-C-Jul20)

The 'gets cold feet' referred to an experience where the largest *Lead* had pulled out as it appeared that other investors were not showing the same level of commitment. The situation as described suggested a need to cascade information flows to *Leads* so that they followed each other in the way portrayed by the platform manager-consultant.

The next step was for entrepreneurs to *Get Network to Invest (L)*. An entrepreneur who had completed multiple campaigns reflected on the process:

> The crowd is an interesting thing. While we have done three crowdfunding rounds, in every single case, fifty to seventy-five per cent of the money that was raised was raised through our network. (P15E-Ent-Jul20)

The network referred to had been built up by the entrepreneurial team over the last twenty years, indicating how past career experiences could bolster crowdfunding efforts. As network investments increased, the goal was to *Achieve 70% Plus of Target (M)* so that a campaign could be presented to platform users as on the way to success. An entrepreneur who had completed two successful raises shared some advice:

> For anyone who is crowdfunding now who comes to speak to me about doing it, I always say try to get on at seventy per cent. Which sort of does beg the question, why use the platform? But at the same time, it will just make it a much easier journey for you if you do. (P21E-Ent-Aug20)

The question of 'why use the platform?' and being 'a much easier journey for you if you do' is most likely related to the platform's supportive crowdfunding environment, which facilitated the funding process.

Finally, in the *Private Phase*, and as part of presenting a campaign as being on the path to success, the entrepreneur needed to *Build Crowd Numbers (N)*. Having the basis of a crowd

would help demonstrate to platform investors that the campaign offered an *Attractive Opportunity*. A platform manager-consultant explained:

> You want to have some semblance of a crowd. So, we would say not hundreds, but thirty, forty, or sixty people that have already contributed to that campaign during the part of the phase before it goes live. Again, accepting that there are probably sixty people, probably fifty of them are all twenty quid with just a small number bringing in the rest of the bulk. (P20E-PM-C-Jul20)

While the crowd might include a few *Leads* and many smaller-retail investors, only the total *Crowd Numbers* would be displayed on the campaign page for the crowd of platform investors to see.

4.2.5 The Entrepreneur Making Live-Phase Decisions

The Entrepreneur Making Live-Phase Decisions was the third theme in the Equity Entrepreneur Data Structure and a period during which campaigns were open to the crowd of platform investors and where official and personal targets could be achieved. Like the *Pre Phase*, ten 1st-order concepts made up the theme and were related to campaign dynamics and management. The first, *Achieve Momentum (O),* was seen when a campaign was actively adding funds and investors, as one entrepreneur explained:

> So, if you have a lot of money but only have one hundred people invested, the crowd will flag that. Or, if you have got a lot of small investors but no big tickets, then again, the crowd will flag that. So, where momentum is achieved is where you have got both, large and small investments, and large and small numbers of people. (P15E-Ent-Jul20)

'The crowd will flag that' referred to a kind of collective intelligence whereby individuals, or groups of investors, would challenge the credibility of a campaign if they thought the balance between funds and numbers did not look reasonable. The primary means by which the 'crowd' would 'flag' was in the discussion forum, and *Manage Discussions (P)* was a crucial activity for entrepreneurs.

Each campaign was assigned a discussion (chat) forum, which allowed investors to ask questions directly to entrepreneurs and post comments. An entrepreneur reflected on his experience of *Manage Discussions* during his first crowdfunding campaign and commented:

> Spent ten days on the laptop. This discussion forum went nuts; I mean, it was twenty-four-seven. We were texting each other; the quality of the questions was the first thing, and then the volume. I mean, forget the slide deck we put up and

the pitch; just read all the threads. You'll find out more from that than any business plan…that blew me away. (P2E-Ent-Feb20)

The quality and quantity of questions surprised the entrepreneur and his business partner, who were 'texting each other' regarding who would answer specific questions. Interestingly, he thought more insights could be found in the discussion threads than in the *Slide-Deck and Financials*.

During the live campaign, entrepreneurs tried to drive activity by *Email(ing) Investors (Q)*. One entrepreneur shared how he had used emailing:

> So, we had access to FFFF (UK platform), basically to say CCCC (brewery) is investing, about to invest, register your interest here. And we had the ability to send emails to people who had registered their interest. So, we would put together an email and say, here is some news, we have a new restaurant listing, grocery listing whatever it is, whatever bit of news, and then we were allowed to send that to people who had registered their interest, I think. But certainly, we could send it to our own consumer base, and that would be the thing that would often drive the spikes, as it were. (P11E-Ent-Jun20)

The entrepreneur thought that any investor who had 'registered their interest' could be sent promotional emails in addition to the pre-existing customer base of the business. The 'spikes' meant a sharp increase in the number of investors and funds that were coming into the campaign.

In the *Live Phase,* two crowd-related factors played an important role in the success of campaigns. These were *Use Herd Mentality (R)* and *Use FOMO (S)*. Understanding how herd mentality works, entrepreneurs and platform managers-consultants could set up conditions whereby it came into play. One platform manager elaborated:

> Yeah, I would actually, to be honest with you, herd mentality is almost one of the fundamentals of crowdfunding. It's the reason why you have pre-committed capital, and you follow a lead investor is because it's not meant to be first money in. It's not meant to fill an entire round, it's meant to be a round that you can share en masse with people, and obviously, the crowd tends to follow the crowd, the leader. So absolutely, there is some herd mentality there. (P23E-PM-Aug20)

The platform manager explained that 'herd mentality' was vital in getting the 'crowd…to follow the crowd' and that *Leads* provided the necessary foundational 'pre-committed capital'. While herd mentality may have an evolutionary role in protecting individuals from danger (Loxton *et al.*, 2020), it seemed to be connected to *FOMO*, the fear of missing out in the equity crowdfunding environment.

Use FOMO (S) was another factor for entrepreneurs and platform managers to consider in influencing investment decisions. An entrepreneur reflected on her successful campaign and commented:

> Because there is this peak, and some investors are making their last-minute decisions based on you ending. This is FOMO, but this is also people trying to make you win, like go over. (P17E-Ent-Jul20)

The entrepreneur thought there were also investor decision-making factors, in addition to FOMO, based on a desire to see the campaign and business succeed. A platform manager explained how the funds accumulated in the *Live Phase* helped generate *FOMO*:

> In terms of the need to have sixty to seventy per cent. Yeah, obviously, the reason why we do that is to play into that whole FOMO mindset so that people see that there is already significant interest in that. (P24E-PM-Sep20)

So the intention was to trigger *FOMO* in the minds of potential investors by presenting the opportunity as one which was already attracting interest from other investors.

Understanding how the dynamics of *Use Herd Mentality* and *Use FOMO* worked, platform managers *Use Algorithms (T)* to identify and promote campaigns they thought were on the path to success. An entrepreneur mentioned how algorithms helped to boost his campaign:

> Forgive me, I can't remember exactly what the spike was, but certainly, as soon as we got to four hundred and fifty, and then it's like FFFF (UK platform) have algorithms within their own system, which as you start to hit that, it pushes you to the top of the page, so the more you are funded, the higher up their page you are. (P11E-Ent-Jun20)

The campaign had an official target of five-hundred thousand pounds, and when the total reached four hundred and fifty thousand pounds, the algorithms embedded in the platform systems caused the opportunity to be moved 'to the top of the page', which meant it would be more visible to any browsing investors.

In the *Live Phase,* entrepreneurs could think about *Attract Tax Investors (U)*, *Attract Social Investors (V)* and *Attract the Anonymous Crowd (W)*. Tax Investors were incentivised by a reduction in their tax liability available via the government-backed Enterprise Investment Scheme (EIS) or the Seed Enterprise Investment Scheme (SEIS) (An illustration of the benefits of EIS and SEIS can be found in Appendix O). One platform manager explained why tax conscious high-earning individuals would be attracted to equity crowdfunding:

> Whether you are sophisticated or unsophisticated, a lot of people do go for the tax advantages as an alternative investment to something like, um, a pension. I

also think that people, um, you see more investment in the first quarter before the end of the tax year. (P3E-PM-Feb20)

Investors who thought about buying equity crowdfunding shares as an alternative to a pension would be taking on risk and uncertainty as many investments would not produce the desired return. The reference to 'the first quarter', January to March, indicated that high-earning individuals would evaluate their tax liability at the end of the tax year and invest if they found an *Attractive Opportunity*. Most *Tax Investors* would be *Financial-Gain Driven* investors.

The second group, *Social Investors*, were motivated by the wider 'societal benefits' their investment would have. An entrepreneur explained:

> So, the rule of thumb is that if you believe in something and you think it's a good idea and has good societal benefits, then you don't sleep too bad a night worrying what's going on with it, because you think it's doing the right thing. But if you are just doing stuff for the money, you are paying a lot closer attention to it. Because if the trade is completely about the money rather than anything that makes you want to stick for the long term. (P15E-Ent-Jul20)

The entrepreneur ran a green business, and the 'societal benefits' framing was part of the messaging sent out to investors, whom he hoped would take a longer-term view of their investment. Most *Social Investors* would be *Emotion-and-Values Driven*.

The third group, the *Anonymous Crowd*, were investors who found the opportunity while browsing the platform. These kinds of investors could make up twenty percent of the campaign target as a platform manager-consultant mentioned:

> The other point I think you touched on, we use this expression, the anonymous crowd. By that, I mean, this is the person who knows nothing about the business. Doesn't know anything; they just happen upon it when they are cruising the platform. So, they sign onto CCCC, or BBBB (Crowdcube or Seedrs), and are having a look around and say, oh, that looks interesting, and they go on to invest. If you are lucky, you'll get twenty per cent of your campaign target from that source. (P20E-PM-C-Jul20)

It seemed that while there would be some overlap between the *Anonymous Crowd* and *Tax* and *Social Investors*, they could significantly contribute toward a campaign target. A proportion of the *Anonymous Crowd* would probably be *Momentum Driven* investors.

The final concept in the *Live Phase* was *Hit Official and Personal Targets (X)* and moving into overfunding. In suggesting that many businesses used equity crowdfunding as top-up funding, an entrepreneur explained about hitting targets:

> …companies that go on the platforms basically do a top-up. What they do is they have already raised half a million, a million and then go onto AAAA and basically start with the completed fundraising round because it is then already successful in a way, and people are ultimately more inclined to do an investment. So that's why you want to set your official target in a way that you are pretty confident to reach it relatively quickly, then you overfund to the actual target you want to have. (P4E-Ent-Mar20)

The 'actual target you want to have' are *Personal Targets*. This goal could be primarily a financial target; however, for other businesses, especially those with a large customer base, the target might include marketing and customer engagement objectives.

4.2.6 Investor Data Structure

Drivers of Investor Decision Making was the aggregate dimension from the Equity Investor Data Structure and was made up of three 2nd-order themes and fourteen 1st-order concepts, as shown in Figure 12 below. The data table in Appendix J provides representative evidence for each concept, with quotes arranged so those that best explain each 1st-order concept come first. The principles adopted in explaining the Entrepreneur Data Structure were used for the Investor Data Structure.
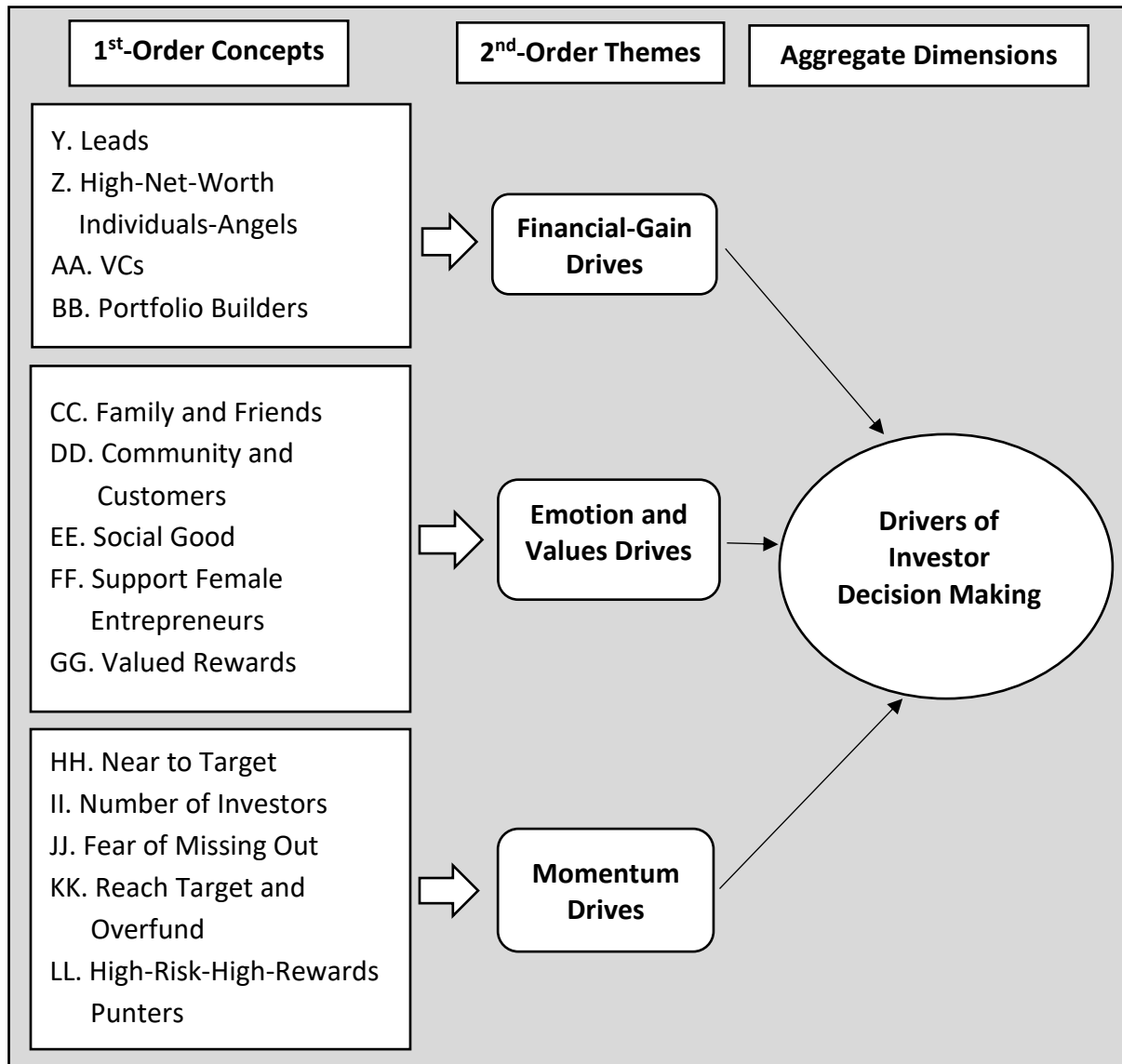
Figure 14: Equity Investor Data Structure

4.2.7 Financial-Gain Drives

Financial-Gain Driven investors prioritised a financial return from investments and took a more rational and analytical approach to investment decision-making. *Leads (Y)* was the most significant concept to emerge, and they were one or more investors acting as the lead investor(s) for the funding round. As one entrepreneur explained:

> So lead investment means that before the investment goes live on the platform…people have already invested. So I think we were never under thirty per cent lead investment of what we wanted to raise as an official target. That gives you a lot better start and a better momentum. (P4E-Ent-Mar20)

So, *Leads* were investors who committed to back a campaign before it was opened up to the broader investor base of platform users. The entrepreneur and his partner had already completed three successful campaigns and reflected that lead investment had been at least thirty per cent of the official campaign target. This target was the number shown on the campaign page and contrasted with any entrepreneurs' private funding targets. The benefits of lead investment included giving the campaign initial momentum, which would be seen by the crowd of platform users when the campaign moved to the live phase. Lead investors also provided a source of credibility for campaigns, as another entrepreneur mentioned:

> …I got some very good lead investors who were very credible, and a couple of them wanted to be involved in the business in an advisory capacity. (P7E-Ent-Apr20)

Included within *Leads* were *High-Net-Worth Individuals-Angels (Z)* and *VCs (AA)* (venture capitalists). Participants used the term *High-Net-Worth Individuals* more than *Angels*, which was commonly used in the literature (e.g., Harrison, Mason and Smith, 2015). *VCs* was used instead of venture capitalists by many of the participants. The following quotes show the typical use of *High-Net-Worth Individuals* and *VCs*.

> Fifty per cent of investors have invested less than one hundred pounds. At the other end of the spectrum, there are people, absolutely high-net-worth individuals clearly, whom we have never had a conversation with, that have invested twenty-five, thirty or fifty thousand pounds. (P2E-Ent-Feb20)

> The VCs do this all the time outside of equity fundraising. Let's say you want to raise three million pounds; they'll say, great, we'll put in a million and a half, as long as you can get a million and a half from two other investors. (P19E-Ent-Jul20)

One reported difference between *High-Net-Worth Individuals-Angels* and *VCs* was that the latter were less likely to invest in early-stage funding of ventures; as a platform manager-consultant explained:

> In the big picture that's VC, most VCs will say we don't get involved until the growth stage, and we are not interested in seed. (P22E-PM-C-Aug20)

Most of the *Leads* discussed by the equity participants appeared to be either *High-Net-Worth Individuals* or *Angels* rather than *VCs,* which fits with the observation of the platform manager-consultant. As both *High-Net-Worth-Individual* and *Angels* were used to mean an investor with a high net worth and who contributes more significant sums, the hybrid term, *High-Net-Worth Individuals-Angels*, was used and shortened to *HNWI-Angels*.

Like the more prominent *Financial-Gain Driven* investors, a proportion of the smaller retail investors, who made up the majority of platform users, were predominately influenced by financial drives. To encourage retail investors to become regular platform users, platform managers guided them to become *Portfolio Builders (BB)*. One manager explained:

> Yes, we try to have a complete range of different companies and different sectors that will appeal to investors so they can build a fully diversified portfolio of businesses. (P24E-PM-Sep20)

The idea of building a portfolio was essential for platform managers who wanted retail investors to think about both diversifying their risk and becoming larger-scale investors. Another platform manager explained further:

> They get into the habit of checking their AAAA (UK platform) account and their portfolio, and they see what campaign is live at the time and start to build a bit of an angel investing portfolio. (P23E-PM-Aug20)

So, habit formation was part of the reason why platform managers wanted to promote the idea of portfolio building to investors. A *Portfolio Builder* would be thinking about how to increase the size of their portfolio as a more engaged and active investor, which would mean more business for the platform.

4.2.8 Emotion-and-Values Drives

Emotion-and-Values Driven investors prioritised the emotional connection they had with the entrepreneurial team or felt that they had shared values. *Family and Friends (CC)* investors wanted the entrepreneurial team to succeed based on an emotional connection and were some of the first to support campaigns as a platform manager explained:

> Um, first of all, is the investors the entrepreneurs brings with him, because really, there is nothing quite like, something that is launched on day one and on day two, his family, friends, the people who are going to invest anyway, they come in. And then that immediately gives it a boost…. (P5E-PMan-Apr20)

The 'boost' was likely a reference to the campaign's momentum, which would attract the attention of other investors helping the campaign towards its target. *Family and Friends* made up a significant proportion of the investors for some first-time campaigns. An entrepreneur explained:

> While the platform is good, the majority of the money you raise is from your own client database of friends and family anyway. (P16E-Ent-Jul20)

Community and Customers (DD) were another group of investors who made decisions based on *Emotion-and-Values Drives*. They were people already in the network of the

entrepreneurial team and could form a large proportion of investors depending on the type of business raising funds. An English football club mentioned by a platform manager provided a good example of *Community and Customers* influence:

> And by the way, there are a whole lot of other people that come with businesses. You know, their community as well. Did you see the campaign for LLLL (English football club) when it was up on CCCC. (UK platform)? That was a massive, a massive community thing, wasn't it? Most of those investments were ten pounds or twenty pounds. Everyone just wanted a name on a seat. Um, that wasn't an economic, that's an emotional investment, that's not an economic investment, in my view anyway. (P3E-PMan-Feb20)

The football club offered to put the investor's name on a seat(s) which enhanced the emotional connection between the community of fans and the club. For more traditional businesses, engaged *Customers* brought benefits in addition to financial support. As an investor explained:

> It seems like it is great if you have a core because, obviously, if your customers can invest in your company, A, they will probably stay loyal, B, they will probably recommend you to friends, and C, they will probably feed you all sorts of cool ideas because they use your product and have a stake in the company. (P6E-Inv-Apr20)

The idea of having a 'stake', which meant some kind of deeper interest in the business, seemed key to the emotional and values-driven connection crowdfunding brought.

While *Family and Friends* plus *Community and Customers* involved people known to the entrepreneurial team before the campaign was launched, *Social Good (EE)* investors were a group who found out about the opportunity when the campaign went live. Their *Emotion-and-Values Drives* related to the overall social impact a business could have, as one entrepreneur mentioned:

> From the people I spoke to, it was mostly an interest in mental health. It wasn't a great deal about the company and how successful it would be, it was more like they liked this area, or had experienced some kind of mental health problem before, and they saw the value in that. Just as a kind of as a social investing almost type mentality. That's the reason they put in an amount of money. (P8E-Ent-May20)

Investors identified with the mental-health problem the venture aimed to address and felt this was worthy of financial support.

In some cases, the *Emotion-and-Values Drive* of investors was to *Support Female Entrepreneurs (H)*, as an entrepreneur commented:

…early investment was skewed towards females (although finished with an almost 50/50 female/male split), there was an element of supporting a female-led business too. (P14E-Ent-Jul20)

While the majority of investors on platforms were male, female investors preferentially sought to support female-led businesses.

Finally, for some investors, the rewards that came with the investment made a difference in decision-making. For example, investors in a luxury-shoe brand could receive *Valued Rewards (GG)* like a voucher, as one entrepreneur mentioned:

> For us in fashion, maybe it's an interest in the rewards we gave them. For a lot of them, it's like giving them their money back. You get a £50 voucher, or you get a free pair of shoes. (P16E-Ent-Jul20)

For customers who already liked the brand, *Valued Rewards*, which often increased with the amount invested, may have encouraged them to put in more significant sums.

4.2.9 Momentum Drives

Momentum Drives was the third theme making up *Drivers of Investor Decision Making* and included four concepts. As the campaign target was an all-important goal in any campaign getting *Near to Target (HH)* was a key first step to success. An entrepreneur explained how nearing the target was an important point in the campaign:

> What they say is crowdfunding is about a herd mentality, so people invest in businesses that are already significantly at their target. If you go live on a crowdfunding platform and are asking for one million pounds, and you've got fifty quid in the bank, you will fail because people just open it, look at it and think, nobody else believes in that business, why would I, yeah? (P11E-Ent-Jun20)

The suggestion was that campaigns near their target would help fuel the herd mentality of investors, who wanted to see that a campaign was successful before committing funds. These investors were probably retail types who looked to see if others believed in the business before committing (herd mentality is discussed more in section 4.2.8).

The *Number of Investors (II)* was the second element of *Momentum Drives*. A professional investor explained why the *Number of Investors* was significant:

> So, one thousand investors at ten pounds each are much more useful than one hundred investors at ten thousand pounds each in that particular one. So that was more around building a movement and the number of shareholders being more important than the amount of money. Because with something like that, it's got to have the idea of stakeholder capitalism and being associated with that particular eco-system is really

important and having a lot of people who can spread the word and be part of it. (P10E-Inv-May20)

According to this view, a large *Number of Investors* provided validation for the environmental idea behind the business and would be instrumental in spreading the message to others.

With a campaign *Near to Target* and with a large *Number of Investors*, *Fear of Missing Out (JJ)* was likely to influence retail investors and add to overall momentum. A platform manager-consultant explained how the mindset of investors could change as the campaign target was met and then exceeded:

> So, sort of not wanting to be first to the dance floor, and that quickly flips into fear of missing out syndrome afterwards, as soon as a target is hit. (P20E-PM-C-Jul20)

Before the target was achieved investors were hesitant to commit as they waited for others to go first. However, after the target was achieved, some felt they might be missing out on potential gains. Some other participants used the term FOMO to describe the same effect.

The fourth element of *Momentum Drives* was *Reach (the) target and Overfund (KK)*. Going beyond the target was described as 'overfunding' by many participants and was considered a vital campaign step, as an entrepreneur explained:

> That's why you are trying to have a good amount of lead investment and then a clear plan on driving the investment as quickly as possible, and then you overfund. Overfunding is always easier, and you need to make sure that between your lead investment, so when you go live, to the point where you actually hit your official target that people keep on investing. (P4E-Ent-Mar20)

This explanation shows how *Leads*, *Reach (the) Target and Overfund* were connected to *Momentum Drives*. The mention of 'Overfunding is always easier' most likely refers to attracting ongoing investment being easier once the 'official' campaign target had been achieved.

The final concept in *Momentum Drives* was *High-Risk-High-Reward Punters (LL)*, a group of retail investors most likely to be influenced by momentum drives. They looked at investment in a similar way a 'punter' might approach gambling, as one consultant explained:

> …a lot of them are relatively novice investors, and most of them are basically looking at it as a kind of…You know we have these great tax breaks, I can just pick a business that sounds good. Nine times out of ten it's something like where they are, oh…I understand that and would use that as a consumer. Um, and they like the sound of it, and they pile in basically for the tax break, and they stick in not very much money because they think, well, it's a bit of a punt, I'll either lose

the lot, or it'll fly, right. (P9E-Con-May20)

The attitude of *High-Risk-High-Rewards Punters (HRHRPs)* is captured by the final part of the quote where 'punt' is used, which is a term used by people thinking with a gambling-like mindset. The suggestion is that *HRHRPs* would use 'tax breaks' and 'I…would use that as a consumer' and 'lose the lot, or it'll fly' as a kind of heuristic in their decision-making. The connection to gambling was highlighted in an explanation of the *HRHRPs* mindset provided by an entrepreneur:

> If you could take any approach of looking at horse racing, or football betting, or whatever, it's a similar mindset really. It's like figuring out what the form looks like, and whether you are going to be in it for one hundred quid or in it for four hundred quid…. (P13E-Ent-Jul20)

The 'one hundred' to 'four hundred quid' reference suggested investors with the *High-Risk-High-Rewards* mindset would be investing smaller amounts based on 'form', which indicated some kind of checking of performance in the live campaign. For example, whether the opportunity was *Near to Target* and the *Number of Investors* already committed. Then a *Fear of Missing Out* could develop as the campaign *Reached its Target and Overfunded*.

4.2.10 Platform Manager-Consultant Data Structure

Platforms Facilitating Exchanges of Funds for Shares was the aggregate dimension for the Equity Platform Manager-Consultant Data Structure (see Figure 14 below) and consisted of three 2nd-order themes and thirteen 1st-order concepts (see Appendix K for data table). The principles adopted in narrating the previous data structures were used for the Equity Platform Manager-Consultant Data Structure.

1st-Order Concepts	2nd-Order Themes	Aggregate Dimension
MM. Funding for Growth NN. Marketing Channel OO. Nominee Structure PP. Follows FCA Regulations QQ. Due Diligence	Equity Environment via Platforms	Platforms Facilitating Exchanges of Funds for Shares
RR. Campaign Management by Platforms SS. Algorithm Use TT. Campaign Management by Consultants UU. Manageable Costs	Attractive Campaigns from Entrepreneurs	
VV. Qualified Investors WW. Range of Investors XX. Tax Breaks YY. Secondary Marketplace	Decision Making by Investors	

Figure 15: Equity Platform Manager-Consultant Data Structure

4.2.11 Equity Environment via Platforms

The 2nd-order theme *Equity Environment via Platforms* brought together five 1st-order concepts that were key to the online environment where an exchange of funds for shares took place. The primary function of the crowdfunding environment was to provide *Funding for Growth (MM)* for ventures. A start-up entrepreneur explained:

> Crowdfunding allows a small business to generate funds, which will allow us to invest in a marketing strategy (something we've previously not been able to prioritise within our budget), while also giving customers shares in our business, so they can follow and feel a part of our growth. (P14E-Ent-Jul20)

So, the entrepreneur planned to use the funds generated to invest in the growth of the business while getting customers to buy in as shareholders. Not only could the capital raised from crowdfunding provide funds for marketing, but for some ventures, a campaign offered a *Marketing Channel (NN)*. This benefit was more the case for *Consumer Businesses* as an entrepreneur noted:

> Yes, because we were a B2C product, it made a lot of sense for us to use a platform like CCCC (UK platform). The thing about CCCC is that sure, you can raise money on it, but actually, you've got a whole set of people there who, if you do it right, become your fans, and a proportion will become customers. So, it's well-suited to B2C products, equity crowdfunding because of that. Because you want the word-of-mouth of that retail investor to work for your marketing as well as your investment, so that was the reason why we picked equity crowdfunding. (P19E-Ent-Jul20)

Having a business-to-consumer product, the entrepreneurial team wanted to use a crowdfunding campaign as a marketing tool and a funding tool, in which retail investors would both promote the investment opportunity and the product.

The *Nominee Structure (OO)* provided a means of share ownership, allowing a venture to have many small investors without the associated administrative burden. An entrepreneur shared his perspective:

> The approach that pretty much all the platforms are taking now, with a nominee structure which means our cap table is super clean. We just have BBBB (UK platform) as the nominee; they do all the management of the two hundred and thirty-odd people who invested. They did all the share certificate issuances. All of those bits and pieces happened without us having to do anything. (P13E-Ent-Jul20)

The reference to 'our cap table is super clean' meant that the table that listed the shareholders in the business only showed 'Crowdcube Nominee' or 'Seedrs Nominee' rather than a list of the two hundred and thirty investors. The *Nominee Structure* arrangement also included the administrative costs of managing the two hundred and thirty investors.

The credibility of the *Equity Environment* was supported by the validation it received from *Following FCA Regulations (PP)*. A platform manager recounted how competitors had worked with the FCA to develop and agree on relevant regulations:

> Yes, so we worked with, and alongside, our competitors, like GGGG (UK platform); for instance, we all worked together with the FCA on how the regulation should work. And that again, that has evolved as the market has grown and as there has been more equity crowdfunding. And we both abide by the due diligence processes that are in place. (P24E-PM-Sep20)

Following what has been described as a 'light touch' approach (Estrin, Gozman and Khavul, 2018), the FCA worked with platforms to agree on regulations. The *Due Diligence (QQ)* refers to the checking and validation processes platform managers agree to do on entrepreneurs and investors. From the entrepreneur's perspective, *Due Diligence* could be a much more rigorous process than anticipated:

> In the business plan you put up, every assertion you make or statement you make has to be validated. You said here, LLLL (entrepreneur's name), on page 15, that Compare The Market charge 35 pounds commission. Prove it, please. …in many respects tougher than the FCA! Which from a business point of view is extremely time-consuming and tedious, but from the other side of the fence, the investor, that gives me great comfort to think that level of due diligence has been done. (P2E-Ent-Feb20)

While the entrepreneur found the requirements challenging, he was impressed by the level of scrutiny involved in the *Due Diligence* process.

4.2.12 Attractive Campaigns from Entrepreneurs

Attractive Campaigns from Entrepreneurs was the second theme in the Equity Platform Manager-Consultant Data Structure and related to the need to present attractive campaigns to potential investors. *Campaign Management by Platforms (RR)* concerned the benefits entrepreneurs got from campaign management provided by platform managers. One entrepreneur explained how, after many months of preparation, she was surprised and ultimately satisfied by the campaign management offered:

> It was huge, and I was, wow, this is working! You actually do have investors. I was actually surprised that they had investors, so it worked really well, and we had a bit of fuel money to put in halfway through the campaign; each time, you got a bit of a curve. They have a way of managing your campaign that is three or four stages, where their investors see you a lot, and you get more. So, it was a big success; in the end, we were two hundred per cent overfunded. (P17E-Ent-Jul20)

The 'fuel money' referred to would have likely been pre-committed funding from a lead investor that was put into the campaign to help demonstrate that it was still attracting investments. The entrepreneur mentioned, 'they have a way of managing your campaign', a reference to the platform managers who work with entrepreneurs to help them understand

how to best promote their campaign. This support may have involved understanding *Algorithm Use (RR)*, how to *Email Investors* and *Managing Discussions*. Regarding *Algorithm Use*, a platform manager explained how one of the algorithms worked:

> By the time you get to one hundred, by the way, you automatically get funded by our fund, which is called LLLL fund, for obvious reasons. As soon as you get one hundred investors, we then allocate a proportion of the fund to it, it's done by an algorithm. (P3E-PM-Feb20)

So when a campaign reached one hundred investors, some additional funds from the platform itself would be allocated, further boosting its attractiveness to potential investors.

Platform managers and entrepreneurs favoured *Campaign Management by Consultants (TT)*, who provided a comprehensive service. An entrepreneur shared his experience:

> They also bolted in some additional support as well with an agency called CCCC, who were there to kind of manage the process with me in terms of thinking about the campaign, thinking about the messaging, and that was all kind of bolted into the arrangement with BBBB (UK platform). (P13E-Ent-Jul20)

The 'agency' would have had a crowdfunding consultant who worked with the entrepreneur in all aspects of the process. The platform paid for this service.

The final concept in *Attractive Campaigns from Entrepreneurs* theme was *Manageable Costs (UU)*, in which crowdfunding was seen as comparable to alternative funding options. A platform manager-consultant explained:

> Um, I suppose we tell people that overall, they will need to allow ten to twelve per cent of their raise as their overall costs. A lot of people have a sharp intake of breath, but the reality is those numbers aren't too much different for a Series A or any other round at the end of the day. Sometimes people don't grasp that; they think there is not going to be too much cost involved; there always is. (P20E-PM-C-Jul20)

The majority of the 'ten to twelve per cent of their raise' would likely include a *Good Video (X)*, platform fees and consultancy fees.

4.2.13 Decision Making by Investors

Decision Making by Investors was the third theme in the Equity Platform Manager-Consultant Data Structure and related to the need for investors to make investment decisions regarding the *Attractive Opportunities* presented on platforms. Four platform-related 1st-order concepts made up *Decision Making by Investors*; the first was *Qualified Investors (VV)*.

Platforms needed to screen investors so that users knew the risks involved. A platform manager explained how this worked:

> We have about five hundred thousand registered users through KYC, so basically, we front end compliance. We know who all the investors are, and through KYC, we have their passports, etcetera. You have to do a quick ten-question quiz on investing to make sure that they at least know the risks, and they might not get their money back in a lot of cases. (P23E-PM-Aug20)

KYC refers to Know Your Customer, a process whereby financial institutions must verify a customer's identity when an account is opened and periodically after that (HM Revenue and Customs, 2021). During the opening process, investors were asked to take a quiz to show that they understood the risks involved in investing and could be considered *Qualified Investors* for equity crowdfunding.

A *Range of Investors (WW)* were needed as part of the platform crowd for *Decision Making by Investors* to work effectively. One platform manager commented regarding the *Range of Investors*:

> And its anywhere from people who have never made an investment, and they joined to make one investment, to some real angel investors who will actually source deal flow from the platform, even venture capital firms have invested into campaigns while they were live. So, it's a mix of genuine professional investors, the accredited sophisticated investors, to real have-done-it-once-or-twice retail, and everything in between that as well. (P23E-PM-Aug20)

The range was from retail investors who only make one investment, perhaps as a *Family and Friends* investor, to *Angels* and *VCs*. The idea of a Range of Investors being an essential part of equity crowdfunding was emphasised by research which found that around eighteen per cent of investors who expressed an intention to invest did so (Cumming *et al.*, 2020). Following the logic of this finding suggests that the more users a platform has, the more likely a crowd of investors will be interested in any one campaign, especially those in specialised categories such as healthcare.

The *Tax Breaks (XX)* associated with equity crowdfunding were likely to be a factor in decision-making for nearly all investors, as one platform manager noted:

> So, with almost every investor they are probably looking initially at some sort of tax relief, even the lower ticket investor still gets some money back from investing, and that's one of the big perks of private equity investing in this country. We have SEIS and EIS. (P23E-PM-Aug20)

The manager pointed out that 'even the lower-ticket investor', meaning retail investors who might typically contribute one hundred pounds or less, could get some money back. SEIS refers to the Seed Enterprise Investment Scheme and EIS the Enterprise Investment Scheme, both government-backed and designed to promote equity ownership in small ventures (see Appendix O for more details).

The final element in the *Decision Making by Investors* theme was the *Secondary Marketplace (YY)* which brought some liquidity to the buying and selling process. Being able to buy and sell shares internally between platform users helped entrepreneurs and investors. An entrepreneur explained his perspective:

> And the secondary market is a really good tool for us to see the desirability of shares. So, people who have got our shares don't tend to sell our shares. Whereas a lot of other companies that sell on AAAA (UK platform), you see an awful lot of churn. Or see a lot of lots coming up, and the lots not necessarily being bought either. I think that tells you about the performance and the health of the company. (P15E-Ent-Jul20)

For the entrepreneur, understanding the demand for shares was helpful feedback regarding how the platform investment community perceived the business. For investors, the Secondary Marketplace provided liquidity and the opportunity to realise gains or cut losses.

4.3 Rewards Case Findings

The presentation of the rewards-case findings mirrors the equity-case findings. These are summarised in the Rewards Model in section 4.3.1 below, which includes the conceptualised 2nd-order themes from the entrepreneur, backer, and platform manager-consultant data structures. Sections 4.3.2 to 4.3.13 include the three data structures corresponding to each type of participant, and explain the 1st-order participant-centric concepts that make up each 2nd-order theme.
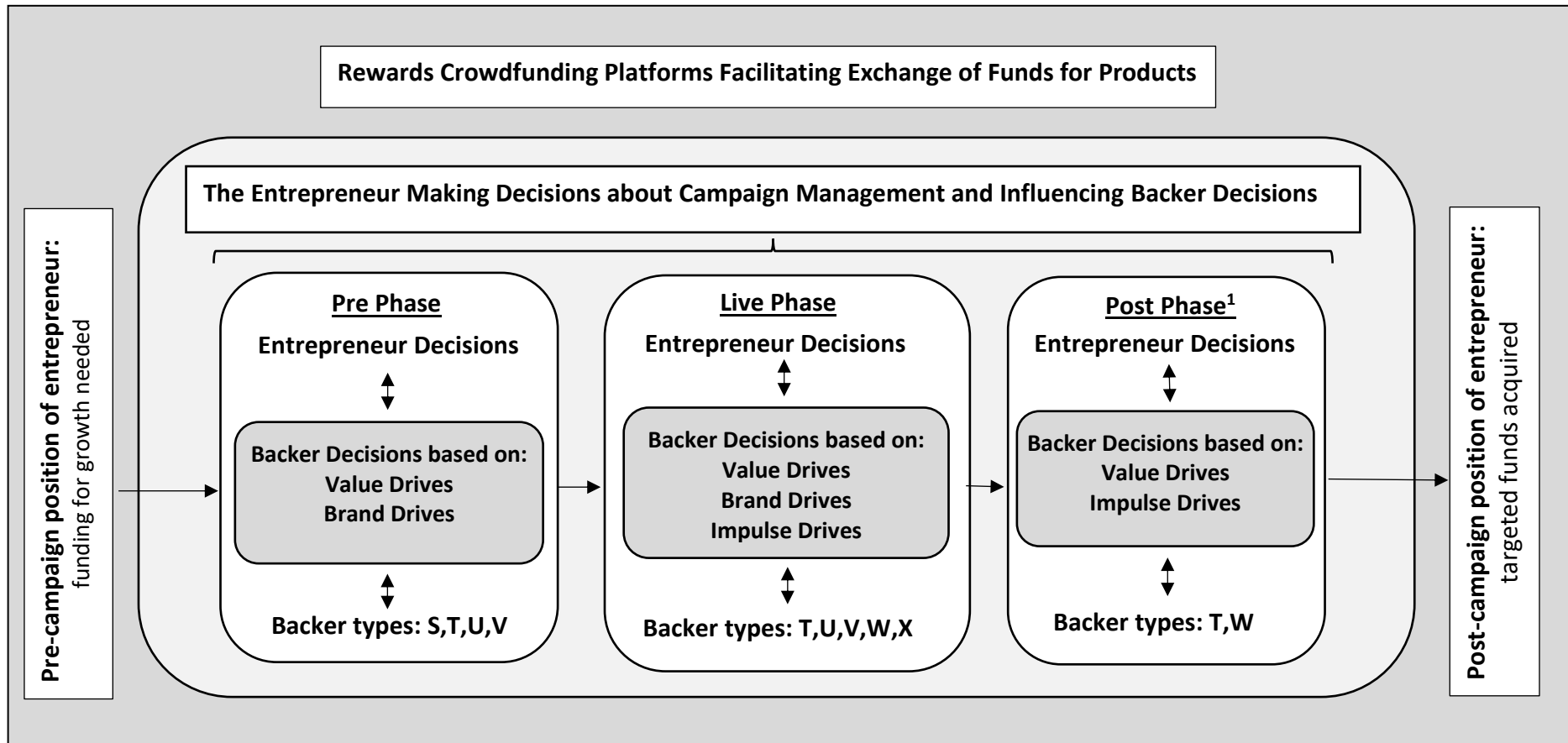
4.3.1: Rewards Model Overview

Figure 16: Rewards Model

Note: [1]The Post Phase is after the Live Phase and is an important final step in which the product is delivered.

Following the Equity Model, the Rewards Model brings together the three aggregate dimensions and nine themes from the data structures into a conceptualised model of rewards crowdfunding, which focuses on decision-making. The account below follows the narrative summary provided for the Equity Model; however, the decision-making practices are for backers and relate to research questions four, five, and six.

The pre-campaign position of the entrepreneurs shows that *Funding for Growth* is needed. Rewards crowdfunding is selected as the preferred option, and the entrepreneur enters the *Pre Phase*. In this phase, the decision-making of backers is driven by *Value* and *Brand Drives*. To present a campaign already well on the way to achieving its *Official Goal,* the entrepreneur looks to build an *Email List* of primed backers. The entrepreneur may have set up some significant discounts that attract *Early Birds* and *Price Responders* via various *Reward Options*. Backers include those with a *Brand Connection*, possibly from experience, and those with *Gifting Motivation*. Most of the prospective backers on the *Email List* come from advertising, primarily via Facebook, so the size of the *Marketing Budget* allocated for advertising is a critical factor in determining the campaign's success. Platform managers *Screen Campaigns*, and for an opportunity to pass the *Review Process,* there should be a *Good Video* and *Realistic Goals*.

In the *Live Phase, Impulse Drives* are added to *Value* and *Brand Drives*. The *Momentum Generated* by *Primed Early Backers* brings campaigns to the attention of *Impulse Buyers* who make quick decisions with the help of a *Good Video*. *Friends' Influence* comes into play as backers share campaigns on social media leading to more rapid buying decisions. Throughout the *Live Phase, Brand-Driven* backers are still making decisions as advertising continues and the entrepreneur *Continues (to) Engage* with backers who have bought the brand before. The entrepreneur may choose to *Manage Rewards* and offer discounts for buying multiple items that appeal to *Price Responders*. Communication with backers via *Updates and Comments* continues, allowing them to gain *Feedback from Users* and enhance the *Community Experience* of backers. The entrepreneur aims to hit *Official Goals* early in the campaign and *Personal Goals* by the end.

In the *Post Phase,* an extended period lasting from months to years, the entrepreneurs are often challenged by *Managing Delivery Delays*, as backers who have paid for a product want

to know when it will arrive. Communication via *Manage Updates and Comments* plus *Transparency and Trust Building* is key to responding to delays. Some additional buying decisions based on *Impulse* and *Value Drives* can occur when entrepreneurs contact backers to *Confirm* the delivery address and offer *Additional Rewards*. Offers include complementary products and price reductions for multiple items that appeal to backers who are *Impulse Buyers* and *Price Responders*. After completing the campaign and collecting additional sales from the *Post Phase,* the entrepreneurs have the targeted *Funding for Growth*.

4.3.2 Entrepreneur Data Structure

Entrepreneurs Managing Campaigns and Influencing Backing Decisions was the aggregate dimension for the Rewards Entrepreneur Data Structure and included three 2nd-order themes and eighteen 1st-order concepts. Appendix L provides representative evidence for each concept.
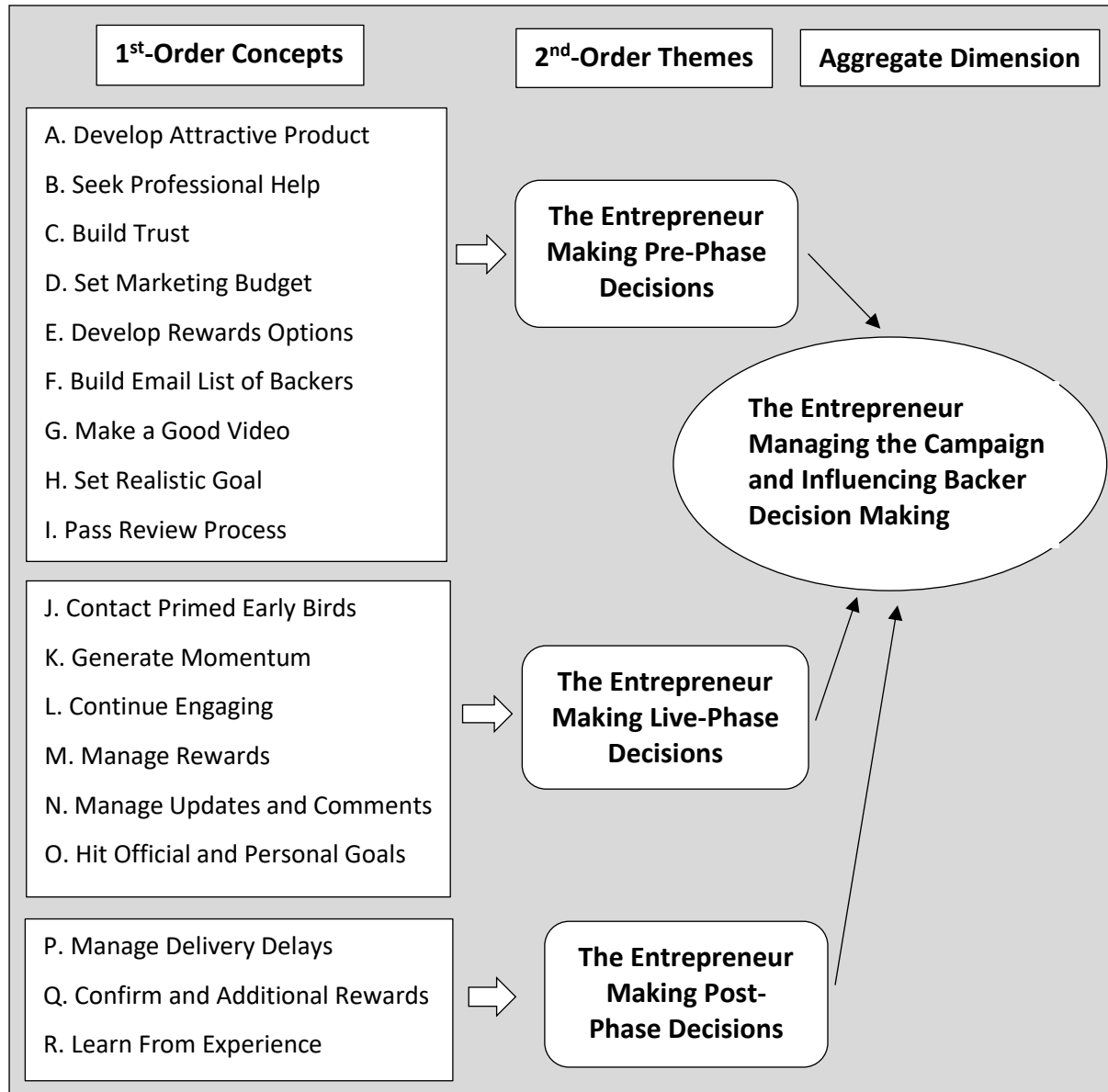
Figure 17: Rewards Entrepreneur Data Structure

4.3.3 The Entrepreneur Making Pre-Phase Decisions

The Entrepreneur making Pre-Phase Decisions brought together nine 1st-order concepts which were key to preparing for a successful campaign. Following the presentation style used for

the Equity Entrepreneur Data Structure, the concepts are explained in the order that decisions would most likely have taken place.

Develop Attractive Product (A) was related to using rewards crowdfunding to demonstrate that a product met a marketplace need. An entrepreneur who had created a home cleaning appliance explained how a Kickstarter campaign had been used to show *Product Demand*:

> Obviously, no one in the trade, or retail, is going to buy or commit to a product that isn't ready yet. And similarly, a consumer isn't normally going to commit to a product that isn't ready yet either, so we were in this Catch 22 of how do we show there is demand if we can't sell it, so Kickstarter was always part of that to show that we could sell it. (P5R-Ent-Sep20)

Faced with the problem of showing that their product was both ready for sale and accepted by consumers, a Kickstarter campaign offered a route to demonstrate they had *Developed* (an) *Attractive Product*.

Many entrepreneurs *Seek Professional Help (B)* when designing prototypes or campaigns. An entrepreneur shared how an idea had gone from prototype to a Kickstarter campaign in three months:

> So, one of the reasons I was able to take my idea of the FFFF tray and have it on a Kickstarter campaign within three months was because, like we are doing now, I had a Zoom conversation with my contact at EEEE, a chap called Martin. I spin up an idea; he comes back with some digital drawings, and we get it 3D printed. We played around with a few designs; for example, this was their first tray. …we went back to the drawing board and came up with the idea of the mixed polypropylene and silicone tray that weighs about a quarter. But all that development was done in three months because EEEE were like, here is the prototype. (P16R-Ent-Oct20)

The entrepreneur used a Far East company accustomed to working on Kickstarter campaigns to develop a kind of tray. All the design work and prototyping could be done in three months, which benefited all involved.

Build Trust (C) was key to rewards crowdfunding, and the foundations of trust were built in the *Pre Phase*. An entrepreneur who had successfully run several campaigns for phone accessories shared his experience:

> Unlike other crowdfunding companies, we like to be like ninety percent or ninety-nine percent ready for production before launching it because we don't want to have something on the road that happens, and then we lose all the trust of our community. (P13R-Ent-Sep20)

Being ready for production avoided delivery delays, which would have eroded trust with the community of backers built up over the course of multiple campaigns. Another way to *Build Trust* was through industry expert review as an entrepreneur who had created a coffee-making product commented:

> It is also very beneficial to get a recognised expert in the industry to review your product, so people know what you are doing is legit and something worth getting involved in. (P6R-Ent-Sep20)

For small ventures with a limited track record of past success, *Build(ing) Trust* in the product on offer via recognised expert opinion was something entrepreneurs sought to do.

Entrepreneurs needed to consider marketing because of competition for backer attention in the rewards crowdfunding environment. Many worked with consultants or agencies and *Set (a) Marketing Budget (D)* to target potential backers via advertising. A platform manager-consultant shared her experience of working with entrepreneurs:

> I don't generally recommend rewards-based crowdfunding for businesses unless they have twenty percent of what they want to raise as a marketing budget because it is so competitive on those platforms. Now, if you really want to use it to make a mark in any way and have it be a useful steppingstone, you have to be willing to spend money. Which means that it's not really the right thing for someone who doesn't have any money. (P9R-PM-C-Sep20)

She felt that any venture would need to allocate twenty percent of its campaign target as its *Marketing Budget*, which could be a significant amount of money for a small-scale startup. The implication was that the campaign would fail without a *Marketing Budget*. Another entrepreneur reported that he had successfully used his *Marketing Budget* to advertise on Facebook:

> Yes, that's right, BBBB is an Israeli-based Facebook add-buying platform. I worked with them with numerous projects in the past; they know the market niche of crowdfunding quite well and can advertise very efficiently yeah. (P15R-Ent-Oct20)

The entrepreneur used a company that specialised in Facebook advertising, understood rewards crowdfunding and could efficiently target potential backers.

Products were referred to as rewards by Kickstarter and Crowdfunder, while Indiegogo used the term 'perks' (Indigogo, 2022a). However, because Kickstarter was the dominant platform in rewards crowdfunding, the term rewards was used by participants when discussing the products they supplied in exchange for funds. One critical task in the *Pre Phase* was to *Develop*

Rewards Options (E), which involved thinking about what kind of product combinations to offer backers. An entrepreneur commented:

> Yeah, other than that, we always structured the rewards in a way that they are not confusing for the backers, so we took the lowest number of rewards as possible, live on the platform. If you put too many, then it's just confusing; if you put like ten different offers, it's confusing, so we like try to keep it less than five. (P13R-Ent-Sep20)

While it was possible to offer many combinations of rewards, experience had taught the entrepreneur that less than five different product variations were best. The business in question supplied phone accessories, which may have included options like a single product, a family pack, colour variations and the product bundled with another product from the same company at a lower combined price.

The next step was to *Build (an) Email List of Backers (F)* who were interested in buying the reward once it went live. An entrepreneur described building an *Email List* as a 'key thing':

> I think the key thing is that you have to have a really strong pre-launch strategy to really drive the pre-signups, to like a pre-order site basically. If you get that email list together, even if they haven't purchased the product yet, and then fire that out on day one. (P10R-Ent-Sep20)

The strategy most likely involved advertising to potential backers via Facebook, with anyone who expressed an interest in buying the product giving their email address so they could be notified when the campaign went live.

Make a Good Video (G) was an essential part of the *Pre Phase* as it was an effective way for entrepreneurs to communicate with backers. An entrepreneur explained his view on *Make a Good Video*:

> I think that is the actual key to crowdfunding is you need to invest in a video. I know people who have invested in that they have paid a videographer to shoot a video for them. And we would normally always do that for our events, but for the HHHH (festival), we had no budget, so we just did it on my phone. Um, but with a bit of free editing software, you can make it look vaguely professional. And I think, even just having a mobile phone shot video that's trying to be engaging, and like a bit humorous, and really explaining what the project is about, that makes like such a difference. (P3R-Ent-Mar20)

A Good Video was a chance for entrepreneurs to communicate the campaign's value to backers and show the 'real people' behind the idea. Although paying a production company

may have led to a more professional product, a compelling video that was engaging, humorous and made by the entrepreneurs could work well.

Set (a) Realistic Goal (H) was an important element of the *Pre Phase*. The official target was shown on the campaign page and was set low so that it could be achieved quickly, as an entrepreneur explained:

> Because then the crowd, the crowd wants to back a successful campaign, they don't want to back one that might not make it, so it's important to set a realistic goal, generally shooting quite low and to exceed it as quickly as possible, and so then the energy of the campaign, the campaign takes off with some energy. (P18R-Ent-Oct20)

Understanding that the crowd follows success, *Set(ting) (a) Realistic Goal* that would be achieved quickly was recommended by experienced entrepreneurs, as this led to momentum at the start of the campaign.

Platforms wanted to demonstrate success and required campaigns *Pass (a) Review Process (I)* before moving to the *Live Phase*. In the process, originality was an essential criterion as an entrepreneur found out, to her surprise:

> So originally, I wanted to launch it with Kickstarter. I set up the whole campaign on Kickstarter, and then there's a review process, which was like a couple of days, and crazily because mine and AAAA (another baker) were the same. It was the same; we were building on an existing business, we were offering new services, but they had okayed AAAA, and then they rejected mine because they said, what you're doing isn't new; you are just trying to offer more of the same. (P11R-Ent-Sep20)

The campaign designed by the entrepreneur was based on a previous campaign by a fellow baker based in another city; however, for Kickstarter, there were too many similarities, so the campaign was rejected.

4.3.4 The Entrepreneur Making Live-Phase Decisions

The *Live Phase* was the second theme in the Rewards Entrepreneur Data Structure and brought together six concepts related to activities an entrepreneur would typically need to do to get backers to pledge and achieve targets. The first was to *Contact Primed Early Birds (J),* as an entrepreneur explained:

> You have this primed group of people, and you let them know when it goes live; you get a hit rate from those people, and that bumps you up on the listings, and it rolls from there. The pre-arrangement of Kickstarter is about you generating a

tribe, or following, of people that are potentially going to buy what you are targeting them to buy. (P5R-Ent-Sep20)

Marketing efforts in the *Pre Phase* should have *Built (an) Email List of Primed Early Backers* who could be contacted once the campaign opened on the platform. A percentage of those potential backers would buy the product, which led to the campaign becoming more visible, increasing the chances of it being noticed by other backers.

Generate Momentum (K) at the beginning of a campaign was vital to its success, so entrepreneurs put a lot of effort into making a good start. An entrepreneur who helped run a local charity shared her experience:

> And we had some local press, um, and I think it was JJJJ (local TV news) came, so they then helped to promote all of that at the same time. So, we could say when we were interviewed, and it went on the 6 o'clock news kind of thing, we could say that we were launching our IIII (campaign) to raise money for our next film. So, we combined as much as we could, momentum at that time, to really give it a good kind of push at the start of the campaign. (P4R-Ent-Mar20)

A local TV news program was asked to attend an event that combined the charity's relaunch event with the launch of a campaign run by some of the girls the charity supported. This publicity helped spread the news to a wider audience and *Generate Momentum* via the resulting pledges of funds.

After a promising start, entrepreneurs needed to *Continue Engaging (L)* with potential backers to counter any mid-campaign drop-off in *Momentum*. An entrepreneur recalled his Kickstarter experience:

> One thing that was again clear from the Kickstarter experience was that, and of course, other campaigns too, was that there is this initial surge from these people who are prepped to see you, and then it flattens out in the middle, and then there is the time element of get it in before its finished. So the middle is quiet, and the end goes busy, and there are lots of little tricks that all the places we were working with were using or suggesting that were perfectly legitimate ways of doing things. (P5R-Ent-Sep20)

The entrepreneur worked with consultants who advised some 'little tricks' to help counter the mid-campaign falloff in *Momentum,* which included sending out updates by email and keeping the number of rewards remaining low in number. *Manage Rewards (M)* was used to help with engagement by bringing about FOMO in backers:

> For example, on Kickstarter, you have different reward levels, same product but different prices, and there are a limited number of rewards. One of our partners

said if you keep the number of rewards at a couple of them left, so almost running out, then that will drive your conversion rate, so people will buy more because they don't want to miss out, right. Even to the point where someone else was selling an app to plug into your page that would do it automatically for you. (P5R-Ent-Sep20)

The entrepreneur could *Continue Engaging* using pull tools like *Updates* and push tools like *Managing Rewards*.

For backers, the *Manage Updates and Comments* sections of campaign pages were the primary means of communication with entrepreneurs. Therefore, it was vital that entrepreneurs monitored and *Manage Updates and Comments (N)*. An entrepreneur explained how he planned to use *Updates* for his current campaign based on previous experience:

> For this, if people just get demanding, there will be updates about the manufacturing process, videos from the factory with people pulling items out of the factory. For the DDDD (previous product), we did a video where one of the guys in Taiwan walked around with his phone, and it actually showed one of the tiles being made in the injection moulding system and it popping out, and he puts it in a pile of other tiles. It adds validity to the fact that we are not just taking your money and sailing off to the Bahamas. We are doing this, we are making this, and that's what we normally do, lots of updates, lots of photos of us holding the product, all that kind of stuff, and then when things get delayed, you just have to be open about it. (P16R-Ent-Oct20)

Updates were used to demonstrate to backers that the product they had ordered was actually in production and to show the business's credibility behind it. Being open and transparent about the production was also a way to counter any negativity resulting from delays.

At the end of the *Live Phase,* entrepreneurs aimed to have *Hit Official and Personal Goals (O).* While the *Official Goal* was usually set low, entrepreneurs often had a *Personal Goal* in mind, as one explained:

> Four thousand is just made up because we want something to be hit very quickly. Our ad agency ran a six-week pre-launch campaign on Facebook and are very good at predicting what amounts we think we will see. Not in that you will raise this much, but in terms of how much return on ad spending you will get, it's called ROAS – return on ad spend – we were getting a six to seven to one return on ad spend. So, we knew roughly speaking what our ad budget was going to be; we knew roughly speaking how successful it was going to be, at least for a launch. We didn't know how long that spike at the beginning of the campaign was going to last. We didn't know how long people would be interested. Would everyone get their tray on the first day, and no one get one after that? That you can't predict,

but you set the goal so you can smash it straight away, but in your head, you say, right on day twenty-nine, if it hasn't raised one hundred thousand pounds, or plus, we'll just cancel the campaign. (P16R-Ent-Oct20)

The entrepreneur explained that there were things that could be controlled like the ad spend, and things that could not be predicted, like how long the campaign would maintain *Momentum*. Knowing his *Personal Goal* was one hundred thousand pounds, the entrepreneur could monitor the campaign and cancel it up to day twenty-nine of the thirty it was due to run without incurring too much cost.

4.3.5 The Entrepreneur Making Post-Phase Decisions

The *Post Phase* was the third theme in the Rewards Entrepreneur Data Structure and brought together three concepts. The first was to *Manage Delivery Delays (P),* a critical activity in any campaign. Many campaigns experience delivery delays, from months to years, and communicating with backers openly and transparently was vital, as one entrepreneur mentioned:

> It is also important to be very transparent with customers – if there are delays, let them know as soon as you can and how the product is progressing from a prototype to manufacture. (P6R-Ent-Sep20)

Entrepreneurs needed to continue to *Manage Updates and Comments* during the months it took to deliver the product. According to an experienced entrepreneur (see below), 'eighty per cent plus' of campaigns experienced a delay, close to the seventy-five per cent reported by Mollick (2014). When delays occurred, some backers became hostile, and this was reflected in the *Comments* section of the campaign as the entrepreneur mentioned:

> They are excited, they ask questions, they have concerns, they…it's just an open forum for discussion. And comments sections on crowdfunding campaigns are really mixed, and they generally start off very positive, and they inevitably go the opposite when there are delays. I would say somewhere between eighty per cent plus of crowdfunding campaigns will experience delays. (P18R-Ent-Oct20)

Entrepreneurs needed to counter negativity by being positive and providing evidence, via *Updates*, that the product was being produced or on the way to the customer.

Confirm and Additional Rewards (Q) was the second concept and related to contacting backers to confirm the delivery address and using the opportunity to offer additional rewards. This contact was an opportunity for backers to change their order and for entrepreneurs to

offer additional products from their range which might appeal to *Impulse Buyers* or *Price Responders*. An entrepreneur explained:

> …since it passes a long time from the campaign, it can pass several months from the campaign to when you ship out. Many of your backers move, many want to add more units, many want to change their colours. Indiegogo doesn't let you do that; Kickstarter doesn't let you do that, so there are external software to do that: BackerKit is the leader. (P13R-Ent-Sep20)

Because the platforms did not offer the level of service needed to satisfy backers or entrepreneurs, third-party software companies such as BackerKit provided a solution. So entrepreneurs used such software to contact backers and collected postage and additional sales, as another entrepreneur explained:

> And as I said, for DDDD (previous campaign product) that was, we did collect the postage, which was about three hundred thousand dollars' worth, and then another three hundred thousand dollars' worth was secondary sales. So it was about a quarter. We increased our pledge levels by about a quarter. (P16R-Ent-Oct20)

The additional 'secondary sales' amounted to 'about a quarter' of the pledges collected in the *Live Phase* and did not have associated advertising or platforms fees and, therefore, were more profitable for the entrepreneur.

The third concept in the *Post Phase* was *Learn from Experience (R)*. One entrepreneur recalled how he had tried to launch a product without *Set(ting) Marketing Budget,* and it had failed:

> Yeah, we tried a card game, a group game based on internet trolling, quite similar to cards against humanity in its gameplay methods but a different subject. We launched that purely based on social media interaction, and we didn't have any advertising budget for it at all. We didn't have any professional ad agency working for us. The lesson was that you can't do a Kevin Costner Field of Dreams, where you build a baseball pitch in the middle of nowhere and hundreds of cars arrive. If you build it, they will come, not on Kickstarter; no, don't run a campaign without advertising and expect it to do well. So, in the end, it did okay, and it beat its target, but we cancelled it because there was no momentum behind it. (P16R-Ent-Oct20)

While the campaign did reach its *Official Target,* without a *Marketing Budget* and advertising, it was not *Generating Momentum,* so the entrepreneur decided to cancel the campaign before the thirty-day time limit was met.

4.3.6 Backer Data Structure

Drivers of Backer Decision Making was the aggregate dimension for the Backer Data Structure and was made up of three 2nd-order themes and eight 1st-order concepts. Appendix M provides examples of representative evidence for each concept.
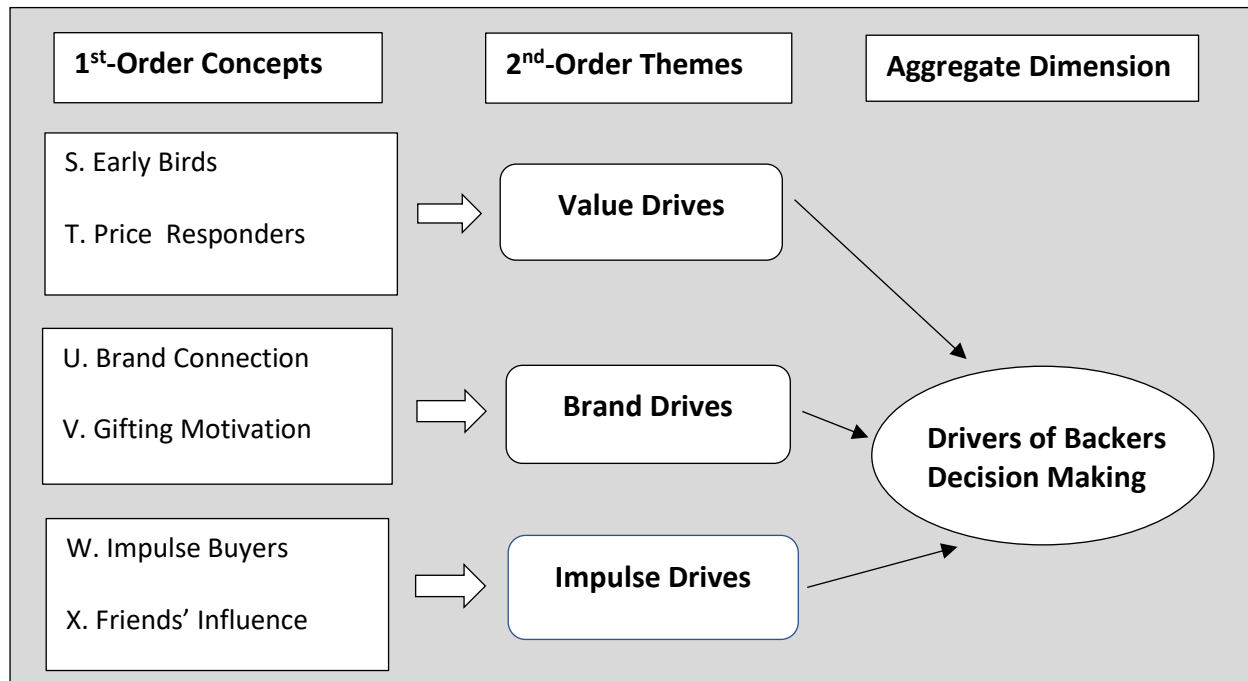
Figure 18: Backer Data Structure

4.3.7 Value Drives

Value Drives was the first theme in the Backer Data Structure and included backers whose decision-making was driven by getting the best value for money. The first of the two 1st-order concepts were *Early Birds (S),* who were backers that responded to early-bird offers. An entrepreneur shared how he had used such offers in past campaigns:

> Yeah, what I normally like to do is you can create FOMO by offering the early bird rewards, so like the first one hundred people. So, it's like, I'll have to be one to get the sixty per cent off or whatever. In my particular case, I offered a limited edition in Kickstarter colours, which was only available during that campaign. Basically, you pledge, or you will never receive that limited edition again. (P15R-Ent-Oct20)

So the early-bird offer was used to tempt backers who were value-for-money focused on being the first to buy the product by offering a significant discount combined with a limited edition. This offer generated FOMO, the fear of missing out, which moved backers to 'pledge' and buy the product.

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Price Responders (T) were backers who wanted to know they got the best price for a particular item. An entrepreneur reflected on his own buying experiences:

> And then some things on Indigogo, more than anywhere else, um, have been much more transactional. Um, for the last few Christmases, I have definitely got stuff for my kids on Indigogo. Stuff that is being launched late summer-autumn time with a kind of November-December shipping date. It's been much more, well, that's a good price for that thing, you know. (P1R-Ent-Feb20)

So the price of the item if bought 'late summer-autumn time' attracted the entrepreneur when acting as a backer using the Indigogo platform. The reference to 'much more transactional' indicates a more rational kind of cost-benefit approach to buying.

4.3.8 Brand Drives

The *Brand Drives* theme brought together two concepts related to backer decision-making where backers prioritised brand connection. *Brand Connection (U)* is related to backers who liked the brand. An entrepreneur explained:

> You need to make sure people are very connected to the brand and the people behind the campaign. Contributing to a crowdfunding campaign is a risk for the customer, and they really need to feel special and that they are vital to the success of your business. (P6R-Ent-Sep20)

In this view, the connection to the product and the 'people behind the campaign' was meaningful. To achieve the connection, the entrepreneur suggested making the customer 'feel special' and one way to do this was through a campaign video in which there was an appeal for support in getting an innovative product to the marketplace.

Gifting Motivation (V) was the second concept making up the *Brand Drives* theme and related to backers who bought products as gifts for others. An entrepreneur who had run ten successful campaigns commented:

> In terms of the products, we have found that some things really fly on crowdfunding and some things don't, and I think the less subjective you make it, the better. My business partner, CCCC, has done watches and wallets and stuff. Watches are great, but we get a lot of people who buy from us as gifts for other people. (P10R-Ent-Sep20)

Products like watches were likely to 'really fly', meaning there was a strong demand, and presumably, this was partly based on a *Gifting Motivation* by backers. The reference to 'the less subjective you make it, the better' was probably related to the type of product offered as a potential gift. Watches are items that are used widely and are traditionally given as gifts.

4.3.9 Impulse Drives

Impulse Drives was the third theme in the Backer Data structure and included backers whose decision-making was driven by impulse and the influence of friends. *Impulse Buyers (W)* were backers who bought lower-value products on impulse, as one entrepreneur noted:

> Um, whereas with the FFFF tray, that is an impulse purchase. That is something that people buy off-hand while they are on the tube, or, with the phone in their face, stood by the water cooler, or whatever. (P16R-Ent-Oct20)

The tray in question was about £20 and brought something extra to the board-game playing experience of a backer and his or her friends. In the entrepreneur's view, the product was bought 'off-hand', meaning that the backer had not gone out to look for the product specifically but instead came across the item while browsing, liked the product, and made a quick buying decision.

Friends' Influence (X) was the second concept within *Impulse Drives* and was based on the influence of friends or associates on buying decisions. An entrepreneur shared his views on *Friends' Influence*:

> Many, many times, our backers buy because they saw their friends using it. They say, 'oh I've never seen this thing before', you know the form factor is unique, and then they decide to buy it. (P13R-Ent-Sep20)

The use of 'Many, many times' suggested that the entrepreneurs had noted the influence of friends on buying decisions on numerous occasions. He also thought the product's uniqueness helped backers make buying decisions.

4.3.10 Platform Manager-Consultant Data Structure

Platforms Facilitating Exchanges of Funds for Products was the aggregate dimension for the Platform Manager Data Structure (shown below) and included three 2nd-order themes and twelve 1st-order concepts. Appendix N provides representative evidence for each concept.
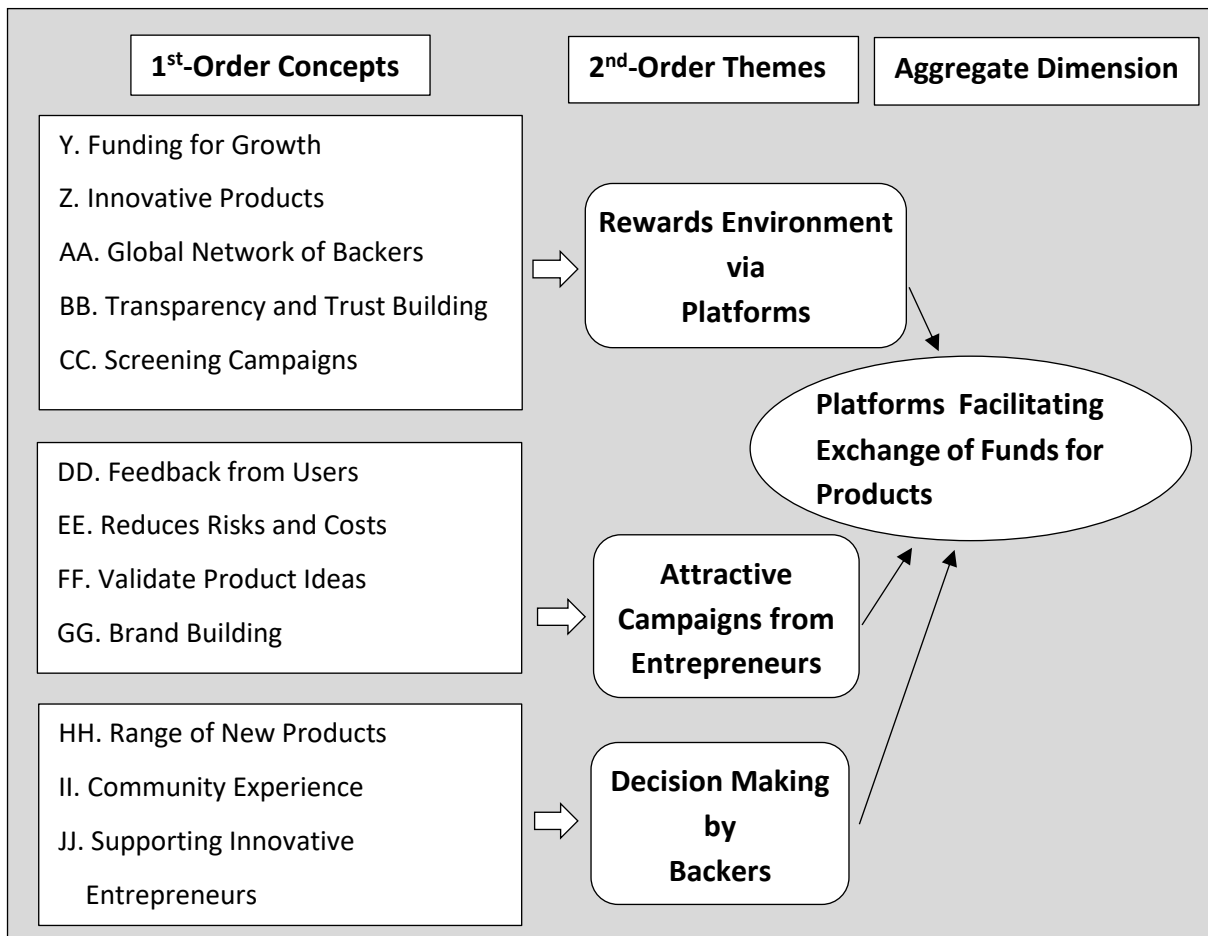
Figure 19: Rewards Platform Manager-Consultant Data Structure

4.3.11 Rewards Environment via Platforms

The *Rewards Environment via Platforms* brought together five 1st-order concepts that were key to creating an environment where rewards crowdfunding could occur. The primary function of the rewards environment was to provide *Funding for Growth (Y)*. An entrepreneur explained the thinking behind Kickstarter:

> The reason, of course, why these guys are the majority is because it started there. Kickstarter is a US company, and I think it has a lot to do with the mentality of the American guy. You need to understand the psychology behind a Kickstarter and what it represents; it's a vote of faith. It's an idea of being part of something, of entrepreneurship, that spirit of building great stuff together, and I think if there is one country that has traditionally been strong on that, it's the US. (P17R-Ent-Oct20)

In the entrepreneur's view, Kickstarter had become the leading rewards platform because it was representative of the entrepreneurial spirit of the United States, in which people rallied to support new ideas. By pre-ordering *Innovative Products (Z)*, backers could provide *Funding for Growth (AA)*. An entrepreneur shared his approach to innovation:

> We always try to bring something innovative and a different cut to our product, so that it's not just because of the specs that you buy technology, but it's actually because we want to sell something useful to give to our community, we want to give useful tech, something that doesn't end up in a drawer. (P13R-Ent-Sep20)

Supplying *Innovative Products* helped keep the community of backers engaged and remain loyal followers of the brand in the future.

The *Rewards Environment* provided a *Global Network of Backers (AA)* with a wide range of interests, from technology products like phone accessories to entertainment products like board games. An entrepreneur who launched a combined entertainment and educational product that taught users about space recalled his experience:

> Without going into too much detail, quite a few from the USA. I don't see any correlation between population and backers, which I was a bit surprised about. Probably the USA, Japan, some of the other Asian countries, and then English-speaking countries and then quite a few from Europe, Italy is quite a high one. I think there are about 41 different countries, and literally, it's all over the world. Literally all over the world – global appeal. (P14R-Ent-Oct20)

The *Rewards Environment* provided by Kickstarter for this campaign gave the entrepreneur access to a *Global Network of Backers* he would not have been able to reach otherwise.

Transparency and Trust Building (BB) were needed for the environment to operate effectively. One challenge for platforms as the creators of the *Rewards Environments* was to understand the *Innovative Product* the entrepreneur was offering and at what stage of development it was at, so this information could be transparently communicated to backers. An entrepreneur explained the challenge platforms faced:

> And the company that makes it is most of the time a new company, and so they can have many obstacles along the way, and they can easily burn all the money and not be able to deliver the final product to the customer. That still happens today to many crowdfunding projects, so they are trying, I think, on both Kickstarter and Indiegogo; in order to survive and to have a good reputation, they are trying to give the customer the best chances and best experience. So, Indiegogo, for example, …they make some assessment; they require you to send samples, working samples, in order to assess at which stage you are of the production of these products. So, if it's a concept, or you are already in production and ready to produce. So, they analyse this, and then they make it transparent to the end customer. (P13R-Ent-Sep20)

Platforms realised the damage that failure to deliver products could lead to and sought to be transparent with backers and *Build Trust* in the *Rewards Environment* as a safe space to transact. Platforms worked to *Screen Campaigns (CC)* to support *Trust-Building* efforts, and a

platform manager-consultant noted how this work had been taken more seriously in recent years:

> Kickstarter and Indigogo have tidied up their rules quite significantly in the last few years. So once upon a time, you could literally go out and get funding for an idea: they won't let you do that now; you've got to be pretty close to product ready. There are ways around that, but you've got to satisfy some pretty strong criteria there. (P20E-PM-C-Jul20)

The criteria included sending samples and evidence of the production of the product.

4.3.12 Attractive Campaigns from Entrepreneurs

The second theme in the Rewards Platform Manager-Consultant Data Structure was *Attractive Campaigns* and related to the need for entrepreneurs to present appealing product offerings packaged in an attractive campaign to backers. By doing so, entrepreneurs gained benefits that made the costs worthwhile. The first of the four concepts was *Feedback from Users (DD)*, which provided entrepreneurs with helpful information that could be used to make improvements. An entrepreneur who had completed multiple campaigns commented:

> So yeah, I would have said that crowdfunding has just been great to give us that feedback to know which product is going to really fly, and which one is worth our time. (P10R-Ent-Sep20)

The feedback mainly came via the comments from backers recorded on the campaign page and included reactions to updates provided. So, *Feedback from Users* was linked to how entrepreneurs *Managed Updates and Comments* in the *Live Phase*. In this example, the entrepreneur indicated that the feedback was useful in helping the entrepreneurial team understand what kind of products would lead to worthwhile returns. Examples included products bought for *Gifting Motivation* reasons, like pens and watches.

Reduces *Risks and Costs (EE)* was linked to the reduced risk and costs entrepreneurs could benefit from through crowdfunding. An entrepreneur explained how using crowdfunding allowed a venture that had two full-time employees to increase activity when needed:

> Well, there are different campaigns and different contributors, and at the end of the day, we are still a rather small team. And we want to keep our fixed costs low, so basically, when we need help to escalate things or make things happen, we rely on different partners. (P17R-Ent-Oct20)

So the entrepreneurial team could use 'partners', such as Facebook advertising specialists, to complete specific activities without increasing fixed costs that would have occurred if someone was employed to do the same job.

Validate Product Ideas (FF) related to gaining validation from the users of products. An entrepreneur who had an idea for a product that provided photographic tips integrated into a pack of playing cards explained how gaining validation was a factor in his decision:

> Because it's a very efficient way to validate an idea, and its real people's market demand, right. It's purely an economic decision, as opposed to making five thousand decks and putting up the capital for the factory and everything, and then maybe nobody wants it ever, and then I have it in my garage or something, right. (P15R-Ent-Oct20)

Rewards crowdfunding provided a way for his idea to be validated by a *Global Network of Backers* and meant the 'market demand' for the product was known before production began. He contrasted this beneficial situation with the alternative of producing the product first and then finding out about the demand afterwards.

The final concept making up the *Attractive Campaigns from Entrepreneurs* theme was *Brand Building (GG)* which was about building a brand following over multiple campaigns. An entrepreneur who had completed numerous campaigns explained how he and his business partner planned to use rewards crowdfunding to help build a brand in the coffee preparation market:

> This is a bit of a change for us now with BBBB (coffee maker) because this is the first big product we have released. Between myself and my business partner CCCC, we have done about ten campaigns, and this is the first campaign that we truly believe has got clout to build into a multi-million-pound brand that we can then eventually exit. (P10R-Ent-Sep20)

The two entrepreneurs had left their jobs and were working full-time on an idea to create and market a specialist coffee-making machine, in contrast to their previous campaigns, which marketed gift items. They saw rewards crowdfunding as a steppingstone to building their brand into something with a turnover of millions of pounds.

4.3.13 Decision Making by Backers

The third theme in the Rewards Platform Manager Data Structure was *Decision Making by Backers* and concerned the benefits backers got through taking part in rewards crowdfunding. The first concept was access to a *Range of New Products (HH)* and related to the broad range of innovative products available via rewards crowdfunding. An entrepreneur thought that supplying new and innovative products worked well with crowdfunding:

> This is also why it takes a really long time for us to develop, because we do a lot of research prior to developing the product, so we don't sell generic stuff. That

goes very well with crowdfunding because on crowdfunding the backer is always looking for something new and something they haven't seen before. We couldn't launch just a simple cable or a simple power bank; we always need to bring something new and exciting to the table. (P13R-Ent-Sep20)

In the past, the entrepreneur had launched a phone charging cable that could be attached to a keyring which offered portability and convenience compared to standard cables. This incremental product innovation approach worked well in past campaigns (as noted in previous research (Chan and Parhankangas, 2017)).

Community Experience (II) was the second concept and was linked to the community benefits backers got from the rewards crowdfunding experience. An entrepreneur who ran a bakery shared how the community aspect of crowdfunding appealed to her:

> I think I also really liked the idea that it would be community-supported, and that people would really be invested in what was happening and kind of understand our thinking behind it, and yeah, I think they really invested in the business. (P11R-Ent-Sep20)

The community was mainly made up of customers who became enthusiastic about helping a local business grow. They wanted to feel they were playing their part in supporting a group who were valuable members of the local community. A similar effect was noted in previous research (Josefy *et al.*, 2017).

The final concept in the *Decision Making by Backers* theme was *Supporting Innovative Entrepreneurs (JJ)* and related to the positive experience backers got from supporting entrepreneurs trying to bring an innovative idea to the marketplace. An entrepreneur explained the contrast between a buyer who uses Amazon and a buyer who uses rewards crowdfunding:

> The guy who buys in e-commerce is Amazon chimp; I want this yesterday like I want it delivered by drone right now. The guy who waits seven months to be part of a process and gives his opinion that he doesn't like the colour and wants a new colour. He wants to be part of a process to get a final product, the pants, in several more months and say I helped in bringing these ideas to life. (P17R-Ent-Oct20)

In this view, the rewards crowdfunding backer is willing to buy into the idea of being 'part of a process' in which they might offer feedback to the entrepreneur about the product offering so that at the end, they can get the product they really want, and feel they have *Supported an Innovative Entrepreneur*. In contrast, the typical Amazon buyer is seen as someone who wants a finished product as soon as possible after they order. The idea of the crowd

Supporting an Innovative Entrepreneur through both backing a campaign and their influence on product development was noted in previous research (Kuppuswamy and Bayus, 2017; Cornelius and Gokpinar, 2020).

4.4 Comparative Findings

The Comparative Findings describe and explain the similarities and differences between the Equity and Rewards Case Findings and are relevant to answering question seven.

4.4.1 Similarities Between Equity and Rewards Case Findings

Table 4 below provides an overview, and an explanation follows regarding the similarities and their significance. Themes and concepts are italicised for easy identification.

Elements compared	Similarities between themes or concepts	Significance
Equity Investor and Rewards Backer Data Structures	*Financial-Gain* and *Value Drives*; *Emotion-and-Values* and *Brand Drives*; *Momentum* and *Impulse Drives*	Focus on financial, emotional and dynamic drives
Equity Entrepreneur and Rewards Entrepreneur Data Structures	*Pre Phase* and *Live Phase*	Preparation key to successful campaigns
Equity Platform Manager-Consultant and Rewards Platform Manager-Consultant Data Structures	Concepts in Environments: *Funding for Growth* and *Due Diligence /Screening* Themes: *Attractive Campaigns Decision Making*	Highlights *Funding for Growth* needs, regulated environments and part *Attractive Campaigns* and *Decision-Making* play
Equity Model compared to Rewards Model	Similar processes with three crucial phases in each	Suggests transferable knowledge and skills

Table 4: Similarities between Equity and Rewards Findings

There are similarities between the themes for the investor and backer data structures, which suggest a commonality of drives. *Financial-Gain* and *Value Drives* are based on a primary desire to maximise what is gained or retained by the investor or backer. *Emotion-and-Values* and *Brand Drives* both relate to the importance of an emotional connection. *Momentum* and *Impulse Drives* are related to the crowd's influence over individual funders' actions.

The *Pre Phase* is key to a successful campaign in the equity and rewards entrepreneur data structures. Common concepts include asking for *Professional Help*, setting a *Realistic Official Target/Goal,* and a *Good Video*. The need for *Professional Help* relates to the complexity of campaign management for small entrepreneurial teams who look outside their venture for

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assistance with activities like making a *Good Video*. Setting a low and achievable target is common to both because of the desire to present a campaign on its way to success when it opens in the *Live Phase*. If the target is set low, it can usually be achieved within the first few days, attracting more of the crowd. Making a *Good Video* is the primary means the entrepreneur communicates the opportunity on offer to investors or backers.

There are four main areas of similarity for the equity and rewards platform manager-consultant data structures. In both environments, the desire to crowdfund is based on the need for *Funding for Growth*, the checks carried out by platforms are key, and both rely on the entrepreneurs to produce *Attractive Campaigns* and for funders to *Make Decisions*. For equity or rewards crowdfunding to work, it has to be seen as a legitimate activity, and the platform managers play a crucial role in *Screening Campaigns* and *Trust Building*. At the same time, entrepreneurs need to produce *Attractive Campaigns* that appeal to their targeted crowd, while funders need to respond to those campaigns and *Make Decisions*.

Looking at the Equity and Rewards Models, the process of gaining *Funding for Growth* is similar. Each has three critical phases and numerous similarities, as have been mentioned above. Therefore, experience in one environment as a funder, entrepreneur, or platform manager-consultant will likely produce transferable knowledge and skills. In practice, the rewards crowdfunding experience may be gained first as entrepreneurs are more likely to use it as an earlier-stage funding source (see Figure 4/Best, Neiss and Swart, 2013).

4.4.2 Differences Between Equity and Rewards Case Findings

Table 5 below provides an overview, and an explanation follows regarding the differences and their significance.

Element contrasted	Differences between themes and concepts	Significance
Equity Investor and Rewards Backer Data Structures	The concepts underpinning the themes are different	Shows the different structures in the two environments
Equity Entrepreneur and Rewards Entrepreneur Data Structures	The *Private Phase* in equity is not found in rewards *Post Phase* in rewards not found in equity	More attention towards setting up a successful campaign More attention towards delivering rewards successfully
Equity Platform Manager-Consultant and Rewards Platform Manager-Consultant Data Structures	Equity platforms follow financial regulations overseen by the FCA Rewards platforms follow consumer regulations	Investor screening is more stringent Backer screening is straightforward
Equity Model contrasted with Rewards Model	More work for entrepreneurs and investors before the *Live Phase* More work for entrepreneurs and backers after the *Live Phase*	Pre-existing networks in equity helpful Management of post-phase vital

Table 5: Differences between Equity and Rewards Findings

For the Investor and Backer Data Structures, the concepts underpinning the themes are different, showing how the underlying structure of each environment differs. For *Financial Gain* versus *Value Drives,* the former investors are more professional, like *VCs*, than the latter retail backers, like *Early Birds*. In the case of *Emotion-and-Values* versus *Brand Drives,* the differences are less, as are *Momentum* versus *Impulse Drives*, but they provide an understanding of the different characteristics of each environment.

Contrasting Equity and Rewards Entrepreneur Data Structures, the stand-out differences are the *Private Phase* in the former and the *Post Phase* in the latter. The *Private Phase* in equity focuses on preparing and setting up the conditions whereby the campaign will be successful in the *Live Phase*. It suggests that equity platform managers, with oversight from a regulator

who wants to see active protection of investors, are doing what they can to balance the presentation of *Attractive Opportunities* with investor protection. The *Post Phase* in rewards shows that there is still a significant amount of work to do after the campaign closes. Entrepreneurs have the chance to communicate directly with backers and increase revenues through *Additional Rewards*. A significant risk for entrepreneurs is that unexpected delays occur in production and delivery, as many goods are produced in the Far East, and they lose *Trust* with the backer community. *Managing Delivery Delays* can take many months, during which backers can become increasingly hostile.

The standout difference between the Equity and Rewards Platform Manager-Consultant Data Structures is the increased checking involved in equity *Due Diligence* compared to *Screening* in rewards. In equity, the checks on investors and entrepreneurs are more robust and time-consuming. Being an investment environment, rather than retailing, where those supplying funds risk losing all their money, checks are designed to make investors aware of risks. Investors must show understanding of the risks by self-certifying via an online questionnaire. On the platform side, both Crowdcube and Seedrs *Follow FCA Regulations,* which require that they perform rigorous checks on the businesses and entrepreneurial teams behind campaigns (Crowdcube, 2022a; Seedrs, 2022a).

Finally, contrasting the Equity and Rewards Models, entrepreneurs need to do more work regarding *Warming and Networking* in the *Pre Phase* of equity. Therefore, if entrepreneurs have pre-existing networks, especially a large pool of supportive customers, these groups can help create a campaign that will *Hit Personal and Official Targets* at the end of the *Live Phase*. In contrast, having a product almost ready to be shipped in the Rewards Model and a logistics system to deliver products without too much delay will help *Transparency and Trust Building*.

Chapter 5: Discussion

5.1 Introduction

The structure of the chapter follows from the findings with research questions one to three answered in the equity case, questions four to six in the rewards case, and question seven through a comparative focus. Contributions to knowledge related to the heuristics used by funders and entrepreneurs are then articulated.

5.2 Equity Case Answers: Questions One, Two and Three

The answers describe the heuristics used by investors and entrepreneurs, why those heuristics are ecologically rational, and how entrepreneurs can use knowledge of heuristics to influence investor decision making positively.

5.2.1 Question One

Question one asked, *what are the heuristics investors and entrepreneurs use in equity crowdfunding decision-making?* The answers are summarised in Table 6 below and are explained in the sections that follow. The explanations of investor heuristics align with the first goal of the adaptive toolbox theory, which focuses on understanding how people select and use heuristics and what capabilities they draw upon in doing so (see section 2.4.2). Capabilities relate to various abilities investors call on when using specific fast-and-frugal heuristics and how well they are applied in decision-making. Illustrative examples are provided to support explanations and include some italicised terms, which are concepts or themes taken from the findings. The entrepreneur heuristics are those reported in the Entrepreneur Data Structure (Figure 13) and relate to the portfolios of campaign management heuristics the entrepreneur gains through process experience and observation (Holcomb *et al.*, 2009; Bingham and Eisenhardt, 2011; 2014).

Decision Maker and Heuristics	Phase of Crowdfunding Campaign		
	Pre	Private (at end of Pre)	Live (
Investors using **heuristics** to make investment decisions	**Financial Gain related:** • HNWI-Angels using Tallying[1] **Emotion & Values related:** • Family & Friends plus Community & Customers using Recognition[3]	**Financial Gain related:** • HNWI-Angels using Tallying **Emotion & Values related:** • Family & Friends plus Community & Customers using Recognition	**Financial Gain related:** • HNWI-Angels using Tallying • Portfolio Builders using Take-the-Best[2] **Emotion & Values related:** • Family & Friends plus Community & Customers using Recognition • Social Good plus Support Female Entrepreneurs using Satisficing[4] **Momentum related:** • HRHRP using Imitate-the-Majority and Imitate the Successful[5]
Entrepreneurs using **heuristics** to make campaign management decisions. See Appendix I for full list of representative quotes and Table 9 below for selected samples.	• Gain Traction • Develop Attractive Opportunity • Favour Consumer Businesses • Warm and Network • Seek Professional Help • Find Lead Investors • Set Realistic Official Target • Make Slide-Deck and Financials • Set a Reasonable Valuation • Make a Good Video	• Get Lead Investor Commitment • Get Network to Invest • Achieve 70% plus of target • Build Crowd Numbers	• Achieve Momentum • Manage Discussions • Email Investors • Use Herd Mentality • Use FOMO • Use Algorithms • Attract Tax Investors • Attract the Anonymous Crowd • Hit Official and Personal Targets

Table 6: Investor and Entrepreneur Heuristics in Equity

Notes: [1](Dawes, 1979); [2](Gigerenzer and Goldstein, 1996); [3](Goldstein and Gigerenzer, 2002); [4](Simon, 1972); [5](Boyd and Richerson, 2005)

5.2.2 Heuristics Used by Financial-Gain Driven Investors

HNWI and *Angels* are likely to be more analytical in their decision-making than the other types of investors identified in the findings. However, like all investors in equity crowdfunding, they face a lot of uncertainty regarding the returns they will receive from their investments. So, while they may strive to be analytical and invest in businesses that are likely to produce returns, the uncertainty of equity crowdfunding constrains the effectiveness of decisions, especially in the *Live Phase* of campaigns. Therefore, *HNWI-Angels* probably use imperfect decision practices like tallying based on 'improper linear models'. Following this idea, investors would focus on factors they thought important in decision-making, like the team's track record, and assign weights based on 'some nonoptimal method' like their intuition (Dawes, 1979, p. 571-72). Faced with making decisions between alternatives, *HNWI-Angels* would look at how many of the factors were favourable for each and select the business with the most 'favouring cues' (Gigerenzer, 2008, p. 24).

For example, consider an *HNWI-Angel* who views campaigns in the *Live Phase*. Their tally could include the number of investors, the product, business model and team. Whatever they decide to include in their tally, *HNWI-Angels* assign about the same weight to each component, add up the number of positive cues (pieces of evidence) and choose the option with the most positives (Gigerenzer and Gaissmaier, 2011). Their ability to search and recognise numbers on a campaign page is used to select opportunities of interest. Information regarding the product, business model and the team is most likely found in the *Video* plus *Slide-Deck and Financials*, so *HNWI-Angels* use more of their basic cognitive abilities to find and view the information included in their tally. Probably the key for *HNWI-Angels* is their ability to evaluate information and judge whether the cue is positive, neutral or negative. Interestingly, the use of decision practices akin to tallying was noted in previous research, which reported that experienced investors focused on factors like the entrepreneurial team, the idea and the delivery model when making decisions (Estrin, Gozman and Khavul, 2018).

While *Portfolio Builders*, as retail investors driven by *Financial Gain*, may use tallying, they are less likely to go into the analytical depth of *HNWI-Angels* and instead use take-the-best. Rather than the multiple factors used in tallying, take-the-best decisions would focus on one reason (Gigerenzer and Goldstein, 1996). As *Portfolio Builders* are likely to come across investment opportunities for the first time in the *Live Phase*, they may focus on those

businesses with the largest *Numbers of Investors* in their decision-making. The reasoning would be based on *Crowd Numbers* as validation of investment quality. In doing so, *Portfolio Builders* would use their abilities to search through the alternatives available on platforms, recognise which campaigns had the most investors and then select that opportunity.

5.2.3 Heuristics Used By Emotion-and-Values Driven Investors

Family and Friends plus *Community and Customers* have pre-existing relationships with the entrepreneur, business or brand. They have an emotional connection to the business, and a proportion are likely to see it as an *Attractive Opportunity* alread*y*. Their decision-making is straightforward in that when the campaign becomes available in either the *Private* or *Live Phase,* they recognise it and then go on to invest, using the recognition heuristic, which draws on the investor's ability to be able to simply recognise the opportunity from memory (Goldstein and Gigerenzer, 2002). While the recognition heuristic may seem like a simple decision strategy, it probably works with affective factors. Firstly, affect most likely brings investors to the point where they are ready to decide, using the recognition heuristic, based on how they will feel afterwards, an 'expected affect'. Secondly, in recognising a campaign and going on to support a venture they believe in, investors also experience positive emotions during decision making, an 'immediate affect' (Loewenstein and Lerner, 2003, p. 636).

Social Good and *Support Female Entrepreneur* investors have specific requirements that need to be met before they commit funds. Both types of investors see opportunities for the first time in the *Live Phase* and search for businesses aligned with their values that contribute to the greater good or are led by a female founder. Once such opportunities are found, they decide to invest. This process probably follows the satisficing heuristic in which an 'aspiration level' is set, and a search for options that meet the desired outcome is carried out. Then a decision to invest is made once a suitable opportunity is found (Simon, 1972, p. 168). *Social Good* and *Support Female Entrepreneurs* use their abilities to search for opportunities that meet their aspiration levels and recognise when those requirements have been met. Similarly to what was mentioned above regarding *Family and Friends* plus *Community and Customers*, affective factors probably contribute to the use of the satisficing heuristic.

5.2.4 Heuristics Used by Momentum Driven Investors

High-Risk-High-Reward Punters (HRHRPs) approach investment with a gambling mindset, in which they make bets on opportunities and expect a significant return from some. Significantly, the *HRHRPs* profile corresponds to a group of younger investors whom the FCA are concerned about because of their risky investment practices (see FCA, 2021b). As retail investors, most are likely to want to make decisions relatively quickly as they follow a strategy of placing many smaller value bets on numerous businesses. In doing so, *HRHRPs* probably focus on those opportunities that appear to be the most successful and look at the *Number of Investors* and percentage *Overfunded* as validation indicators from the crowd. Motivated by anticipating a significant return on investment (Loewenstein and Lerner, 2003) and the *Fear of Missing Out* (FOMO) leads *HRHRPs* to use the imitate-the-majority heuristic in their decision-making. In doing so, *HRHRPs* draw on their ability to observe the actions of the majority, reducing the cost of searching for information and saving time (Boyd and Richerson, 2005; Gigerenzer, 2008; Vismara, 2018a). The *HRHRPs* who use imitate-the-majority are probably mostly younger investors who spend a significant amount of time using social media, which has been linked with developing FOMO, supporting the use of the heuristic (Baker, Krieger and LeRoy, 2016).

Another beneficial use of imitation for *HRHRPs* is to follow investors who have a successful investment track record or are in a position that suggests they are successful in their career and have some expert knowledge in selecting equity investments. These investors could be *Leads* who are recognised brands, such as well-known *VCs* or serial *Angels*. They could also be a *HNWI* who commits a large sum to a campaign. Like imitate-the-majority, imitate-the-successful uses the ability to observe the behaviour of others, which reduces searching costs and time required to decide (Boyd and Richerson, 2005). In the Seedrs environment, successful investors can be observed directly from the campaign page via the 'Investors' tab (Seedrs, 2022b). For Crowdcube, direct observation was possible, though viewing individual investor profiles has now been removed. Interestingly, a study of information cascades involving Crowdcube investors when profile viewing was available found that the public profile of investors increased the attractiveness of campaigns to early investors, which then attracted later investors (Vismara, 2018a). This finding concurs with the idea that the imitate-

the-successful is used by *HRHRPs*, as they come to campaign later than *Leads* and network investors, using their ability to observe and imitate in choosing opportunities.

5.2.5 Heuristics Used by Equity Entrepreneurs

The entrepreneur heuristics are based on a thorough analysis of the data and reflect the key campaign actions about which the entrepreneur makes decisions. These are learned through personal observation of campaigns on the platform and experience, as well as from other campaign participants like platform managers and consultants (advice given based on their observations and experience). As the distilled view of not only the entrepreneur, but also participants with knowledge from multiple successful campaigns, the heuristics represent a 'recipe for success'. As one entrepreneur with experience of successful equity and rewards campaigns put it: 'there is a recipe for success and we paid people to help us with that recipe' (P5E-Ent-Sep20). As such, the heuristics are similar to those identified by Bingham and Eisenhardt (2011; 2014), offering a 'simple rules' ecologically rational 'strategy in unpredictable markets' (2011, p. 1438). The portfolio of heuristics are likely to be of particular use to entrepreneurs considering equity crowdfunding for the first time.

In the *Pre-Phase,* ten heuristics are identified and listed in an order reflecting the likely sequencing of decision making for the entrepreneur. For example, *Gain Traction* comes first because without a viable business the entrepreneur has no hope of a successful campaign. As a 'simple rule' the heuristic guides the entrepreneur to make decisions and take actions that demonstrate traction. Referring to the Appendix I and the Data Table for Equity Entrepreneurs the meaning of *Gain Traction* can be understood as having a track record of product sales and the capability to grow the business via a marketing strategy. Moving to the Private Phase, the first heuristic is *Get Lead Investor Commitment* and this guides the entrepreneur to make decisions and take actions that ensure the *Lead Investors* do actually invest the money into the campaign they had previously committed to. Turning to the *Live Phase*, *Achieve Momentum* comes first and helps the entrepreneur understand that decisions should be made and actions taken that continue to build up *Crowd Numbers* and add funds towards *Official and Personal Targets*. The ecological rationality of the heuristics entrepreneurs use are discussed further in the answers to question three (see sections 5.2.10-13 below).

5.2.6 Question Two

Question two asked, *why are the identified investor heuristics ecologically rational in equity crowdfunding environments?* In answering, the fast-and-frugal heuristics knowledge from question one was combined with an understanding of the equity decision environment. The answers provided in the following three sections build on the illustrative examples introduced previously to show why the heuristics identified in question one are ecologically rational in the equity environments in which they are utilized. Figure 20 below shows how elements of critical realism (see section 3.2) and the adaptive toolbox theory were brought together to explain ecological rationality. The scissors symbol denotes the theoretical underpinning used in explaining the ecological rationality of heuristics, which is the idea that rational behaviour is influenced by the interaction between an investor's capabilities and the overall structure of the environment in which decisions are made (Simon, 1990).
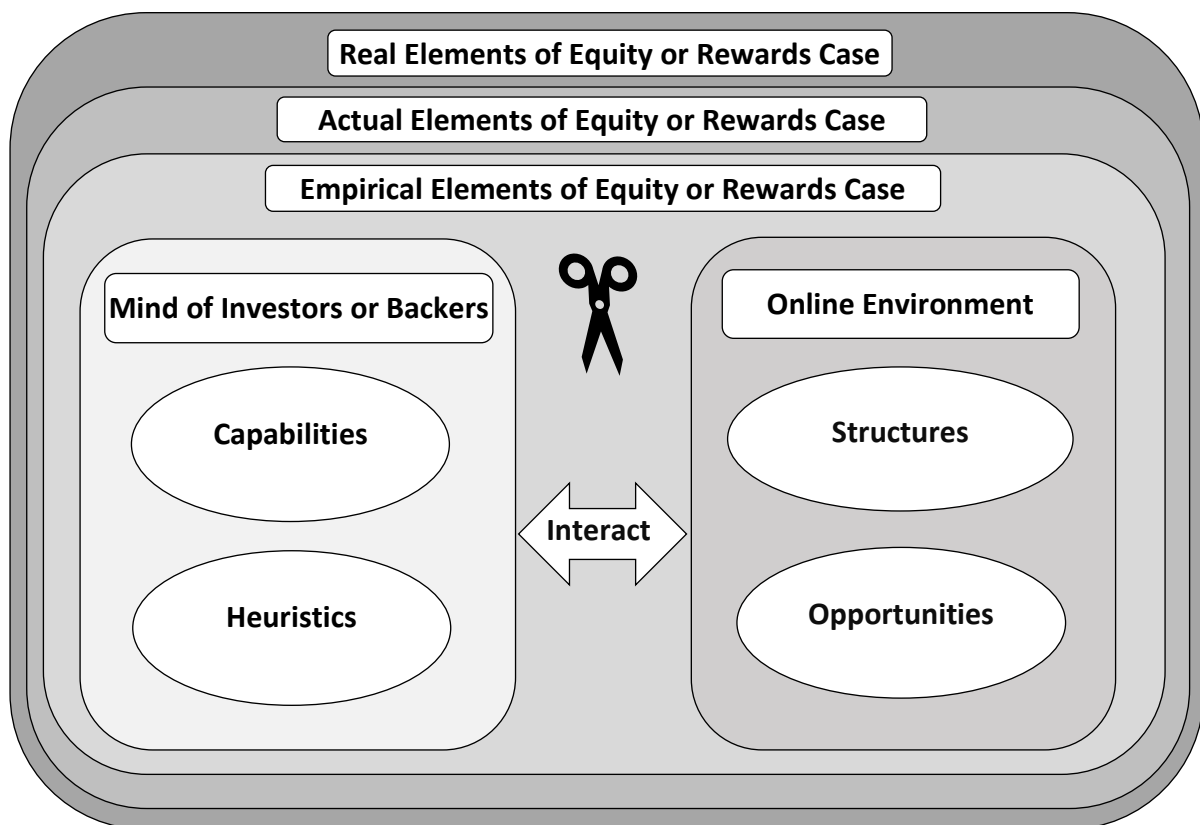
Figure 20: Ecological Rationality of Heuristics (author's own)

5.2.7 Ecological Rationality of Tallying and Take-the-Best Heuristics in Equity

For *HNWI-Angels*, the ecological rationality of the tallying heuristic is based on the following reasons related to investors' interactions with structures and opportunities in the equity environment. Firstly, investors can search multiple pre-screened opportunities efficiently. With around twenty investment opportunities available on the Crowdcube or Seedrs landing page at any one time, investors have various options available. *Following FCA Regulations*, the opportunities are pre-screened and so have passed a quality check before being considered by the *HNWI-Angels* (Estrin, Gozman and Khavul, 2018). Having multiple opportunities available online in a compact format means they can be efficiently viewed at any time. Secondly, for each opportunity, *HNWI-Angels* have access to a range of systematically organised and retrievable information from which to select the components of their tally. Because platforms provide structure, investors know where to find the information for tallies and can easily retrieve details as needed. Thirdly, *HNWI-Angels* gain *Tax Breaks* from the majority of opportunities. As high-rate taxpayers, investors actively seek ways to reduce their tax liabilities. Combining tax benefits with the possibility of making a sizable return draws *HNWI-Angels* to equity crowdfunding.

While the structures and opportunities *HNWI-Angels* interact with when using the tallying heuristic are experienced empirically, they have origins in the real. The most influential part of the real is regulation from the FCA, which sets rules regarding the opportunities that pass through the screening process, the investors those opportunities can be marketed to, and how the platforms handle transactions (HM Treasury, 2021). Significantly, a review of the rules around the promotion of 'high-risk investments' is currently underway and aims to increase consumer protection. Although crypto-assets may be the area where the FCA most wants to make changes, equity crowdfunding comes under the scope of the review as an approver of high-risk investments to retail investors. With the resulting policy update due in the summer of 2022, a tightening of rules leading to restrictions on the marketing of opportunities could come later in the year (FCA, 2022a). Rule changes could impact all types of investors identified in the Investor Data Structure and their decision-making by changing who has access to opportunities and the information they have access to.

For *Portfolio Builders*, the ecological rationality of take-the-best is based on the same first and second reasons mentioned for tallying. A third reason is the accessibility of information about

the *Crowd Numbers* who have already invested in an opportunity, which can easily be viewed on any campaign page. For example, a *Portfolio Builder* may decide that one thousand investors are the most valid indicator of opportunity quality. They can then search through opportunities looking for those that meet this requirement. Investing in businesses with one thousand plus investors provides *Portfolio Builders* with a diversification strategy that brings in another fast-and-frugal heuristic, the 1/N rule (Gigerenzer, 2008). Following the 1/N rule heuristic, *Portfolio Builders* would allocate funds equally between a given number (N) of opportunities, for example, investing five hundred pounds in each of fifty businesses.

5.2.8 Ecological Rationality of Recognition and Satisficing Heuristics in Equity

For *Family and Friends* or *Community and Customers* who use the recognition heuristic, ecological rationality is based on two ways investors interact with the environment. Firstly, the investors already know the business before entrepreneurs decide to crowdfund. A significant number will already have bought into the business as a concept, so they will be receptive to an opportunity to invest. Therefore, they will most likely respond positively to email communication advising them that the business is open to investment in the *Private Phase*, resulting in investors clicking on the link provided, going to the campaign landing page and then investing. Although the structure labelled, *Private Phase* was not discussed in previous research, the period is known to consultants, one of which has labelled it 'Private Live' (Tarrada, 2022). By providing entrepreneurs with the chance to present investment opportunities to their networks as an exclusive offer, the *Private Phase* supports using the recognition heuristic. Secondly, for *Family and Friends* or *Community and Customers* who do wait until the *Live Phase,* they should easily recognise the business amongst others on offer and go on to invest. Crowdcube and Seedrs have search functions on their landing pages to help any investor find the business they are interested in. Alternatively, they could simply scroll the range of offered opportunities, usually around twenty, and scan to find the desired business.

For *Social Good* and *Support Female Entrepreneur* investors who use the satisficing heuristic ecological rationality relates to the following factors. Firstly, investors can access various opportunities, so they will probably find something that matches their aspirations. Within platform architecture, investors are provided with a structure, in the form of filtering options, that supports them in satisficing. For example, for *Social Good* investors looking for businesses

that provide green energy solutions, can filter by the keyword 'energy' and find the corresponding opportunities on offer (Crowdcube, 2022b; Seedrs, 2022b). Secondly, after investors have found businesses that meet their requirements, they can use other parts of the platform structure, particularly *Videos*, to evaluate and even reset their aspirations until they decide (Mousavi and Gigerenzer, 2017).

5.2.9 Ecological Rationality of Imitate-the-Majority and the Successful in Equity

For *HRHRPs* who use imitate-the-majority or imitate-the-successful, ecological rationality stems from several structural factors. Firstly, retail investors have relatively easy access to equity crowdfunding, thanks to FCA light-touch regulations (Estrin, Gozman and Khavul, 2018). They can enter the environment through a self-certification process, which may involve a quiz but does not require proof of availability of funds, unlike other jurisdictions. For example, in the United States, most *HRHRPs* would be classified as non-accredited investors and be limited to investing a few thousand dollars over a year, depending on their income or net worth (USSEC 2022). Secondly, the equity environments of Crowdcube and Seedrs have matured in the ten years since launch and now have large numbers of registered users that support the crowd dynamics in which the heuristics can work. Crowdcube has a reported one million registered users, with Seedrs around half that (Crowdcube, 2022c). As *Live Phase* investors, *HRHRPs* join a large crowd of potential funders, which increases the likelihood of campaigns reaching their targets and overfunding, providing more opportunities to imitate-the-majority. Substantial numbers of registered users also help induce *FOMO* effects in the minds of *HRHRPs,* as they see more campaigns with hundreds, or even thousands of investors, leading to a desire to join crowd communities and imitate-the-majority (Sabia, Bell and Bozward, 2022). Thirdly, *HRHRPs* have access to information on the campaign pages of businesses that help them imitate-the-successful. Taking the example of a Seedrs campaign, clicking on the 'Investors' tab leads to a list of all the investors already funding the campaign. Most choose to display their name and location in the form of city and country names. This information allows *HRHRPs* to search for the name on LinkedIn, match the location, and view the person's profile. If they present an image of someone who should be an informed investor, the *HRHRP* may decide to follow their example and invest. Each investor listed on Seedrs also has a 'show profile' sub-section that reveals the person's previous investments. If

an investor has multiple holdings, this information can act as an imitate-the-successful trigger for *HRHRPs* (Vismara, 2018a).

5.2.10 Question Three

Question three asked, *how can entrepreneurs in equity crowdfunding use knowledge of heuristics and their ecological rationality to influence investor decision making positively?* Having understood what investor heuristics were used and why they are ecologically rational in questions one and two, question three considers how entrepreneurs can influence investor decision positively utilising the entrepreneur heuristics from Table 6. Following the format used in answering questions one and two, the answer for question three is based on types of investors using specific heuristics. In keeping with the design focus of the adaptive toolbox, answers explain how entrepreneurs can positively influence investor decisions through their own actions and decisions involving structures and opportunities in the online environment (see Figure 20).

5.2.11 Equity Entrepreneurs Influencing use of Tallying and Take-the-Best

Entrepreneurs can take the following actions and corresponding decisions by drawing on an understanding of the ecological rationality behind *HNWI-Angels* utilising tallying. Firstly, entrepreneurs should try to do what they can to make their opportunity stand out amongst the twenty or so on offer. The foundations of an outstanding opportunity should be built in the *Pre Phase* by taking the ten key actions and related decisions shown in Table 6. Having built solid foundations, entrepreneurs can take their opportunity into the *Private Phase*. Then, carrying out the corresponding four *Private-Phase* actions will increase the likelihood that the opportunity will stand out to *HNWI-Angels*. Secondly, whatever factors *HNWI-Angels* choose to include in tallies, they want access to information quickly. Therefore, entrepreneurs should have focused on producing a *Good Video* plus *Slide-Deck and Financials* that clearly and concisely communicate the key selling points of the opportunity they are offering investors. During the *Live Phase*, *HNWI-Angels* may also monitor the discussion sections of campaign pages as a component of their tally, so entrepreneurs should be actively *Managing Discussions*. Unanswered or poorly answered questions tend to lead to doubts in investors' minds that can quickly snowball into a significant negative for the campaign if not addressed rapidly. Finally, the *Tax Breaks* offered are likely to be essential in the tallies for most *HNWI-Angels*, so entrepreneurs should plan for this to be available as part of creating an *Attractive*

Opportunity in the *Pre Phase*. In addition to *Managing Discussions* and *Attracting Tax Investors*, entrepreneurs should carry out the other eight actions and corresponding decisions in the *Live Phase* as they all contribute to the campaign's overall success.

Entrepreneurs can take the following actions and decisions for *Portfolio Builders* utilising take-the-best. As the focal point for investors is *Crowd Numbers* of one thousand plus, entrepreneurs with *Consumer Businesses* are more likely to benefit from this heuristic. For such ventures, *Warming and Networking* with customers will be particularly important. If done well, a significant proportion of customers will invest in the *Private Phase* enabling the campaign to start the *Live Phase* with *Crowd Numbers* near the *Official Target*. In the *Live Phase*, the most critical action for entrepreneurs will be to maintain the campaign's *Momentum* so that after the *Official Target* is met, investors continue to support the campaign.

5.2.12 Equity Entrepreneurs Influencing use of Recognition and Satisficing

By understanding the ecological rationality of the recognition heuristic utilised by *Family and Friends* plus *Community and Customers*, entrepreneurs can take actions and make decisions that will influence investor decision making positively. Because many of these investors already value the business and want to support growth efforts, entrepreneurs should focus on explaining the opportunity through *Warming and Networking,* backed up by a *Good Video*. Once the campaign goes into the *Private Phase,* requests to the *Network to Invest* should be sent out. Then, when the campaign opens in the *Live Phase,* entrepreneurs should keep *Emailing Investors* in the *Family and Friends* plus *Community and Customers* groups to encourage them to invest. Some of these types of investors may be new to equity crowdfunding, so entrepreneurs can improve the visibility of their campaigns by having contributions added at regular intervals. Even a series of ten-pound investments spread over a day could help push the campaign to the top of the landing page.

For satisficing used by *Social Good* and *Support Female Entrepreneurs* investors, entrepreneurs should take the following actions/decisions based on a knowledge of ecological rationality. The first is to create an offer seen as an *Attractive Opportunity* by investors which meets their aspirations. The primary tool to communicate with *Social Good* and *Support Female Entrepreneurs* investors will be a *Good Video*, so entrepreneurs should

put effort into this area. *Professional Help* may be beneficial, especially if the venture internally lacks the required skill set. As both *Social Good* and *Support Female Entrepreneur* investors see opportunities in the *Live Phase* for the first time, the campaign should stand out as much as possible. Positioning the opportunity in a sector like 'Energy and renewables' or 'Fitness and sports' is one way of *Attracting Social Investors* (Crowdcube, 2022b). For *Support Female Entrepreneurs* investors, entrepreneurs can position their offers in 'Clothing & Accessories' on Seedrs or 'Apparel & accessories, home and personal' on Crowdcube (Crowdcube, 2022b; Seedrs, 2022b).

5.2.13 Equity Entrepreneurs Influencing use of Imitate-the-Majority/Successful

For *High-Risk-High-Rewards Punters* who use imitate-the-majority, entrepreneurs can take the following actions/decisions to promote ecologically rational decision-making. The investor heuristic is more likely to be utilised for campaigns with large *Crowd Numbers* displaying *Momentum* and close to *Hitting Official Targets* as they enter the *Live Phase* when *HRHRPs* see opportunities for the first time. Therefore, imitate-the-majority is more likely to work for entrepreneurs who have *Consumer Businesses* and can do *Warming and Networking* in the *Pre Phase*. A *Realistic Official Target* should be set so that the campaign develops *Momentum* and stands out as one that will *Hit its Official Target* early in the *Live Phase*. These actions support the ecologically rational use of imitate-the-majority by generating *Herd Mentality* and *FOMO*, as do *Updates* about campaign progress. The *Algorithms* managed by platforms will also support the use of the imitate-the-majority as adding additional investors and funds will lead to the campaign moving to the top of the platform landing page, increasing *Crowd Numbers* and *Momentum*.

For *HRHRPs* who imitate-the-successful, entrepreneurs should take actions/decisions demonstrating the successful track record of those who have already backed the opportunity. This record provides evidence of success that *HRHRPs* can use as a reference point for imitating success. A well-known *VC* or *HNWI-Angel* is one source, so *Finding Lead Investors* in the *Pre Phase* and getting them to *Commit* in the *Private Phase* is vital. A second success source is the crowd of investors who have already funded the campaign when the *HRHRPs* see the opportunity. On Seedrs, a list of investors by the amount contributed is provided. Entrepreneurs can influence how this list looks to *HRHRPs* by asking people in their network to invest at certain times in the *Live Phase* so that *HRHRPs* see significant

amounts being invested in the campaign at regular intervals. The third source of success is the entrepreneurial team itself. Crowdcube and Seedrs have a 'Team' tab on campaign pages that should be used to communicate the management team's past track record of success (Crowdcube, 2022b; Seedrs, 2022b). A track record of building and exiting one or more businesses suggests that this can be repeated with the current opportunity.

5.3 Rewards Case Answers: Questions Four, Five and Six

The answers describe the heuristics used by backers and entrepreneurs, why those heuristics are ecologically rational, and how entrepreneurs can use knowledge of heuristics to influence backer decision making positively.

5.3.1 Question Four

Question four asked, *what are the heuristics backers and entrepreneurs use in rewards crowdfunding decision-making?* The answers are summarised in Table 7 below and are explained in the sections that follow. The explanations of backer heuristics align with the first goal of the adaptive toolbox theory following the format utilised for the equity case. This involves considering backers' capabilities and how they are applied in the decision-making process. Illustrative examples are provided to support explanations, and italicised terms are concepts or themes taken from the findings. The entrepreneur heuristics are those reported in the Entrepreneur Data Structure (Figure 17) and related to the portfolios of campaign management heuristics the entrepreneur gains through process experience and observation (Holcomb *et al.*, 2009; Bingham and Eisenhardt, 2011).

Decision Maker and Heuristics	Phase of Crowdfunding Campaign		
	Pre	Live	Post
Backers using **heuristics** to make backing decisions	**Value related:** • Early Birds using Take-the-Best[1] • Price Responders using Tallying[2] **Brand related:** • Brand Connection using Recognition[3] • Gifting Motivation using Satisficing[4]	**Value related:** • Price Responders using Tallying **Brand related:** • Brand Connection using Recognition • Gifting Motivation using Satisficing **Impulse related:** • Impulse Buyers using Imitate-the-Majority[5] • Friends' Influence using Imitate-the-Successful[5]	**Value related:** • Price Responders using Tallying **Impulse related:** • Impulse Buyers using Imitate-the-Majority
Entrepreneurs using **heuristics** to make campaign management decisions	• Develop Attractive Product • Seek Professional Help • Build Trust • Set Marketing Budget • Develop Rewards Options • Build Email List of Backers • Make a Good Video • Set Realistic Goal • Pass Review Process	• Contact Primed Early Birds • Generate Momentum • Continue Engaging • Manage Rewards • Manage Updates and Comments • Hit Official and Personal Goals	• Manage Delivery Delays • Confirm and Additional Rewards • Learn From Experience

Table 7: Backer and Entrepreneur Heuristics in Rewards

Notes: [1](Gigerenzer and Goldstein, 1996); [2](Dawes, 1979); [3](Goldstein and Gigerenzer, 2002); [4](Simon, 1972); [5](Boyd and Richerson, 2005)

5.3.2 Heuristics Used by Value-Driven Backers

Early Birds are likely to use the take-the-best heuristic, driven by a desire to get the best value-for-money products. Maximum-discount offers may arrive via Facebook advertising during the *Pre Phase* when entrepreneurs try to build up an *Email List*. *Early Birds* will then receive a reminder of what will be a time-limited offer when the campaign goes live. They can then use their ability to click through to the platform site and complete the purchase following standardised option selection and payment steps. Research into heuristic use in consumer choice has found that sequential heuristics, like take-the-best, predict choice behaviour well,

supporting the idea of take-the-best use by *Early Birds* (Hauser, Ding and Gaskin, 2009; Gigerenzer and Gaissmaier, 2011). Early Birds may also view the campaign *Video* and supporting pages to check that they get the best value-for-money product option.

Price Responders may find a campaign in the *Live Phase* through a platform search. With numerous product options available, they may focus on price and other factors using tallying to decide. For example, consider a *Price Responder* who searches for an 'outdoor jacket' on Kickstarter and filters by 'Popularity'. They would find multiple products catering to a variety of needs. The Price Responders' tally could include suitability for skiing, eco-construction, colour options, sizes, and the price. In searching and forming a tally, backers would use basic cognitive abilities to evaluate the suitability of the product options. Assigning equal weight to each tally component, *Price Responders* would add up the positive cues for each and choose the option with the most positives. The information would be taken from the campaign video and information pages.

Unlike equity, rewards crowdfunding does not appear to be under scrutiny from regulators. While the FCA regulates payment services related to rewards crowdfunding in the UK, there do not appear to be any plans to make any changes. Links to the Financial Ombudsman Service from the FCA 'Crowdfunding' page suggest that any issues with payments that could not be resolved by direct contact would be handled by this body (FCA, 2021a).

Kickstarter and Indiegogo, as US-headquartered entities, are not regulated by the body that oversees financial institutions, the Securities and Exchange Commission. Both have detailed terms and conditions and internal dispute resolution mechanisms (Indiegogo, 2022e; Kickstarter, 2022d). Unlike equity crowdfunding, where the FCA is a significant causal power in the real, rewards crowdfunding follows standardised online commerce models based on the rules in whatever jurisdiction the platform operates.

5.3.3 Heuristics Used by Brand-Driven Backers

Brand Connection backers, like *Family and Friends/Community and Customers* in equity, have a pre-existing relationship with entrepreneurs. As backers who have bought a product in the past, they are attached to the brand and are open to buying subsequent product offerings. *Brand Connection* backers draw on their ability to recognise the brand from memory (Goldstein and Gigerenzer, 2002). For some, the brand name alone is enough, and they use

the recognition heuristic to decide. Affect most likely supports recognition heuristic use by bringing backers to the point where they are ready to buy based on brand recognition (Loewenstein and Lerner, 2003). The following example was adapted from one of the entrepreneurs in the sample who supplied mobile phone accessories. After six successful campaigns, the business had a loyal community of *Brand Connection* backers, who could be emailed whenever a new product was developed. While most of the previous six products had been charging cables, the seventh was a new type of wireless earbuds. On mailing their community, the entrepreneur reported that many *Brand Connection* backers went on to buy the product primarily because of positive past experiences.

Gifting Motivation backers know what kind of gift will satisfy the aspiration levels they have set for their search. They search until they find a suitable product and then select it using the satisficing heuristic. A further example was adapted from one of the entrepreneurs in the sample who had completed ten successful campaigns supplying pens and mechanical pencils. *Gifting Motivation* backers can search Kickstarter for 'pens' and filter by 'Popularity', leading to multiple options. Backers can then browse and match their aspirations with what is available. Supposing the person who will receive the gift is artistic, a fountain pen could be an option. Perhaps a modern design in aluminium or titanium would be a valued gift. In using the satisficing heuristic, backers would draw on their abilities to understand what aspiration level should be set and when it is satisfied by a product on offer (Mousavi and Gigerenzer, 2017).

5.3.4 Heuristics Used by Impulse-Driven Backers

Impulse Buyers find campaigns in response to advertising or from browsing on platforms. Therefore, they tend to see products supported by a large *Marketing Budget* and those already *Generating Momentum* that are more visible on platform landing pages. Liking what appears to be a *New Innovative Produc*t and being influenced by the crowd, who are already supporting the campaign, *Impulse Buyers* decide to purchase the product based on imitating-the-majority (Boyd and Richerson, 2005). In doing so, *Impulse Buyers* draw on their ability to respond to advertising and observe the actions of most backers. This mimicking may include looking at *Updates and Comments* to see what others say and participating in the *Community Experience* platforms offer.

Friends' Influence backers are responsive to the influence of friends, whether personal contacts or known via social media. They are influenced by a *Good Video* in which professional endorsements *Build Trust* in the product on offer. *Friends' Influence* backers then imitate-the-successful in their buying decisions (Boyd and Richerson, 2005). Using this heuristic, backers draw on their ability to observe and mimic the actions of others they perceive as offering trustworthy advice (Bikhchandani, Hirshleifer and Welch, 1998). Understanding the power of *Friends' Influence*, affiliate marketing specialists, like Kickbooster, offer options to backers (Kickbooster, 2022a). This platform allows backers to share campaigns with their networks and, in return, receive a commission on any sales. Likewise, network friends can receive recommendations for a *Range of New Products* from those with influence and whose judgement they trust.

5.3.5 Heuristics Used by Rewards Entrepreneurs

As per the equity entrepreneur heuristics, those for rewards result from thorough analysis of the data and represent the key campaign elements around which the entrepreneur makes decisions. These heuristics are learned through personal observation and experience and from the advice offered by platform managers and consultants. Using the heuristics as guides to action and decision making provides rewards entrepreneurs a template for campaign success based on an ecologically rational sequence of steps.

For example, *Develop Attractive Product* comes first because in rewards the product, rather than the viability of the business, is the focus for funders. As a 'simple rule' the heuristic guides the entrepreneur to make decisions and take actions that lead to an *Attractive Product*. Referring to the Appendix L and the Data Table for Rewards Entrepreneurs an *Attractive Product* for one of the entrepreneurs cited was one made from bamboo that had green credentials, and resulted in a decision to source from China. Moving to the *Live Phase* the fifth heuristic recommends the entrepreneur *Manage Updates and Comments*. In doing so the entrepreneur may decide to strengthen the green messaging by stressing the sustainability of the bamboo farming in *Updates* and in responses to *Comments*. After the campaign has *Hit Official and Personal Goals* it closes and moves into the Post Phase. As the product is manufactured in China and sold predominately in the UK the entrepreneur has to Manage Delivery Delays and make decisions about when to inform customers

5.3.6 Question Five

Question five asked, *why are the identified backer heuristics ecologically rational in rewards crowdfunding environments?* In answering, the fast-and-frugal heuristics knowledge from question four was combined with an understanding of the rewards decision environment. The answers provided in the three sections that follow build on the illustrative examples introduced previously and show why the heuristics identified in question four are ecologically rational in the rewards environments in which they are utilised. Figure 20 (section 5.2.5) shows how elements of critical realism, and the adaptive toolbox theory were brought together to explain ecological rationality.

5.3.7 Ecological Rationality of Take-the-Best and Tallying Heuristics in Rewards

For *Early Birds*, the ecological rationality of the take-the-best heuristic is based on the following reasons related to their interaction with structures and opportunities in the rewards environment. Firstly, rewards crowdfunding has matured since the launch of Indiegogo in 2008 and Kickstarter in 2009 (Indiegogo, 2022b; Kickstarter, 2022a). More potential backers now understand the rewards environment they offer, including discounts provided to those who pre-commit to buy products when a campaign goes live. Therefore, many *Early Bird* backers trust that when they respond to campaign advertising, they do get the best price on offer for a particular item. Secondly, the purchasing process on Kickstarter or Indiegogo is straightforward and similar to other online retail buying experiences. So, while the idea of supporting a creative project instead of just ordering a product is presented effectively by Kickstarter and Indiegogo, the actual process regarding the backers' interactions with platform structures is similar to well-known shopping sites like Amazon. This familiarity helps with *Trust Building*. Thirdly, *Early Birds* can look at the *Comments* section when the campaign goes live and see if any backers have flagged any price-related concerns. If no adverse comments are visible, this supports the perception that the best price for the product has been secured. In addition, the *Video* and campaign information pages, which are under the direction of the entrepreneur, support the perception that the best value-for-money product has been chosen.

For *Price Responders* using the tallying heuristic and finding products in the *Live Phase* through platform searches, ecological rationality results from the following structures and related interactions. As the two dominant international platforms, Kickstarter and Indiegogo

have enough scale to offer backers a *Range of New Products*. For example, in the previously mentioned search for an 'outdoor jacket' on Kickstarter, more than thirty products appeared in the results. Platforms also have filtering options, such as 'Popularity', that help backers find products that already have a positive response from the crowd and match the season, such as ski products in the winter. Also, popular products with more backers can, generally, offer more options in terms of colours and sizes, which supports tallying. Additionally, Kickstarter and Indiegogo work together so that campaigns that have ended on Kickstarter are still available on Indiegogo. A link on the Kickstarter page takes the backer through to an Indigogo InDemand ordering page, which can be kept open for an extended period (Indiegogo, 2022c). This helps increase the options open to backers when forming their tallies. In addition, a *Good Video* and supporting campaign pages provide a rich source of information for tallies.

5.3.8 Ecological Rationality of Recognition and Satisficing Heuristics in Rewards

For *Brand Connection* Backers using the recognition heuristic, ecological rationality stems from their interaction with structures and opportunities in the following ways. Firstly, the scale of Kickstarter and Indiegogo allows entrepreneurs to build a brand following via a series of campaigns which supports incremental innovation (Chan and Parhankangas, 2017). As satisfaction and community feelings build, entrepreneurs can develop a loyal following of *Brand Connection* backers, a proportion of whom will be ready to try new products based on positive past experiences. Secondly, the *Updates and Comments* sections on Kickstarter and their equivalent on Indiegogo are structures that support community-building efforts. Backers can receive updates about the progress of products and see the positive experiences of other backers. Enthusiastic *Brand Connection* backers can post comments asking questions directly to entrepreneurs and receive rapid responses enhancing their *Community Experience*. Some may even gain the status of 'Superbacker' on Kickstarter as they continue supporting multiple campaigns and guiding other backers (Kickstarter, 2022b).

For *Gifting Motivation* backers using the satisficing heuristic, ecological rationality relates to their interaction with the following structures and opportunities. Firstly, because rewards crowdfunding encourages the development of *New and Innovative Products*, many items on offer could meet the aspirations of *Gifting Motivation* backers. For the previously mentioned example, searching for 'pens' on Kickstarter led to over one thousand product options. Secondly, Kickstarter and Indiegogo have filtering options such as 'Popularity' that help

Gifting Motivation backers to products others have found appealing. This focusing tool can help with any adjustment of aspiration levels *Gifting Motivation* backers may wish to make (Mousavi and Gigerenzer, 2017). Thirdly, backers may receive targeted advertising because of their history of buying gifts that may influence aspiration levels.

5.3.9 Ecological Rationality of Imitate-the-Majority and the Successful in Equity

For *Impulse Buyers* using the imitate-the-majority heuristic, ecological rationality is based on the following. Firstly, advertising targets backers who have responded in the past and have a record of supporting campaigns. Rewards platforms benefit from Facebook and Google's advertising power, which help target potential backers who may become *Impulse Buyers*. The need to advertise is supported by crowdfunding consultants who advise entrepreneurs that they require a sizeable *Marketing Budget*. In addition, links to specialist advertising agencies are available within the platforms ecosystems to help target *Impulse Buyers* and other backers. Once the *Impulse Buyer* is interested, purchasing is straightforward, especially for those registered with the platform. Also, as campaigns that spend large amounts on advertising are likely to have more backers, they *Generate Momentum* and *Hit Official Goals* leading *Impulse Buyers* browsing on a platform to notice campaigns more readily and then imitate-the-majority. Secondly, *Impulse Buyers* who search for products can use filtering tools like 'Most Backed' on Kickstarter. Products with the most backers provide crowd validation for *Impulse Buyers*, who imitate-the-majority. Thirdly, the *Comments* sections of campaign pages allow *Impulse Buyers* to see what others have said and be influenced by positive feedback from fellow backers.

For *Friends' Influence* backers who imitate-the-successful, ecological rationality relates to the following factors in the environment. Firstly, campaigns on rewards platforms are easily shared with friends so that someone can promote a campaign to their network with minimal cost. Links to affiliate marketing platforms like Kickbooster are readily made available to backers by entrepreneurs (Kickbooster, 2022b). These incentivise users who sign up to promote a campaign to their network in return for a commission payment. Secondly, both Kickstarter and Indiegogo offer the option of filtering by 'Most Funded', which offers *Friends' Influence* backers a way to imitate-the-successful. For example, filtering for 'pens' and 'Most Funded' on Kickstarter returns hundreds of options for backers to consider. However, only a few projects have the Kickstarter label 'Project We Love', which is awarded based on an

assessment of creativity and aligning with the platform's 'mission and charter' (Kickstarter, 2022c). For those backers who trust Kickstarter and believe in its ethos, selecting a pen with the 'Project We Love' label imitates others who think the same way while *Supporting Innovative Entrepreneurs*. On Indiegogo, a similar search for 'pens' results in many options; however, one has the Indiegogo label 'Most Funded Pen Ever', which could be used by *Friends' Influence* backers as a way of imitating-the-successful (Indiegogo, 2022d).

5.3.10 Question Six

Question six asked, *how can entrepreneurs in rewards crowdfunding use knowledge of heuristics and their ecological rationality to influence backer decision making positively?* Having focused on understanding what backer heuristics were used and why they are ecologically rational in questions four and five, question six considers how entrepreneurs can influence backer decision making positively utilising the entrepreneur heuristics from Table 7. Following the format used in answering questions four and five, the answer for question six is based on types of backers using specific heuristics. In keeping with the design focus of the adaptive toolbox, answers explain how entrepreneurs can positively influence backer decisions through their own actions involving structures and opportunities in the online environment (see Figure 20).

5.3.11 Rewards Entrepreneurs Influencing use of Take-the-Best and Tallying

For *Early Birds* using take-the-best, entrepreneurs can support ecologically rational decision-making by focusing on the following actions and corresponding decisions. Because the rewards environment has become more competitive as it has matured, a marketing campaign based on advertising via Facebook and Google is needed to reach backers. Because most entrepreneurs lack expertise in advertising, *Professional Help* should be sought. A *Marketing Budget* of around fifteen to twenty percent of the amount to be raised should be allocated, and an attractive early-bird offer should be created in the *Rewards Options*. Then, when the campaign goes live, the *Primed Early Birds* on the *Email List* can be contacted to claim their reward. Some *Early Birds* may have questions about the price of the reward, so entrepreneurs should monitor and *Manage (the) Comments* section, responding quickly to any queries.

For *Price Responders* using tallying, entrepreneurs can support ecologically rational decision-making by focusing on specific actions/decisions in the *Pre* and *Live Phase*. As *Price*

Responders search for Products in the *Live Phase*, the more visible and *Attractive (the) Product*, the better. Six of the nine actions/decisions in the *Pre Phase* should be prioritised. *Professional Help* with advertising and a sizeable *Marketing Budget* to fund an advertising campaign is recommended. The *Rewards Options* should appeal to a range of backers. For example, in the previously mentioned search for 'outdoor jackets', having colour and size options to suit a variety of backers is beneficial. An *Email List* with thousands of potential backers should be built as the *Early Birds* will help *Generate Momentum* in the *Live Phase,* increasing visibility on the platform landing page and in search results. As *Price Responders* want to know they are getting the best value for money on offer, a *Good Video* should explain why this is the case. Finally, *Setting Realistic Goals* so that the campaign *Hits Official Goals* early in the *Live Phase* and becomes more visible is recommended. *Price responders* may also be influenced in the *Post Phase* when entrepreneurs have an opportunity to offer *Additional Rewards* such as discounts for buying more of the product.

5.3.12 Rewards Entrepreneurs Influencing use of Recognition and Satisficing

For *Brand Connection Backers* using recognition, entrepreneurs can support ecologically rational decision-making by focusing on the following actions and related decisions. As these backers have had a previous positive experience with the brand, entrepreneurs can use the *Trust Built* to offer a *Range of New Products*. Through attractive *Rewards Options* and *the* use of *Email Lists* from previous campaigns plus a *Good Video* to explain the *New Product*, entrepreneurs can target *Brand Connection Backers*. As these backers have an existing relationship with entrepreneurs, *Brand Connection Backers* are more likely to monitor and respond in the *Updates and Comments* sections, which should be managed carefully to enhance the overall *Community Experience*.

For *Gifting Motivation Backers* using satisficing, entrepreneurs can focus on the following actions/decisions. An *Attractive Product* should be developed to appeal to backers and stand out amongst rivals on the platform. Because the environment on Kickstarter and Indiegogo is competitive, with products continuing to be available for an extended period through the InDemand offering, entrepreneurs should use *Professional Help* to advertise and make a *Good Video*. The campaign will then *Generate Momentum* and be more visible to *Gifting Motivation* Backers. Appeals to include both *Gifting Motivation* and *Brand Connection* can be made by

introducing variations on successful products. For example, a mechanical pencil can be introduced after a pen or a titanium watch after a stainless steel version.

5.3.13 Rewards Entrepreneurs Influencing use of Imitate-the-Majority/Successful

For *Impulse Buyers* using imitate-the-majority, entrepreneurs can support ecological rationality by focusing on the following actions and corresponding decisions. As many *Impulse Buyers* will make quick decisions in response to advertising, *Professional Help* with an advertising campaign is recommended. For the campaign to be backed by one thousand or more backers, a sizable *Marketing Budget* should be allocated to advertising and making a *Good Video*. Once the campaign has around one thousand backers, *Impulse Buyers* will likely view this as a sign of crowd validation and back the project, which will *Generate (further) Momentum* that, in turn, will attract more *Impulse Buyers* (Bikhchandani, Hirshleifer and Welch, 1998; Boyd and Richerson, 2005). *Monitoring and Managing the Comments* will help increase positive feedback, which will likely influence *Impulse Buyers* to further imitate-the-majority. *Impulse Buyers* may also be influenced in the *Post Phase* when entrepreneurs can offer *Additional Rewards*, such as the product bundled with others in their range.

For *Friends' Influence* backers who use imitate-the-successful, entrepreneurs can prioritise the following actions/decisions. An *Attractive Product* will catch the attention of those who influence others and the crowd of backers. Accordingly, the product has to be advertised to potential backers. Entrepreneurs can use a service like Kickbooster, which specialises in facilitating affiliate marketing (Kickbooster, 2022a). Approval from recognised experts can also provide a reference point for *Friends' Influence* backers to imitate-the-successful. The platform can be one source, especially for backers who have come to *Trust* platform managers' judgment. Entrepreneurs should, therefore, strive to attain the 'Project We Love' label for their campaigns (Kickstarter, 2022c). Another source can be a review from recognised experts. An example provided by one of the participants described how a Harvard University professor had reviewed their space-related product in a blog post that was read by enthusiasts, some of whom became backers. Yet another source is the positive messages of backers left in the *Comments* section. For example, a participant who produced a coffee grinder that had become popular on Indiegogo received numerous user recommendations.

5.4 Comparative Focus: Question Seven

5.4.1 Transferability of Heuristics-Based Knowledge

Question seven asked, *how transferable is entrepreneurial knowledge regarding heuristics between equity and rewards crowdfunding environments?* The entrepreneurial knowledge concerned is in Tables 6 and 7, and by comparing these portfolios of heuristics, insights into knowledge transferability from one type of crowdfunding to the other can be gained.

	Phase of Crowdfunding Campaign			
	Pre	**Private**	**Live**	**Post**
E q u i t y	• Gain Traction • **Develop Attractive Opportunity*** • Favour Consumer Businesses • Warm and Network • **Seek Professional Help*** • Find Lead Investors • **Set Realistic Official Target*** • Make Slide-Deck and Financials • Set a Reasonable Valuation • **Make a Good Video***	• Get Lead Investor Commitment • Get Network to Invest • Achieve 70% plus of target • Build Crowd Numbers	• **Achieve Momentum*** • **Manage Discussions*** • **Email Investors*** • Use Herd Mentality • Use FOMO • Use Algorithms • Attract Tax Investors • Attract the Anonymous Crowd • **Hit Official and Personal Targets***	Not part of equity
R e w a r d s	• **Develop Attractive Product*** • **Seek Professional Help*** • Build Trust • Set Marketing Budget • Develop Rewards Options • Build Email List of Backers • **Make a Good Video*** • **Set Realistic Goal*** • Pass Review Process	Not part of rewards	• Contact Primed Early Birds • **Generate Momentum*** • **Continue Engaging*** • Manage Rewards • **Manage Updates and Comments*** • **Hit Official and Personal Goals***	• Manage Delivery Delays • Confirm and Additional Rewards • Learn From Experience

Table 8: Comparison of Entrepreneur Heuristics

Note: *Similar heuristics

The comparison shows similarities between heuristics in the *Pre* and *Live Phases*. In the *Pre Phase*, *Develop Attractive Opportunity* and *Develop Attractive Product* involve developing an offer that is valued by prospective funders. As an equity entrepreneur noted, 'I think one of the key things is that we have to have something that is worth investing in' (P12E-Ent-Jun20). Likewise a rewards entrepreneur noted that a 'backer is always looking for something new and something they haven't seen before' (P12R-Ent-Sep20). As crowdfunding matures and becomes a more competitive marketplace *Seek(ing) Professional Help* becomes more important. While platforms offer general advice regarding how to manage campaigns towards successful outcomes, consultants can be employed by the entrepreneur to provide step-by-step advice. In both equity and rewards the advice received by entrepreneurs is centred around the planning and decisions needed for a successful *Live Phase*. *Set(ting) (a) Realistic Official Target/Goal* is a key decision for the entrepreneur. *Realistic* means an easily achievable, relatively low amount that would be exceeded early on in the *Live Phase*. The reasoning being that *Live Phase* funders are attracted to campaigns that have already achieved their *Official Target/Goal*.

Relatedly, in the *Live Phase Achiev(ing) Momentum* is key to attracting the crowd. There are two elements to *Momentum* connected to the value of funds accumulated versus the target, as well as the number of funders. A campaign that is *Generat(ing) Momentum* by adding both money and people will attract attention. The *Discussions* or *Comments* sections of campaigns are vital communication tools for entrepreneurs. The entrepreneur needs to check for messages regularly and should make timely decisions about how to respond. Campaign *Updates*, which provide information, may be used as part of responses. The entrepreneur should also try to reach funders who may be interested by *Email* in equity and through *Email* and advertising in rewards, as part of a plan of *Contin(ual) Engagement*. While entrepreneurs set low *Official Targets* they also have *Personal Targets/Goals* that they want to achieve. These can relate to both funds accumulated and the numbers of funders supporting the campaign.

Overall, the comparison of entrepreneur heuristics in equity and rewards shows that a significant amount of knowledge gained from observation and experience in one type will be transferable to the other.

5.4.2 Ecological Rationality

While the nature of investment and product opportunities in the equity and rewards environments differ, the structures of the two environments are similar, and this supports the ecological rationality of the entrepreneur heuristics discussed in the previous section. The landing page of opportunities of both environments uses a tile structure that conveys the essence of the offer through an image, a title and a summary. Clicking on a tile then takes users to a campaign page that includes an explanatory video, relevant numbers and a button to access details on what options are available in exchange for funds. On campaign pages, information is organised systematically and is retrievable by users. All opportunities must pass a quality check where entrepreneurs must demonstrate that the offer to funders is genuine and that the business behind the offer can deliver.

Although all the platforms have been around fifteen years or less, they are mature in their markets and have developed a business model that works. Algorithms help funders find opportunities of interest by making recommendations based on preferences and promoting those opportunities to achieve success. Search and filtering options allow funders to find opportunities of interest and filter for categories that match their preferences. Entrepreneurs have access to an *Updates* section allowing them to send out campaign-related information to funders and a *Comments/Discussion* section where they can engage in a question-and-answer exchange. Both of these features facilitate and record communications while supporting community-building efforts. Platforms have worked together to improve the user experience. In equity, Crowdcube and Seedrs worked with the FCA to agree on business operations guidelines (Crowdcube, 2022a; Seedrs, 2022a). In rewards, a successful Kickstarter campaign can move on to Indiegogo as an InDemand campaign which can be kept open for an extended period (Indiegogo, 2022c). Finally, platforms have developed relationships with supporting professional services, such as agencies, to help with campaign management and advertising efforts.

While the numerous similarities between the equity and rewards environments support the transferability, differences moderate the degree to which this is the case. The nature of opportunities open to funders is distinct. Equity entrepreneurs aim to attract investors willing to exchange their capital for part ownership of a business. Rewards entrepreneurs seek to attract backers willing to exchange their capital for a product. Although both involve risk, the

potential losses in equity are much more significant than for rewards and, therefore, backers might be hesitant about supporting an equity campaign. Relatedly, the structure of each environment has some differences. Equity crowdfunding has a self-certification process that might put some backers and entrepreneurs off, involving answering questions about awareness of potential investment losses. Rewards crowdfunding usually includes a long wait for product delivery, which might put off some investors and entrepreneurs, who are used to the shorter delivery times found in traditional online retailing.

5.5 Contributions to Knowledge

The contributions of this thesis are based on the knowledge gained from answering the research questions and how they add to the extant literature. Following the format of previous sections contributions are presented in equity, rewards and comparative areas. As exploratory work, this thesis offers a plausible contribution based on a robust analysis of data collected from knowledgeable sources regarding the decision-making practices of funders and entrepreneurs.

5.5.1 Contributions to Equity Crowdfunding

While previous research suggested possible heuristic use by crowdfunding investors (for example, Moritz, Block and Lutz, 2015; Mohammadi and Shafi, 2018; Mahmood, Luffarelli and Mukesh, 2019), this work is the first to propose the probable use of ecologically rational fast-and-frugal heuristics by investor type. As per the first research aim, this contributes to knowledge about funder characteristics (McKenny *et al.*, 2017; Pollack *et al.*, 2019). In addition, the research brings in an original cross-disciplinary aspect by using the adaptive toolbox theory from psychology as a novel theoretical lens (Gigerenzer, 2008).

Taking a process view of the entrepreneur as a decision-making manager of campaigns who uses heuristics learned from experience and observation (Holcomb *et al.*, 2009), the portfolio of ecologically rational heuristics identified is an original contribution to the entrepreneurship and heuristics in management literature (Bingham and Eisenhardt, 2011; Loock and Hinnen, 2015). The contributions are brought together in Table 9 below and discussed in more depth afterwards.

Decision Maker and Heuristics	Phase of Crowdfunding Campaign		
	Pre **Duration: One to Six months**	**Private** **Duration: One to Seven days**	**Live** **Duration: One to Thirty days**

Investors using **heuristics** to make investment decisions	<u>**Financial Gain related drives:**</u>
	• **HNWI-Angels** using **Tallying**
	  ▪ **Ecological rationality** elements include:
	  o Pre-screening sets a quality standard
	  o Efficient search of opportunities
	  o Systematically organised/retrievable info.
	  o Tax incentives
		<u>**Financial Gain related drives:**</u>
		• **HNWI-Angels** using **Tallying**
		  ▪ **Ecological rationality** elements include:
		  o As per Pre Phase
		
		<u>**Emotion & Values related drives:**</u>
		• **Family & Friends** plus **Community & Customers** using **Recognition**
		  ▪ **Ecological rationality** elements include:
		  o Email prompts
		  o Direct access to the campaign
			<u>**Financial Gain related drives:**</u>
			• **HNWI-Angels** using **Tallying**
			  ▪ **Ecological rationality** elements include:
			  o As per Pre Phase
			• **Portfolio Builders** using **Take-the-Best**
			  ▪ **Ecological rationality** elements include:
			  o As per HNWI-Angels
			  o Plus accessibility of real-time information about crowd numbers
			
			<u>**Emotion & Values related drives:**</u>
			• **Family & Friends** plus **Community & Customers** using **Recognition**
			  ▪ **Ecological rationality** elements include:
			  o Easy recognition due to tile structure and search/scrolling options
			• **Social Good** plus **Support Female Entrepreneurs** using **Satisficing**
			  ▪ **Ecological rationality** elements include:
			  o Access to a range of opportunities
			  o Efficient filtering of opportunities
			  o Videos provide rapid means of evaluation
			
			<u>**Momentum related drives:**</u>
			• **HRHRP** using **Imitate-the-Majority** and **Imitate-the-Successful**
			  ▪ **Ecological rationality** elements include:
			  o Straightforward certification process for investors
			  o Large crowds of funders to imitate
			  o FOMO effects from the crowd
			  o Easily observable actions of majority and successful

Entrepreneurs using **heuristics** to make campaign management decisions. Selected representative quotes are appended.	• **Gain Traction** ○ 'Well, first of all, everyone needs to see you have traction.' • **Develop Attractive Opportunity** ○ 'Yes, it's about 700% growth…that's obviously an attractive thing for investors.' • **Favour Consumer Businesses** ○ '…I think you'll find that the more consumer businesses tend to do better on crowdfunding sites.' • **Warm and Network** ○ '…before the campaign goes live, the company would tend to warm up their own community, and…customers.' • **Seek Professional Help** ○ 'They (platform) also bolted in some additional support with an agency…who were there to…manage the process with me.' • **Find Lead Investors** ○ '…in general you have three phases of equity crowdfunding. The first phase is gaining lead investment.' • **Set Realistic Official Target** ○ '…if we do it again, we would probably definitely go for a really low round. And then you are moving into the overfunding quite quickly' • **Make Slide-Deck and Financials** • **Set a Reasonable Valuation** • **Make a Good Video** ○ 'I think the video is a strong influencer.'	• **Get Lead Investor Commitment** ○ '…you have to have what they call lead investment… And that can be people who have said a very firm, I will invest, or have invested within a certain time frame.' • **Get Network to Invest** ○ 'When you first launch your campaign, it is done in 'private mode', meaning it's not open to the general…audience, only those with the link. I think framing this as an exclusive opportunity for our customers first really helped our customers feel rewarded for their loyalty.' • **Achieve 70% plus of target** ○ 'For anyone who is crowdfunding now who comes to speak to me about doing it, I always say try to get on at 70%.' • **Build Crowd Numbers** ○ 'The biggest factor of all, which is no secret, and it's probably what crowdfunding is all about is, you demonstrate that you have the crowd with you already, and then the rest of them will come.'	• **Achieve Momentum** ○ 'I think how the crowdfunding dynamics work is that everyone loves to pick a winner… there is always that momentum that builds.' • **Manage Discussions** ○ 'This discussion forum went nuts; I mean, it was twenty-four-seven. …the quality of the questions was the first thing, and then the volume.' • **Email Investors** ○ 'And that's why, again, constant engagement as they recommend, and we learnt that first time round. To sort of stay front of mind…' • **Use Herd Mentality** ○ 'What they say is crowdfunding is about a herd mentality, so people invest in businesses that are already significantly at their target.' • **Use FOMO** ○ 'So, sort of not wanting to be first to the dance floor, and that quickly flips into fear of missing out syndrome afterwards as soon as a target is hit.' • **Use Algorithms** ○ '…that progress bar really matters, but also what goes on is the algorithms behind the scenes in terms of who gets to the home page.' • **Attract Tax Investors** ○ 'Whether you are sophisticated or unsophisticated, a lot of people do go for the tax advantages.' • **Attract the Anonymous Crowd** • **Hit Official and Personal Targets** ○ 'you want to set your official target in a way that you…reach it relatively quickly, then you overfund to the actual target you want to have.'

Table 9: Summary of Heuristics used by the Equity Investor and Entrepreneur

In terms of investors, the knowledge presented in Table 9 builds on earlier work by Cholakova and Clarysse (2015) and Lukkarinen *et al.* (2016). It does so by making a distinction between the heuristic-based decision making practices of more experienced investors (*HNWI-Angels*) and those with less experience (retail). The foundations of the contribution are in the three drives identified from the data analysis, which were financial-gain, emotion-and-values and momentum. While Cholakova and Clarysse (2015) found that only drives aligned with financial gain were significant motivators, Lukkarinen *et al.* (2016) argued emotional and social drives were more important for retail investors. The identification of momentum drives in the *Live Phase* of campaigns makes an original contribution that builds on previous work into information cascades (Vismara, 2018a). The proposed use of imitate-the-majority or imitate-the-successful by *HRHRPs* extends previous work which found evidence of cascades, but did not link this to a specific cognitive decision process by individual investors. Additionally, by identifying sub-groups of investors and associated heuristics in the three phases of a crowdfunding campaign this research extends the previous work into an area where knowledge is lacking (Pollack *et al.*, 2019; Mochkabadi and Volkmann, 2020).

Significantly, the three drives identified are corroborated by recent research commissioned by the FCA into the drives and motivations of 'self-directed investors' conducted between August 2020 and January 2021 (versus February to September 2020 for the current research) (FCA, 2021b). The FCA research also identified three drives that correspond to those underpinning the framework for investors shown in Table 9, which were labelled 'functional', 'emotional' and 'social'. 'Functional' drives are similar to *Financial Gain* and are 'driven by context and desire to be fiscally responsible'. Here, 'fiscally responsible' corresponds to *Financial Gain* as the objective is to make the investor's money 'work' over a period of time, leading to a beneficial outcome. 'Emotional' drives are similar to *Emotion and Values* and are 'driven by feelings arising from the process and/or outcomes'. Here the focus on 'feelings' relates to the emotional basis for decision-making that underpins *Emotion and Values*. 'Social' drives are similar to *Momentum* and are 'driven by cultural narrative, identity and peer learning.' Here, 'peer learning' relates to the tendency to imitate the crowd that underpins *Momentum* (McNaughton Nicholls *et al.*, 2021).

In addition to drives, the FCA research also identified three investor types corresponding to those in the framework. How they were said to make decisions provides further support to

the arguments in the equity framework. The 'Thinking it Through' type of self-directed investor identified in the FCA research relates to the *HNWI-Angels* and *Portfolio Builders*, whose primary drives are *Financial Gain*. The 'Thinking it Through' group tend to have 'a professional or academic background in maths, finance, economics or business' and 'feel they have high levels of knowledge and are very confident in their abilities'. When making decisions, 'they often use shortcuts built up from experience and background knowledge' (McNaughton Nicholls *et al.*, 2021). This type of investor is more analytical, using shortcuts akin to tallying and take-the-best in decision making. Two other types of investors identified in the FCA research relate to the *HRHRPs*. Firstly, the 'Having a Go' type was said to

> often look to learn through doing and adopt shortcuts to decision making, which can include going with 'hyped' options they have heard a lot about, or viewing mainstream, big-name brands as a short-cut to what they believe are 'safe' investing (McNaughton Nicholls *et al.*, 2021).

This behaviour resembles imitate-the-majority and imitate-the-successful heuristic use in that it suggests following others as a shortcut or looking to those already successful. In addition, the use of 'big-name brands' as a shortcut suggests that these investors also use the recognition heuristic. Secondly, 'The Gambler' type of investor identified considers investing similar to betting, a characteristic of *HRHRPs*. The concerning behaviour of *HRHRP*-type investors has also been reported in the media (Evans, 2021).

In providing a framework of investor types using various fast-and-frugal heuristics, this thesis provides a positive view of heuristic use (Loock and Hinnen, 2015). This view contrasts with the narrower perspective of heuristics often presented in studies following the heuristics and biases approach. Such work often takes a well-known bias like overconfidence and investigates its effects in a given context, for example the Adomdza, Astebro and Yong (2016) study of overconfidence in entrepreneurial finance settings. Significantly, this research contributes to knowledge about heuristic use in equity crowdfunding by sub-groups of individual investors, building on previous work that drew on the heuristics-and-biases approach (Harrison, Mason and Smith, 2015; Otuteye and Siddiquee, 2015; Yalcin, Tatoglu and Zaim, 2016).

Turning to the entrepreneur, the portfolio of ecologically rational heuristics in Table 9 represents an original contribution in understanding the decision making of the entrepreneur in the management of campaigns toward successful outcomes. The portfolio is based on the

data collected and is the result of a rigorous analysis using an established approach (Gioia, Corley and Hamilton, 2013; Gioia, 2021; Gioia *et al.*, 2022). The literature review revealed that while most of the knowledge built thus far takes an entrepreneurial perspective, little is known about how the entrepreneur makes decisions in the three phases of a crowdfunding campaign (Loher, 2017; McKenny *et al.*, 2017; Pollack *et al.*, 2019; Ralcheva and Roosenboom, 2020; Schwienbacher, 2019).

Taking a positive view of heuristics as useful managerial decision making tools under conditions of uncertainty (Artinger *et al.*, 2014; Luan, Reb and Gigerenzer, 2019), the portfolio of heuristics represent what an entrepreneur can learn from experience and observation (Holcomb *et al.*, 2009). These heuristics are an original contribution to the entrepreneurship and heuristics literature, extending the work of Manimala (1992) and Bingham and Eisenhardt (2011; 2014) in that they are a form of 'simple rules' that are likely to be of particular use to entrepreneurs considering crowdfunding for the first time. As such, this portfolio of heuristics offer a theoretical and practical contribution to the extant literature and provide first-time crowdfunding entrepreneurs a strategic approach based on what has worked in the past. These 'simple rules' heuristics are distinct from the fast-and-frugal type used by investors in that the latter involves a binary choice (whether to invest or not) and are more automatic, whereas the former are used by entrepreneurs to manage a process, in which having a simple rule-of-thumb guides allows for improvisation, and are 'easy to remember, communicate and update' (p. 1701). Additionally, the heuristics identified in this thesis contribute to the broader body of knowledge on entrepreneurial decision making in relation to both the use of heuristics and the exploitation of opportunities (Shepherd, Williams and Patzelt, 2015). In providing a perspective on decision making in the pre phase the work also answers a call for knowledge building in the area (Troise and Tani, 2020)

As an example of how 'simple rules' heuristics can be used to make decisions and take corresponding actions, consider the following three heuristics from Table 9. In the Pre-Phase the entrepreneur understands that <u>*Make a Good Video*</u> is recommended because it 'is a strong influencer'. Depending on the entrepreneur's budget they can decide to either make the video using in-house skills, or, *Seek Professional Help*. The 'simple rules' approach allows for improvisation in the process whereby the entrepreneur may be able to negotiate discounts because they are able to supply certain capabilities in house. In the Private Phase

the entrepreneur understands that there is a need to *Build Crowd Numbers*, and so may decide to ask some of the people in their *Network to Invest* small amounts (from ten pounds upwards) over a period of days. In the *Live Phase* the entrepreneur wants to *Hit Official and Personal Targets*, and having decided to *Set a Realistic Official Target* in the Pre Phase, plans to pass the *Official Target* early on so that the campaign can 'overfund' and achieve the *Personal Target*.

5.5.2 Contributions to Rewards Crowdfunding

The rewards contributions are presented in a similar format to those for equity. While previous research suggested possible heuristic use by backers (for example Allison *et al.*, 2017; Bi, Liu and Usman, 2017; Chan *et al.*, 2019; Colombo, Franzoni and Rossi-Lamastra, 2015), this work is the first to propose the probable use of ecologically rational fast-and-frugal heuristics by backer type. As per the first research aim, this contributes to knowledge about funder characteristics (McKenny *et al.*, 2017; Pollack *et al.*, 2019). The research also brings in an original cross-disciplinary aspect by drawing on the adaptive toolbox theory as a novel theoretical lens.

Taking a process view of the entrepreneur as a decision-making manager of campaigns who uses heuristics learned from experience and observation (Holcomb *et al.*, 2009), the portfolio of ecologically rational heuristics identified is an original contribution to the entrepreneurship and heuristics in management literature (Bingham and Eisenhardt, 2011; Loock and Hinnen, 2015).The contributions are brought together in Table 10 below and discussed in more depth afterwards.

Decision Maker and Heuristics	Phase of Crowdfunding Campaign		
	Pre **Duration: One to Six Months**	**Live** **Duration: One to Thirty days**	**Post** **Duration: One month to Years**

Backers using **heuristics** to make backing decisions.	**Value related drives:**
	• **Early Birds** using **Take-the-Best**
	  ▪ **Ecological rationality** elements include:
	  o *Trust* in early-bird offers
	  o *Comments* support transparency
	  o *Good video* and campaign pages support best-value perceptions.
	• **Price Responders** using **Tallying**
	  ▪ **Ecological rationality** elements include:
	  o *Range of New Products* and efficient filtering
	  o Kickstarter campaigns can extend to Indiegogo
	  o A *Good Video* and campaign pages provide rich infromation for tallies.
	
	Brand related drives:
	• **Brand Connection** using **Recognition**
	  ▪ **Ecological rationality** elements include:
	  o Scale of platforms allows for large following
	  o *Updates and Comments* support community building
	  o Superbackers designation influences others
	• **Gifting Motivation** using **Satisficing**
	  ▪ **Ecological rationality** elements include:
	  o *Range of New Products* are available via key-word search
	  o Filtering options such as 'Popularity' help narrow searches
	  o Aspiration levels can be adjusted easily
		Value related drives:
		• **Price Responders** using **Tallying**
		  ▪ **Ecological rationality** elements include:
		  o As per Pre Phase
		
		Brand related drives:
		• **Brand Connection** using **Recognition**
		  ▪ **Ecological rationality** elements include:
		  o As per Pre Phase
		• **Gifting Motivation** using **Satisficing**
		  ▪ **Ecological rationality** elements include:
		  o As per Pre Phase
		
		Impulse related drives:
		• **Impulse Buyers** using **Imitate-the-Majority**
		  ▪ **Ecological rationality** elements include:
		  o Targeted advertising
		  o Straightforward transaction process
		  o Filtering options like 'Most backed' to speed up search
		  o Positive experiences of fellow backers recorded in *Comments* influences other backers
		• **Friends' Influence** using **Imitate-the-Successful**
		  ▪ **Ecological rationality** elements include:
		  o Campaigns easily shared and affiliate marketing options are available
		  o Filtering by 'Most Funded' simplifies searching
			Value related drives:
			  ▪ **Price Responders** using **Tallying**
			  ▪ **Ecological rationality** elements include:
			  o As per Pre and Live Phase
			
			Impulse related drives:
			• **Impulse Buyers** using **Imitate-the-Majority**
			  ▪ **Ecological rationality** elements include:
			  o As per Live Phase

| Entrepreneurs using **heuristics** to make campaign management decisions.

Selected representative quotes are appended. | • **Develop Attractive Product**
○ 'Obviously, it's a green business…we went to China…it was very up to code…it played perfectly into the green messaging'
• **Seek Professional Help**
○ 'So, one of the reasons I was able to take my idea …and have it on a Kickstarter campaign within three months was because, I had a Zoom conversation with my contact (in Taiwan)…'
• **Build Trust**
○ 'It is also very beneficial to get a recognised expert in the industry to review your product, so people know what you are doing is legit….'
• **Set Marketing Budget**
○ 'I don't generally recommend rewards-based crowdfunding for businesses unless they have 20% of what they want to raise as a marketing budget. Because it is so competitive on those platforms.'
• **Develop Rewards Options**
○ 'And so it is important to give pretty generous early-bird rewards, but not in a way that overly complicates your offering.'
• **Build Email List of Backers**
○ 'The equivalent of a big lead investor for the equity campaigns is like an early-bird mailing list.'
• **Make a Good Video**
○ 'The fact of making face has real relevance.'
• **Set Realistic Goal**
○ 'Obviously, if the goal is that much lower, you are going into the most funded categories more…'
• **Pass Review Process** | • **Contact Primed Early Birds**
○ 'You have this primed group of people, and you let them know when it goes live; you get a hit rate from those people, and that bumps you up on the listings, and it rolls from there.'
• **Generate Momentum**
○ 'You put a stop to people buying the product, but you keep them on your mailing list, so you have momentum moving into your campaign.'
• **Continue Engaging**
○ 'But it's that third week that is the hardest. That's when you really need to focus on engagement. So instead of like 'give us the money', it's like, 'wow, did you see us in The Guardian this week?''
• **Manage Rewards**
○ '… on Kickstarter, you have different reward levels, same product but different prices… One of our partners said if you keep the number of rewards at a couple of them left…that will drive your conversion rate, so people will buy more because they don't want to miss out, right.'
• **Manage Updates and Comments**
○ 'Today we are launching an update. Sometimes it happens that people comment over there, but the majority of that feedback goes into the comment threads.'
• **Hit Official and Personal Goals**
○ '£4,000 is just made up because we want something to be hit very quickly. … you set the goal so you can smash it straight away, but in your head, you say, right on day 29, if it hasn't raised £100,000 or plus, we'll just cancel the campaign.' | • **Manage Delivery Delays**
○ 'It is also important to be very transparent with customers – if there are delays, let them know as soon as you can, and how the product is progressing from a prototype to manufacture.'
• **Confirm and Additional Rewards**
○ 'And as I said…we did collect the postage, which was about $300,000 worth, and then another $300,000 worth was secondary sales. So it was about a quarter.'
• **Learn From Experience**
○ 'Yeah, we tried a card game… We launched that purely based on social media interaction, and we didn't have any advertising budget for it at all. The lesson was that you can't do a Kevin Costner Field of Dreams… If you build it, they will come, not on Kickstarter.' |

Table 10: Summary of Heuristics used by the Rewards Backer and Entrepreneur

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In terms of backers, the knowledge presented in Table 10 builds on earlier work by Cholakova and Clarysse (2015), who found that financial drives were the primary motivators in decision making, and Frydrych, Bock and Kinder (2016) who argued emotional drives were important. It does so by presenting a framework of heuristics in which the three drives identified, value, brand and impulse are based on a thorough analysis of the data. While value drives correspond to the financial drives identified by Cholakova and Clarysse (2015), and brand drives to the emotional drives identified by Frydrych, Bock and Kinder (2016), the identification of impulse drives is an original contribution. This is because it provides understanding of how backers influence each other in the live phase that is in line with previous research that identified a 'self-reinforcing mechanism' in which the contributions from early backers accelerate campaign success (Colombo, Franzoni and Rossi-Lamastra, 2015, p. 75). The use of imitate-the-majority by Impulse Buyers and imitate-the-successful by Friends' Influence backers extends the previous work which found evidence of a mechanism, but did not link this to a specific cognitive decision process used by individual backers.

A further contribution comes from the identification of sub-groups of backers and associated heuristics in the three phases of a rewards crowdfunding campaign, adding to understanding of the *Pre* and *Post Phases* (Ralcheva and Roosenboom, 2020). This thesis extends understanding of backer decision making using heuristics, as a funder characteristic (McKenny *et al.*, 2017; Pollack *et al.*, 2019), while extending knowledge regarding heuristic use in the wider entrepreneurship literature (Loock and Hinnen, 2015). Building on the work of Allison *et al.* (2017), who investigated persuasion using the elaboration likelihood model, tallying provides a cognitive mechanism by which backers using central-route processing make decisions, while imitate-the-majority/successful does the same for peripheral-route processing.

Turning to the entrepreneur, and building on what has already been said in terms of equity contributions, the portfolio of ecologically rational heuristics in Table 10 is an original contribution in understanding the decision making of the entrepreneur in the management of campaigns. As explained for the equity contributions, the heuristics are in the form of 'simple rules' and extend the work of Manimala (1992) and Bingham and Eisenhardt (2011; 2014). In addition, the heuristics contribute to the broader body of knowledge on

entrepreneurial decision making in relation to both the use of heuristics and the exploitation of opportunities (Shepherd, Williams and Patzelt, 2015).

As an example of how 'simple rules' heuristics can be used to make decisions and take actions consider the following three heuristics from Table 10. Understanding that platforms like Kickstarter and Indiegogo have become competitive environments the entrepreneur decides, in the Pre Phase, to *Set (a) Marketing Budget* of about twenty per cent of the *Personal Goal* desired for the campaign. A decision is made to *Seek Professional Help* from one of the agencies that specialise in Facebook and Google advertising and an effort is made to *Build and Email List of Backers*. Moving to the Live Phase the entrepreneur decides to *Continue Engaging* by doing more advertising in weeks two and three of the campaign as the initial *Momentum* wanes. After reaching *Personal Goals* the campaign closes and enters the *Post Phase* in which a decision is made to offer some *Additional Rewards* during the *Confirmation* process.

5.5.3 Contributions to Strategic Use of Crowdfunding

Previous research highlighted the need to understand better the similarities and differences between different forms of crowdfunding, and argued for further research involving cross-platform studies (Dushnitsky and Fitza, 2018; Pollack *et al.*, 2019). This thesis contributes to this area through its second aim (*to understand how entrepreneurial knowledge of heuristics is transferable between equity and rewards crowdfunding environments)*, and corresponding research question seven (*How transferable is entrepreneurial knowledge regarding heuristics between equity and rewards environments?*). Question seven answers produced knowledge of the similarities between the entrepreneurial heuristics in the *Pre* and *Live Phases* of equity and rewards campaigns (see section 5.4).

In the *Pre Phase* four common heuristics related to *Developing an Attractive Opportunity/Product*, *Seeking Professional Help* with campaign management, *Setting a Realistic Official Target/Goal*, and *Making a Good Video* were identified. Likewise, in the *Live Phase* four more common heuristics related to *Achieving campaign Momentum*, *Continuing to Engage* with funders, *Managing Updates and Comments*, plus *Hitting Official and Personal Targets/Goals* were noted. By identifying the similarities in heuristics in the two phases and explaining their rationality (see section 5.4.2), a further contribution is made to

entrepreneurial heuristics knowledge, building on that in sections 5.5.1 and 5.5.2 above (Bingham and Eisenhardt, 2011; 2014; Shepherd, Williams and Patzelt, 2015). This is important because the commonality of heuristics provides a route map regarding how an entrepreneur who had used rewards crowdfunding in the initial stages of venture growth, can tap into the knowledge gained for a subsequent equity campaign (Junge, Laursen and Nielson, 2022). This is a contribution to understanding the strategic use of crowdfunding based on the transferability of heuristics knowledge. Figure 21 below shows this strategic use of crowdfunding and the positive role heuristics knowledge plays.
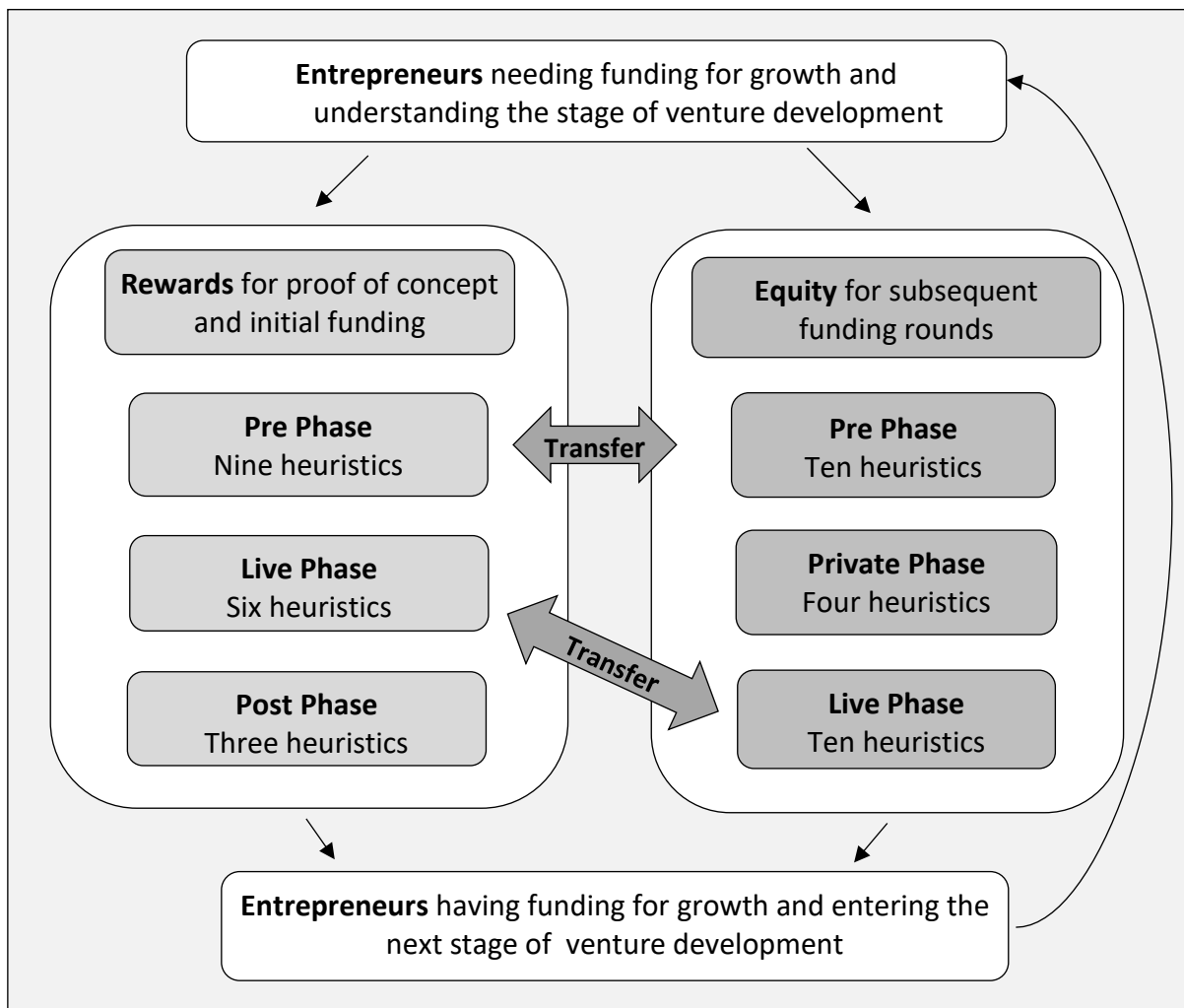
Figure 21: Strategic Use of Crowdfunding and Role of Heuristics (author's own)

Chapter 6: Conclusion

6.1 Introduction

The Conclusion summarises the contributions offered by the thesis, considers implications for policy and practice, acknowledges limitations, suggests directions for future research and closes with some concluding remarks.

The Summary of Contributions brings together the new knowledge this thesis offers. Following its aims, the first area of contribution is the use of heuristics in the decision-making practices of funders and entrepreneurs in equity and rewards crowdfunding environments. This aim was achieved by answering research questions one to three in the equity case and four to six in the rewards case as part of a comparative approach. The second area of contribution related to how entrepreneurial knowledge of heuristics is transferable between equity and rewards environments. This aim is achieved by answering question seven, in which the equity and rewards case answers were compared.

In considering the implications for policy and practice, the focus is on how the Financial Conduct Authority may tighten the rules for the equity environment. Three possible future scenarios resulting from regulation changes are considered. Advice for practitioners considering equity or rewards crowdfunding as a fund-raising option is provided. The research has some limitations in its design and in applying the adaptive toolbox theory as a theoretical lens, which are acknowledged. Directions for future research related to heuristic use by funders and the transferability of entrepreneurial knowledge of heuristics are suggested. The concluding remarks reflect on what has been achieved through this research effort and end with the broader question of the viability of UK equity crowdfunding.

6.2 Summary of Contributions

6.2.1 In Equity Crowdfunding

As per the first aim of the research, this thesis offers new knowledge regarding funder characteristics through a study of decision-making practices (McKenny *et al.*, 2017; Pollack *et al.*, 2019). It is the first to propose decision-making frameworks for equity and rewards crowdfunding environments where investors and backers use ecologically rational fast-and-frugal heuristics. In addition, it provides an understanding of how entrepreneurs can use

heuristics to influence decision-making positively. In doing so, it offers an original cross-disciplinary perspective on decision-making practices and their underlying mechanisms in equity and rewards crowdfunding by utilising the adaptive toolbox theory as a novel theoretical lens (Gigerenzer, 2008; Gigerenzer and Gaissmaier, 2011). A summary of the equity and rewards frameworks follows (based on sections 5.5.1/2). Italicised terms are concepts and themes from the findings.

In the equity environment, three drives guide investors' decision-making: *Financial Gain*, *Emotion and Values*, and *Momentum*. *High-Net-Worth Individuals-Angels*, driven by *Financial Gain*, use tallying (Dawes, 1979), while *Portfolio Builders*, also driven by *Financial Gain*, use take-the-best (Gigerenzer and Goldstein, 1996). The ecological rationality of tallying for *HNWI-Angels* is based on the quality of opportunities, how easy it is to search for opportunities, having accessible campaign information organised systematically and the availability of *Tax Breaks*. For *Portfolio Builders* using take-the-best, all the mentioned elements are relevant; however, real-time information about *Crowd Numbers* is the most influential factor. An entrepreneur understanding investor types, heuristics, and ecological rationality can take steps to influence decisions positively. These include making the opportunity stand out, having a *Good Video* plus *Slide Deck and Financials*, *Managing Discussions* and offering *Tax breaks* for *tallying*. For take-the-best, *Warming and Networking* is a way to influence investors, and the *Momentum* of the campaign should be maintained and the *Official Target* achieved.

Family and Friends plus *Community and Customers* investors, driven by *Emotion and Values*, use recognition (Goldstein and Gigerenzer, 2002), while *Social Good* and *Support Female Entrepreneurs*, also driven by *Emotion and Values*, use satisficing (Simon, 1972). The ecological rationality of recognition is based on receiving email prompts from entrepreneurs in the *Live Phase* of the campaign and easy identification of the opportunity amongst the others available, helped by search and scroll options. For satisficing, ecological rationality is related to having access to quality screened opportunities, efficient searching options, systematically organised and retrievable information, and informative *Videos*. An entrepreneur can take the following steps to influence decisions positively. For recognition, these include ongoing *Warming and Networking*, making a *Good Video*, *Emailing* potential investors and managing visibility on the landing page. For satisficing, these include developing

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an *Attractive Opportunity* that stands out and, relatedly, making a *Good Video* and positioning the offer in a specific category.

High-Risk-High-Rewards Punters (HRHRPs), driven by *Momentum*, use imitate-the-majority and imitate-the-successful (Boyd and Richerson, 2005). The ecological rationality of imitate-the majority/successful is based on easy access to the equity environment, a large crowd of potential funders to observe, *FOMO* effects from the crowd, and seeing the investment actions of the majority and the successful. An entrepreneur can take the following steps to influence decisions positively. For *Consumer Businesses*, doing extensive *Warming and Networking*, *Setting a Realistic Official Target* and *Hitting the Official Target* early, plus maintaining *Momentum* by increasing *Crowd Numbers*. Also, providing *Updates* to fuel *Herd Mentality* and *FOMO*, understanding *Algorithms* and displaying the successful track records of *Leads* and the management team.

The contributions build on previous crowdfunding research. The identification of *Momentum Drives* adds to past findings, which suggested financial and emotional drives were important in the equity crowdfunding environment (Cholakova and Clarysse, 2015; Lukkarinen *et al.*, 2016). More recent research has provided more evidence for financial and emotional drives while alluding to the *Momentum Drives* as part of emotional drives (FCA, 2021b; McNaughton Nicholls *et al.*, 2021). In arguing that *Momentum Drives* should be separated from *Emotion and Values Drives*, this thesis offers additional insights into funder motivations and characteristics. Significantly, by proposing a cognitive mechanism of decision making, in fast-and-frugal heuristics, this thesis builds on previous work that identified information cascades between less and more experienced investors (Vismara, 2018a), but did not provide an explanation of the mechanisms individual investors use.

Regarding the equity entrepreneur, the portfolio of ecologically rational heuristics (see Table 9) is an original contribution in understanding decision making in the three phases of campaign management (Holcomb *et al.*, 2009; Loher, 2017; McKenny *et al.*, 2017; Pollack *et al.*, 2019; Ralcheva and Roosenboom, 2020; Schwienbacher, 2019). The contribution is based on data collected and analysed via an established, rigorous approach (Gioia, Corley and Hamilton, 2013; Gioia, 2021; Gioia *et al.*, 2022). The portfolio follows the positive view of heuristics as useful decision making tools under conditions of uncertainty (Artinger *et al.*,

2014; Luan, Reb and Gigerenzer, 2019), and offer an alternative to the focus on understanding the consequences of biases (Tversky and Kahneman, 1974; Kahneman, 2003). The contribution extends the foundational work of Manimala (1992) and Bingham and Eisenhardt (2011; 2014) as a 'simple rules' view of decision making. On a practical level, these 'rules' will be of particular use to entrepreneurs considering crowdfunding for the first time. Additionally, the contribution adds to the broader body of knowledge regarding decision making by entrepreneurs and use of heuristics, as well as regarding opportunity exploitation (Loock and Hinnen, 2015; Shepherd, Williams and Patzelt, 2015; Troise and Tani, 2020).

6.2.2 In Rewards Crowdfunding

In the rewards environment, three drives, similar to those identified in equity, guide backer decision-making: *Value*, *Brand,* and *Impulse*. The identification of these drives builds on previous research, as mentioned in the equity case (Cholakova and Clarysse, 2015; Lukkarinen *et al.*, 2016). *Early Birds*, driven by *Value*, use take-the-best, while *Price Responders*, also driven by *Value*, use tallying. The ecological rationality of take-the-best is based on *Trust* in early bird offers, a straightforward transaction process, a *Comments* section that *Builds Trust* and a *Good Video*. For tallying, ecological rationality is based on having a *Range of New Products* available, efficient filtering options, an extended campaign duration period, and a *Good Video* supported by informative campaign pages. Extending understanding of the role of persuasion, tallying provides a mechanism by which backers using central-route processing may make decisions, while imitate-the-majority/successful (see below) does the same for peripheral-route processing (Allison *et al.*, 2017)

An entrepreneur understanding backer types, heuristics and ecological rationality can take the following actions to influence decisions positively. For take-the-best, these include planning a genuine early-bird offer as part of *Rewards Options*, getting *Professional Help* and having a *Marketing Budget*, building an *Email List* and contacting *Primed Early Birds* in the *Live Phase*, plus *Managing Comments*. For tallying, these include creating an *Attractive Product* that stands out, getting *Professional Help* and having a *Marketing Budget* and *Email List*, appealing *Rewards Options*, a *Good Video* that explains the offer and having *Realistic Goals* that are achieved.

Brand Connection backers use recognition, while *Gifting Motivation* backers, also driven by *Brand* factors, use satisficing. The ecological rationality of recognition is based on incremental *Innovation* and *Community Experience*, along with *Updates and Comments* which offer supporting information. For satisficing, ecological rationality is based on having a *Range of New Products* available, filtering options such as 'Popularity' and being able to adjust aspiration levels depending on appeal and availability. An entrepreneur can take the following actions to influence decisions positively. For *Brand Connection* backers, this includes *Building Trust* and offering a *Range of New Products* that incrementally *Innovate* from a core offering. For *Gifting Motivation* backers, the focus should be on having an *Attractive Product* that stands out, extending the campaign's duration, getting *Professional Help* with advertising, making a *Good Video*, plus *Generating Momentum* to increase visibility.

Impulse Buyers, driven by *Impulse* motivations, use imitate-the-majority, while *Friends' Influence* backers, also driven by *Impulse*, use imitate-the-successful. For imitate-the-majority, ecological rationality is based on advertising to backers who have bought similar items, campaigns *Generating Momentum*, filtering options and the influence of a positive *Comments* section. For imitate-the-successful, ecological rationality relates to the easy sharing of campaigns, availability of affiliate marketing, filtering options and platform labels like 'Projects We Love'. Imitate-the-majority/successful provide a mechanism by which backers using peripheral-route processing make decisions (Allison *et al.*, 2017). Entrepreneurs can focus on the following key actions as they strive to influence decision-making positively. For imitate-the-majority, seeking *Professional Help* with advertising, getting one thousand plus backers to help *Generate Momentum* and *Monitoring and Managing Comments*. For imitate-the-successful, developing an *Attractive Product*, engaging the services of an affiliate marketer, and gaining approval from a recognised source of expertise are recommended.

Regarding the rewards entrepreneur, the portfolio of ecologically rational heuristics (see Table 10) represents a further original contribution in understanding decision making in the three phases of campaign management (Manimala, 1992; Holcomb *et al.*, 2009; Bingham and Eisenhardt, 2011; 2014; Loher, 2017; McKenny *et al.*, 2017; Pollack *et al.*, 2019; Ralcheva and Roosenboom, 2020; Schwienbacher, 2019). The supporting arguments set out in the equity case also apply to these heuristics as 'simple rules' that guide the entrepreneur in decision making (Tversky and Kahneman, 1974; Kahneman, 2003; Gioia, Corley and Hamilton, 2013;

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Artinger *et al.*, 2014; Luan, Reb and Gigerenzer, 2019; Gioia, 2021; Gioia *et al.*, 2022). Likewise, on a practical level, these heuristics will be useful for entrepreneurs thinking about rewards crowdfunding for the first time. In addition, the contribution adds to knowledge regarding heuristic use by entrepreneurs and the exploitation of opportunities (Loock and Hinnen, 2015; Shepherd, Williams and Patzelt, 2015; Troise and Tani, 2020).

6.2.3 Strategic Use of Crowdfunding

Through its second aim, this thesis answers the call to better understand the similarities and differences between different forms of crowdfunding (Pollack *et al.*, 2019). It does so via a cross-platform comparative case study that contributes to understanding how entrepreneurial knowledge is transferable (Dushnitsky and Fitza, 2018). There are two areas of contribution.

The first is in understanding how heuristic related knowledge is transferable. In the two main phases of an equity or rewards campaign, the pre and the live, commonality of heuristics was noted. For the *Pre Phase*, *Developing an Attractive Opportunity/Product*, *Seeking Professional Help*, *Setting a Realistic Official Target/Goal*, and *Making a Good Video* were identified. In the *Live Phase* a further four heuristics related to *Achieving campaign Momentum*, *Continuing to Engage with Funders*, *Managing Updates and Comments*, plus *Hitting Official and Personal Targets/Goals were observed*. Through an understanding of heuristic similarities in the *Pre* and *Live Phase*, and in explaining supporting ecological rationality a further contribution to entrepreneurial heuristics knowledge is offered (Bingham and Eisenhardt, 2011; 2014; Shepherd, Williams and Patzelt, 2015).

The second relates to how an entrepreneur can take a strategic approach to crowdfunding by using rewards crowdfunding for proof of concept and initial funding, and then using equity for subsequent funding rounds as the venture grows (Junge, Laursen and Nielson, 2022) (see Figure 21).

6.3 Implications for Policy and Practice

Regulators worldwide have worked on balancing the entrepreneurial desire to raise capital via investment crowdfunding with protecting funders from losses (Hornuf and Schwienbacher, 2017; Bradford, 2018). The focus on debt and equity crowdfunding reflects

the greater risk of loss than for rewards or donation crowdfunding. As the UK regulator of equity crowdfunding, the FCA has taken a light-touch approach in which it has cooperated with platforms to develop regulations (Estrin, Gozman and Khavul, 2018). However, the FCA has become concerned that investors with a profile like *HRHRPs* are taking undue risks (FCA, 2021b). It has already indicated that the classification of high-risk investments, the path consumers take into risky investments, and the role of companies as approvers and communicators of high-risk investments will likely be areas of regulatory change (FCA, 2022a). With this in mind, three possible scenarios of regulatory tightening seem probable for equity crowdfunding: continuation of something similar to the current arrangement, drastic tightening, and somewhere between the two.

In continuing the current approach with minimal updates, the FCA could focus on changing how consumers access risky investments. The hoped-for effect here would be deterring investors with a profile like *HRHRPs* from risking significant losses. As any losses by investors should be covered by income or savings, the FCA could introduce a requirement similar to that employed by the US regulator in which income and net worth are used to set limits for retail-type investors (USSEC, 2022). This change could require platforms to request retail investors to show evidence of their income and net worth. While such a change would have time and cost implications for platforms, this scenario could leave them with most of their investor base still able to invest freely.

If the FCA decided to take more drastic action, it could change all three areas mentioned. Equity crowdfunding investments could be classified as very high risk, and marketing to retail investors could be restricted, similar to a change made for speculative illiquid securities (FCA, 2020). In this scenario, the path for retail investors like *HRHRPs* and *Portfolio Builders* could be blocked, resulting in a severe threat to the equity crowdfunding business model. While the FCA seems intent on tightening regulations to some extent, its primary focus appears to be on stopping retail investors from losing money through crypto-assets (FCA, 2022b). On balance, a scenario in which equity crowdfunding will continue to operate similar to present arrangements seems most likely, albeit with some restrictions on retail investors like *HRHRPs*.

However, reducing the number of retail investors by any amount could have knock-on effects in the equity environment. With fewer investors like *HRHRPs*, *Momentum Drives* would

weaken, and the self-perpetuating effects these types of investors have on each other would be diminished, as imitate-the-majority use, in particular, would be impacted. As *Crowd Numbers* are a likely factor in the decision-making of *HNWI-Angels* and *Portfolio Builders*, using tallying or take-the-best, the knock-on effect could be significant. To counter the adverse effects of this scenario, platform managers could look to access European investors and increase the number of registered users. Another option would be to have more ventures raising who have a larger number of *Community and Customers* investors. These businesses could help project the perception of *Crowd Numbers* that could counter losses of *HRHRPs* while attracting *HNWI-Angels* and *Portfolio Builders*.

Interestingly, Crowdcube and Seedrs appear to have been working to strengthen their market positions ahead of any regulatory changes in the UK. Crowdcube has gained authorisation from the Spanish regulator and can now attract investors from across the EU following the introduction of new European regulations in 2021 (Tyler, 2022). Seedrs has agreed to be acquired by Republic, a private equity platform from the US, which will see Seedrs receive additional capital that it has said will help with European expansion (Seedrs, 2022c).

6.4 Limitations

While this thesis offers valuable contributions, some limitations should be considered when evaluating the robustness of the arguments it presents.

6.4.1 Research Design Related Limitations

The purpose of the design was to gather and analyse the data needed to answer the research questions. Purposeful sampling and interviewing were chosen as the most suitable means to select participants and gather data. While purposeful sampling was effective, resulting in forty percent of those contacted being interviewed, participants could have had more direct experience of funder decision-making. For equity, three of the twenty-four participants had a primary role as an investor; for rewards, none of the eighteen participants had a primary role as a backer. At first glance, these numbers might suggest that the purposeful sampling was defective; however, sound reasoning was behind the choices. The research questions, access and quality considerations drove the selection of participants. Although research questions one and four focused on the heuristics used by funders first, entrepreneurs were

also considered. In fact, questions three and six brought in entrepreneurs directly, while questions two and five benefitted from a platform manager perspective. The entrepreneur perspective was considered further in question seven. Therefore, selecting participants with a range of experience allowed the breadth of data required to answer the questions to be collected.

Access was a second factor in the selection of participants. Initially, it was thought that the sample could include novice and experienced investors, and insights could be gained into their decision-making practices. However, pilot work with the Newcastle University Alumni network and attempts to contact Seedrs investors directly led to unsatisfactory results. The response rate from alumni was about two percent, and for Seedrs investors who made their LinkedIn profile public, it was zero. With these results in mind, and after realising that many entrepreneurs were also investors and could talk about their decision-making practices, the sampling focus purposefully shifted to entrepreneurs as the primary target.

Quality considerations were the third element in the selection of participants. While the focus was on entrepreneurs, efforts were made to include a range of participant perspectives in the sample. For example, balancing the initial group of all-male entrepreneurs with female entrepreneurs and also including platform managers-consultants. Doing so allowed for a degree of verification of 1st-order concepts using the perspectives of different types of actors in the crowdfunding environments (see section 3.7.3 for an example).

As qualitative exploratory research, contrasting with positivist approaches, this thesis's arguments, findings, and contributions can be questioned regarding their reliability and validity (Cypress, 2017). In fact, rigour, as a concept encompassing reliability and validity, was an integral part of the research design. While interview evidence from different participants supported construct validity, three other quality checks can be applied to case study research: reliability and internal and external validity (Yin, 2018). Some relevant points related to reliability and validity are explained below.

Reliability relates to whether the procedures used in the design could be repeated by another researcher and the same results produced (Yin, 2018). The comparative case study approach helped boost reliability as sampling, interviewing, transcription, analysis, and presentation of the findings were done the same way for each case. In practical terms, the need to follow the

same procedures for the equity and rewards case, so they were comparable, put positive pressure on the researcher to ensure this happened. The planning and checking involved in making the Interview Guides, Data Management Plan and then gaining ethical clearance during Covid19 were foundational elements that supported the reliability and are a transparent record (see Appendices A to D). Therefore, another researcher should be able to follow the steps taken and obtain similar results.

In the thematic analysis, there is the question of how the outputs were generated from the data and whether the inferences made are grounded. Internal validity is related to the accuracy of the inferences made in a case (Yin, 2018). The form of thematic analysis used, the Gioia Methodology, was selected because it was considered a rigorous method and had been used in case-based crowdfunding research (Gioia, Corley and Hamilton, 2013; Estrin, Gozman and Khavul, 2018; Gioia, 2021; Gioia *et al.*, 2022). The process of building data tables showing representative evidence for each 1st-order concept, based on a clear coding strategy, was thorough, providing a high confidence level in the findings (see Appendices I to N).

External validity relates to whether the findings from the case study are generalisable to other settings (Yin, 2018). In the design, transferability was used to address this area. The research used the adaptive toolbox theory as a theoretical lens through which a framework of ecologically rational fast-and-frugal heuristics and funder types were proposed. By utilising the same lens for the two cases and proposing similar frameworks of ecologically rational heuristics, the research demonstrates a degree of external validity. This claim is backed by the numerous similarities between the equity and rewards environments, which underpin the transferability of knowledge noted (see sections 4.4.1 and 5.5). A longitudinal study or replication of the work by another researcher may have enhanced external validity; however, the study was an exploratory effort, conducted within a limited time frame, and done individually as a PhD thesis.

6.4.2 Theory Use Related Limitations

Two other areas where limitations should be considered are the suitability of the adaptive toolbox theory as a theoretical lens and alternative explanations of the findings.

While the adaptive toolbox theory was developed to investigate fast-and-frugal heuristics and when they are ecologically rational, the evidence supporting its claims are based on decision

experiments following a positivist approach (Gigerenzer, 2008). So there is a question of whether the exploratory application in this thesis was an appropriate use of the theory. Although the frameworks of fast-and-frugal heuristics proposed are not directly supported by evidence from decision experiments, the exploratory use of the adaptive toolbox follows the goals of the theory through its three core questions. Research questions one and four are descriptive in identifying probable fast-and-frugal heuristics and types of funders, as well as the heuristics entrepreneurs use. Questions two and five are prescriptive in explaining what environmental conditions make the identified combinations of heuristics and funders ecologically rational. Finally, questions three and six are design orientated in explaining how entrepreneurs can positively influence the environment and how decision-making takes place in the three phases of a campaign. Therefore, the research has followed the principles of the adaptive toolbox theory while acknowledging its exploratory nature.

Regarding alternative explanations of the findings, two areas are relevant. The first relates to replication and whether another researcher using the adaptive toolbox theory would have matched the same heuristics to the same funder types identified in the findings. Whether they would have come up with the same reasons for ecological rationality and would have proposed the same ways entrepreneurs could influence decision-making seems unlikely. However, the exploratory nature of the research does not require this to be so. Instead, what is important is that this thesis puts forward plausible arguments and offers an original and insightful contribution to the body of crowdfunding knowledge. It followed rigorous methods and fulfilled its two aims (Gioia, Corley and Hamilton, 2013; Gioia, 2021; Gioia *et al.*, 2022).

The second consideration was whether a more plausible explanation of the findings could have been offered using another theory more suited to the task. While this is possible, it does not seem probable. As the literature review revealed, some work has shed light on decision-making practices, but none has proposed a framework including funder types like this thesis offers. In contrast, any work drawing on the heuristics-and-biases approach would have probably needed a confirmatory focus to contribute (for example, see Adomdza, Astebro and Yong, 2016). The arguments presented in this thesis are supported by similarities between its findings and past research, including that commissioned by the FCA (McNaughton-Nicholls *et al.*, 2021).

5. Directions for Future Research

As work that offers exploratory contributions to knowledge in two areas, future research should include confirmatory work to deepen understanding in those areas.

6.5.1 Related to Funders Using Heuristics

Confirming that the identified fast-and-frugal heuristics are used by the types of funders suggested should be one objective for future research efforts. A second should be testing whether the suggested conditions for the heuristics to be ecologically rational are supported. A third should be testing whether the entrepreneurial heuristics can influence outcomes positively. These objectives could be achieved via decision experiments following the approach used in previous research (Allison *et al.*, 2017; Scheaf *et al.*, 2018). Tables 9 and 10 include factors that a decision experiment should test. For the rewards decision experiment, which would aim to synthesise the environment found on Kickstarter and Indiegogo, the Amazon Mechanical Turk (mTurk) could be considered (Allison *et al.*, 2017, provide a detailed account of one such experiment). While the mTurk could work for equity, which would aim to synthesise the Crowdcube and Seedrs environment, a second option of recruiting students and possibly using the behavioural economics facilities at Newcastle University Business School could be considered (Scheaf *et al.*, 2018, provide a detailed account of an experiment using university students). For non-retail investors, *HNWI-Angels* and *VCs*, recruitment of participants could be more challenging, although existing networks of angel investors offer one option. Extending the work done by Harrison, Mason and Smith (2015) and using verbal protocol analysis to understand heuristic decision-making in real-time could be worthwhile.

6.5.2 Related to Entrepreneurs Using Heuristics

Confirmatory research should build evidence for the use of the two portfolios of heuristics identified in the exploratory effort. A survey of entrepreneurs, in which novice crowdfunders were one group and those with more experience were another, would make for an interesting comparison. Adding a third group including platform managers and consultants would be of additional benefit.

The depth of knowledge could also be enhanced by extending the work to include crowdfunding in other countries. Entrepreneurs using equity in Germany and rewards in the United States would make interesting case studies as both have an existing knowledge base

to build from. As part of the reasoning would be to improve generalisability, the data collection methods used by Bingham and Eisenhardt (2011) would be a useful reference point.

6.6 Concluding Remarks

Reflections regarding the research achievements and doubts about the future of equity crowdfunding in the UK are considered.

This research effort began in 2018 and was inspired by the rapid growth in crowdfunding over the previous ten years, plus the idea that it offered a means to democratise access to capital for entrepreneurial ventures. The UK was one of the leading markets in the world for equity crowdfunding at the time, yet less was known about this interesting phenomenon than rewards crowdfunding. Looking at the literature, two areas where more knowledge was needed stood out. The first was finding out more about funders' characteristics. The second was how generalisable the findings from rewards-based crowdfunding were to other types of crowdfunding, as most knowledge had been based on studies utilising Kickstarter data, a US rewards platform.

Inspired by the opportunity to contribute to the ongoing conversation by addressing these areas, heuristics stood out as an interesting alternative viewpoint from which to conduct exploratory research. Adopting the related adaptive toolbox theory as a theoretical lens led to seven exploratory research questions related to funder and entrepreneur heuristics. Using a comparative case approach, these questions were addressed by collecting and analysing interview data from purposively selected participants.

Three drivers of funder decision-making were found in equity and rewards decision environments: *Financial Gain* and *Value*; *Emotion and Values* and *Brand*; *Momentum* and *Impulse*. Using the adaptive toolbox theory, probable frameworks of funder types and ecologically rational heuristics were proposed, along with suggestions as to what entrepreneurs could do to influence decision-making positively. This offers an original contribution regarding funder and entrepreneur heuristics. By considering the similarities and differences between equity and rewards case answers, understanding of the transferability of entrepreneurial heuristics knowledge, as a kind of generalisability, is offered as an additional contribution. These are worthwhile outcomes and offer original contributions to

the ongoing conversation about crowdfunding in entrepreneurship (McKenny *et al.*, 2017; Dushnitsky and Fitza, 2018; Pollack *et al.*, 2019).

Over the course of the research journey, I have made some observations about equity crowdfunding relating to its viability as a business model that may, unfortunately, limit its usefulness as a funding option if not resolved. Although Crowdcube and Seedrs have been in business for almost ten years, neither has made a profit. Filings with Companies House show that in 2020 Crowdcube lost three million pounds on a turnover of eight million, while Seedrs lost four and a half million on a turnover of about five and a half million. Whilst these numbers were made worse by the COVID 19 pandemic, filings for 2021 show that although Seedrs bounced back with a turnover of eight million pounds in 2021, losses still amounted to three million pounds. Crowdcube filings are not yet available for 2021, but it would be surprising if they had not made a loss. Both show administrative expenses at or greater than revenue (Crowdcube, 2022d; Seedrs, 2022d).

In October 2020, Crowdcube and Seedrs announced plans to merge, although, in reality, the transaction structure indicated an acquisition by Crowdcube (Crowdcube, 2020). This action can be viewed as a realisation by both platforms that their business models were not profitable or sustainable, and by combining, they could increase revenue and cut administrative costs (Vennet, 1996). Surprisingly for Crowdcube and Seedrs, the Competitions and Markets Authority (CMA) blocked the merger because it would 'reduce competition and innovation' (CMA, 2021). This rejection left Crowdcube and Seedrs with a revenue-cost problem. Both have responded by seeking to increase the scale of their operations: Crowdcube having gained access to Europe via its Spanish subsidiary and Seedrs having accepted a bid from Republic, saying it intends to use the proceeds for European expansion (Seedrs, 2022c; 2022d; Tyler, 2022).

Questions remain about the long-term viability of equity crowdfunding in the UK. In the last ten years, platforms have helped many aspiring ventures raise finance, and the UK crowdfunding market has become one of the most successful in Europe (Ziegler *et al.*, 2021; O'Reilly, Mac an Bhaird and Cassells, 2022). As the ventures Crowdcube and Seedrs have hosted mature, and shares are bought and sold with some businesses exiting, they will benefit from more revenue from commissions. Whether this, along with increased scale, will be

enough to bring platforms into profitability remains to be seen. For now, they have another chance to prove their viability. However, the next few years could make or break the current model.

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Appendices

Appendix A: Interview Guides

EQUITY Section of Interview	Reminders and notes
Opening Section **Welcome** ➤ Thanks for taking part in research into crowdfunding ➤ Purpose – to understand funding decisions and crowdfunding ➤ Consent – reconfirming/recording **Demographic questions:** ❖ Gender ❖ Age ❖ Position ❖ Education ❖ Nationality ❖ Ethnicity **General open questions include:** • What kind of crowdfunding have you been involved with? • When did you first become aware of equity crowdfunding? • How many campaigns would you say you have invested in/been involved in? • What happened with the campaigns you invested/were involved in? • Level of experience as an investor/entrepreneur/platform manager	Explain background Use platform information/LinkedIn/ other profiles
Exploring Section **Thinking in more depth about the investment decisions:** - What factors influenced funding decisions? - Can you please explain in more detail? - Thinking about a recent investment you made can you talk me through the steps? - What was the thinking process? - How has your investment experience in other areas influenced your approach to investment in equity crowdfunding? - How do investors make decisions?	General questions to find out how investment decisions are made. Decisions could be made first-hand, from observation of the decision-making of others or a combination of both.

Influence, if any, of one or more of the following factors (identified in previous equity research[1]): - Direct access or knowledge of the entrepreneur/ business/ industry? - Track record of entrepreneurs - The passion of other investors - First-hand experience with the product and brand recognition - Trusting the (valuations of investments on the) platform - Learning from other investors in the online discussion groups - Communicating with other investors offline/post-investment - Communicating directly with the entrepreneurs on/off the platform	Prompts: previous research
Influence, if any, of one or more of the following factors (known heuristics[2]): - Recognition-funding based on recognition?(brand recognition) - Take-the-best - funding what seems to be the best alternative? - Satisficing – funding what meets pre-conceived criteria? - Imitate-the-majority? - Imitate-the-successful? - **When/why** did you use the factor mentioned?	Prompts: known heuristics
Concluding Section Points mentioned previously to explore further / clarify: ✓ Regarding…can you please explain a bit more about… ✓ Regarding…can I just clarify… Allowing opportunity to add any other relevant points: ✓ Is there anything you think is relevant that we haven't discussed? Explaining what will happen to the information you provided ✓ Transcribe and analyse ✓ May wish to seek clarification of interview contents Thanking and ending ✓ Thanks for your time, energy, and commitment	Filling in gaps, explaining what happens next

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REWARDS Section of Interview	Reminders and notes

Opening Section
 	
Welcome
 	
  ➢ Thanks for taking part in research into crowdfunding
 	
  ➢ Purpose – to understand funding decisions and crowdfunding
 	
  ➢ Consent – reconfirming/recording
 	
Demographic questions:
 	
  ❖ Gender
 	
  ❖ Age
 	
  ❖ Position
 	
  ❖ Education
 	
  ❖ Nationality
 	
  ❖ Ethnicity
 	
General open questions include:
 	
  • What kind of crowdfunding have you been involved with?
 	
  • When did you first become aware of rewards/donation crowdfunding?
 	
  • About how many campaigns would you say you have backed?
 	
  • What happened with the campaigns you backed?
 	
  • Level of experience as a backer/entrepreneur/platform manager?
	Explain background
	
	Use platform information/LinkedIn/ other profiles

Exploring Section
 	
Thinking in a bit more depth about the backing decisions:
 	
  - What factors influenced backing decisions?
 	
  - Can you please explain in more detail?
 	
  - Thinking about a recent backing decision, can you talk me through the steps?
 	
  - What was the thinking process?
 	
  - How has your backing experience in other areas influenced your approach to rewards crowdfunding?
 	
  - How do backers make decisions?
	General questions to find out how backing decisions are made
	
	Decisions could be made first-hand, from observation of the decision-making of others or a combination of both.

Influence, if any, of the following factors (previous rewards research): - Quality (perceived) of the project[1] - Location of the venture (geography)[1] - Credibility from lower funding targets and shorter campaigns[2]? - Rewards at different levels encourage participation[2]? - Visual pitch/video was effective in its emotional appeal[2]? - Other funders (serial funders) influence[3]? - Reciprocity towards entrepreneurs[4] - Third-party backing[5] - Innovation – incremental improvement[6] **Influence, if any, of the following factors (known heuristics[7]):** - Recognition – funding based on recognition? (brand recognition?) - Take-the-best – funding what seems to be the best alternative - Satisficing – funding what meets pre-conceived criteria - Imitate-the-majority - Imitate-the-successful - **When/why** did you use the factor mentioned?	Prompts: previous research Prompts: known heuristics
Concluding Section Points mentioned previously to explore further / clarify: ✓ Regarding…can you please explain a bit more about… ✓ Regarding…can I just clarify so I understand the meaning of… Allowing opportunity to add any other relevant points: ✓ Is there anything you think is relevant that we haven't discussed? Explaining what will happen to the interview ✓ Transcribe and analyse ✓ May wish to seek clarification of interview contents Thanking and ending ✓ Thanks for your time, energy, and commitment	Filling in gaps, explaining what happens next

Sources

[1]Mollick, E. (2014), 'The dynamics of crowdfunding: An exploratory study', *Journal of Business Venturing*, 29(1), 1–16.

[2]Frydrych, D., Bock, A. J. and Kinder, T. (2016) 'Creating Project Legitimacy – The Role of

Entrepreneurial Narrative in Reward-Based Crowdfunding', in Meric, J, Maque, I and Brabet, J (eds.) *International Perspectives on Crowdfunding: Positive, Normative and Critical Theory.* Bingley: Emerald Group Publishing, pp. 101-128

[3]Skirnevskiy, V., Bendig, D. and Brettel, M. (2017) 'The influence of internal social capital on serial creators' success in crowdfunding', *Entrepreneurship Theory and Practice,* 41 (2)**,** pp. 209-236.

[4]Colombo, M.G., Franzoni, C., and Rossi-Lamastra, C. (2015) 'Internal social capital and the attraction of early contributions in crowdfunding', *Entrepreneurship Theory and Practice*, 39(1), pp. 75–100.

[5]Courtney, C., Dutta, S. and Li, Y. (2017) 'Resolving information asymmetry: Signaling, endorsement, and crowdfunding success', *Entrepreneurship Theory and Practice,* 41**,** pp. 265-290.

[6]Chan, C. and Parhankangas, A. (2017) 'Crowdfunding innovative ideas: How incremental and radical innovativeness influence funding outcomes', *Entrepreneurship Theory and Practice*. 41 (2), pp. 237-263.

[7]Gigerenzer, G. (2008) 'Why heuristics work', *Perspectives on Psychological Science*, 3, pp. 20-29.

Appendix B: Data Management Plan and Ethics Approval

---

1) What data will be produced? (Data types, format, standards, scale, and method)

PhD Title: Crowdfunding: Exploring Funder Decision-Making Strategies

The research aims to explore the decision-making strategies of funders using a heuristics perspective. As crowdfunding decisions are made in an uncertain and complex environment, a heuristics perspective will help understand what factors are most important for funders.

The plan is to gather data from funders via interviews and then use NVivo to conduct thematic analysis to understand the most used heuristics as a contribution. Around 40 interviews will be carried out with individuals ranging in experience from novice to sophisticated. Secondary data from sources such as interviews conducted in the media may also be included.

Relevant details are as follows:

- Interviews will be recorded using a digital voice recorder and labelled as mentioned in 'Documenting' (see 2) below;

- Digital voice recorder interview files (WAV) will be copied and stored securely on the Newcastle University OneDrive. Files will then be deleted from the digital voice recorder;

- It is anticipated that interviews will last around 30 minutes, depending on the experience of the participants;

- I will transcribe the 40 interviews using Word. This should result in 800 to 1,000 pages of A4 text;

- The Word file and the recording of the interview will be stored on the Newcastle University OneDrive;

- The Word file will be imported into NVivo for analysis. The copy of NVivo 12 Pro was downloaded from the university onto my personal PC and is password protected;

- Additional data relevant to each interview, such as Consent Forms and notes written on Interview Guides during interviews, will be scanned and stored with corresponding transcripts.

---

2) What metadata standards will you use? (Metadata content and format)

The data management checklist from the UK Data Service

(https://www.ukdataservice.ac.uk/manage-data/plan/checklist.aspx) was used to develop

the following responses:

Planning:

- I am responsible for collecting, storing, processing, analysing, and reporting the data
- The data will be collected using a digital voice recorder, stored in the Newcastle University OneDrive, processed by me, analysed, and reported as part of my PhD thesis development.
- I am learning the skills I need through internal training sessions and the use of a recognized text: Qualitative Data Analysis with NVivo by Jackson and Bazeley, 3rd edition (2019) *.

Documenting:

- Data will be anonymised and labelled in a systematic way that is self-explanatory, e.g., naming for transcribed Word files: Equity-Participant01-Transcript-Date-Anonymised; Rewards-Participant01-Transcript-Date-Anonymised
- Similar labelling will be used in NVivo for Nodes

Next is **Formatting** – see section 3)

*Jackson, K and Bazeley, P. (2019) *Qualitative Data Analysis with NVivo*. 3rd edn. London: Sage.

3) How will your data be managed, structured, and stored? (Project storage)

Formatting

- Standardized and consistent procedures will be used throughout, i.e., the procedures that NVivo recommends (e.g., for thematic analysis based on Braun and Clarke (2006)**) and recognized sources, i.e., Jackson and Bazeley (2019) *.

Storing

- The data in NVivo will be stored as an NVivo 12 (Windows) project nvp file. NVivo does allow for sharing of projects, although I am not planning to share the research;
- The data (all digital) will be stored securely in my Newcastle University OneDrive;
- All data will be password protected;
- As mentioned in part 1 above, interview recordings were transferred to my University OneDrive and deleted from the digital voice recorder. Once the research is complete, the interview recordings will be deleted from OneDrive (2022);
- Changes to any file will be suffixed with the date, to ensure clarity regarding multiple versions, e.g., '-04Feb20' for a file created or changed on the 4th of February 2020.

**Braun, V and Clarke, V (2006) 'Using Thematic Analysis in Psychology', *Qualitative Research in Psychology*, 3(2), pp. 77-101.

4) How will the data be archived and potentially shared? (Suitability for sharing, discovery by potential users, access conditions, timeline for sharing)

The data I plan to collect and work with is meant to be used for my PhD study and will be collected from participants on the basis that they will be anonymous. There is no plan to share the data.

5) Ethical and Legal Compliance

I understand this section should be completed if there is a plan to share the data. In my case, I do not plan to share the data.

Regarding ethical approval of the project – this was granted on the 21st of November 2018.

Here is a copy of the email received:

Ethics Form Completed for Project: Crowdfunding: How do Investors use Heuristics?

Ref: 9054/2018

Thank you for submitting the ethical approval form for the project 'Crowdfunding: How do Investors use Heuristics? ' (Lead Investigator: Christopher William Storey). Expected to run from 24/09/2018 to 24/09/2021.

Based on your answers, the University Ethics Committee grants its approval for your project to progress. Please be aware that if you make any significant changes to your project, then you should complete this form again as

further review may be required. If you have any queries, please contact res.policy@ncl.ac.uk

Best wishes

Policy & Information Team, Newcastle University Research Office

res.policy@ncl.ac.uk

Policy & Information Team, Newcastle University <noreply@limesurvey.org>

Wed 21/11/2018 19:55

To: Chris Storey (PGR) <C.Storey2@newcastle.ac.uk>.

6) Who has responsibility for implementing the DMP, and are additional resources required?

Regarding roles and responsibilities for implementing the DMP:
- I am responsible for implementing (and updating if required) the DMP.
- I will have responsibility for any data access at the end of the project
- I am responsible for data validation
- I have discussed this DMP with my supervisors (see below), who reviewed its content and provided feedback.

Supervisors:

Dr Robert Newbery	Dr Jonathan Kimmitt
Reader in Enterprise and Innovation	Lecturer in Entrepreneurship
Email: robert.newbery@ncl.ac.uk	Email: jonathan.kimmitt@ncl.ac.uk
Telephone: 44 (0)191 2081608	Telephone: 0191 2081614

Additional resources:

Before interviews, participants will be sent an **Information Sheet** and **Consent Form** (copies appended).

During interviews, an **Interview Guide** will provide some structure (copy appended).

Appendix C: Information Sheet and Consent Form

The Information Sheet and the Consent Form used Newcastle University Business School headed paper and were sent to participants as PDF email attachments. They are included here in picture format as this shows the logo and details, which were factors in projecting a professional and credible image to participants.

INFROMATION SHEET FOR CROWDFUNDING RESEARCH

Title of Study: Crowdfunding: Exploring Funder Decision Making Strategies

Invitation and Brief Summary

You are being invited to take part in a research study about crowdfunding. Before you decide whether you wish to take part it is important that you understand why the research is being done and what it will involve. **Please read this information carefully and discuss it with others if you wish.** Take time to decide whether you wish to take part. **If you do decide to take part, you will be asked to sign a consent form.** However, you are free to withdraw at any time, without giving any reason and without any penalty or loss of benefits.

What is the purpose of the research?

To explore funder decision making strategies in crowdfunding. Specifically, the research seeks to identify the 'mental shortcuts' (heuristics) funders use when making decisions and how they work. Knowledge generated should help both funders and fund seekers. **I will be happy to share the findings of the research via a summary or presentation.**

What does taking part involve?

Taking part involves being interviewed (by me) and answering questions about your funding experience and decision-making processes. The interview will last around 30 to 60 minutes and be audio recorded. You may be contacted afterwards to answer possible follow up questions and to check the transcription of the interview.

What information will be collected and who will have access to the information collected?

Hand-written notes made during the interview, the audio files and subsequent transcription files will be collected. All materials will be digitized and stored securely in my Newcastle University OneDrive. Only I will have access to the information collected, which will not be shared with other researchers.

I will anonymise information in the data processing and analysis stage of the research. I will discuss anonymised information with my supervisors periodically, whose details are provided below. References to information in the thesis produced at the end of the research will also be anonymised as will any subsequent publications.

Why have you been invited to take part?

You have been invited to take part because you have experience of crowdfunding relevant to the aims of the research. The study group is made up of individuals who, like you, have experience that I have judged to be relevant to the study.

What are the possible benefits of taking part?

The research is likely to contribute to understanding of crowdfunding and as such may increase participation, which, I believe will bring benefits to all parties through support provided for worthwhile projects.

What are the possible disadvantages and risks of taking part?
The study explores experience of crowdfunding campaigns that have already ended and as such there
is little financial risk. The interview process will require a time commitment as it includes setup discussions, being
interviewed and answering possible follow-up questions. **Interviews will take place at a time and location that is
convenient and should last between 30 to 60 minutes.** In terms of information provided, as mentioned above, this
will be stored securely, anonymised and deleted once the study is over. However, there is always a small chance that
systems may be hacked resulting in loss of information.

Who is the sponsor and data controller for this research?
The research is not sponsored by any organization. It is being done as part of a self-funded PhD I am undertaking
at Newcastle University Business School.
I am the Data Controller for this study (see contact details below). The data will be kept securely on my
Newcastle University OneDrive and deleted once the PhD is complete (2022 at the latest). If you have any questions
you have the option of contacting the University Data Protection Officer (rec-man@ncl.ac.uk).

Has this study received ethical approval?
The study has been assessed by the University Ethics Committee as being low risk, with ethical approval
having been granted on the 21st of November 2018.

Who should I contact for further information relating to the research?

Researcher name: **Christopher Storey**
Telephone: **079 81 1926 99**
Mail: **C.Storey2@newcastle.ac.uk**

Supervisors:
Dr Jonathan Kimmitt   Dr Robert Newbery
(0191) 208 1614   (0191) 232 6002
jonathan.kimmitt@ncl.ac.uk   robert.newbery@northumbria.ac.uk

Who should I contact in order to file a complaint?
In the first instance, please express any concerns you may have with either myself or my supervisors using the
contact details above.

If you wish to raise a complaint on how your personal data is handled, you can contact the Data Protection Officer
(rec-man@ncl.ac.uk) who will investigate the matter.
If you are not satisfied with their response you can complain to the Information Commissioner's Office (ICO):
https://ico.org.uk/

CONSENT FORM FOR CROWDFUNDING RESEARCH

PhD Research Title:

Crowdfunding: Exploring Funder Decision Making Strategies

Researcher:

Christopher W. Storey, second-year PhD student, Newcastle University Business School

Supervisors:

Dr Jonathan Kimmitt (jonathan.kimmitt@ncl.ac.uk) Dr Robert Newbery (robert.newbery@northumbria.ac.uk)

Please initial box

A. I confirm that I have read and **understood the information sheet** for the above study and have had the opportunity to ask questions.

B. I understand that my **participation is voluntary** and that I am free to withdraw at any time

C. I **agree to take part** in the study

Please tick box

	Yes	No
D. I **agree** to the interview being **audio recorded**	☐	☐
E. I **agree** to the use of **anonymised quotes** in publications	☐	☐

Name of participant: Date: Signature:

Christopher W. Storey (researcher)   Date: Signature:

EFMD EQUIS ACCREDITED   ASSOCIATION MBAs ACCREDITED   AACSB ACCREDITED   THE QUEEN'S ANNIVERSARY PRIZES FOR HIGHER AND FURTHER EDUCATION 2013

Newcastle University

Faculty of Humanities and Social Sciences

Research Ethics During COVID-19

The approval of your application for ethical approval is not valid for any research that involves direct physical contact with others or leaving your home during the Covid-19 quarantine period.

If you wish to amend your research design to conduct your study via remote methods (Video conferencing; telephone calls; online or postal surveys, etc.), please complete the following questionnaire, including the following information listed below and forward it to <u>Wendy.Davison@ncl.ac.uk</u> attaching copies of documents such as revised consent forms and other supporting documents. Your information will be forwarded to Dr Ole Pedersen, Deputy Chair of HaSS Ethics Committee for his approval.

Please provide the following information:

A brief synopsis of your original study.

In fact, the study has not changed since the Data Management Plan was created – perhaps it would be useful to provide a copy of the synopsis that I submitted for my Data Management Plan (which was reviewed by Chris Emmerson, our Research Data Manager, in February)

7) What data will be produced? (Data types, format, standards, scale, and method)

PhD Title: Crowdfunding: Exploring Funder Decision-Making Strategies

The research aims to explore the decision-making strategies of funders using a heuristics perspective. As crowdfunding decisions are made in an uncertain and complex environment, a heuristics perspective will help in understanding what factors are most important for funders.

The plan is to gather data from funders/entrepreneurs via interviews and then use NVivo to conduct thematic analysis to understand the most commonly used heuristics as a contribution. It is anticipated that around 40 interviews will be carried out with individuals ranging in experience from novice to sophisticated. Some secondary data from sources such as interviews conducted in the media may also be included.

Relevant details are as follows:

- Interviews will be recorded using a digital voice recorder and labelled as mentioned in 'Documenting' (see 2) below;
- Digital voice recorder interview files (WAV) will be copied and stored securely on the Newcastle University OneDrive. Files will then be deleted from the digital voice recorder;
- It is anticipated that interviews will last around 30 minutes, depending on the experience of the participants;
- I will transcribe the 40 interviews using Word. This should result in 800 to 1,000 pages of A4 text;
- The Word file and the interview recording will be stored on the Newcastle University OneDrive;
- The Word file will be imported into NVivo for analysis. The copy of NVivo 12 Pro was downloaded from the university onto my personal PC and is password protected;
- Additional data relevant to each interview, such as Consent Forms and notes written on Interview Guides during interviews, will be scanned and stored with corresponding transcripts.

What new methods you wish to use (Please include copies of documents where applicable).

The method (interview) remains the same, just that all the data will now be collected remotely through telephone/video interviews.

How you will provide participants with information sheets.

I will continue to provide participants with the Information Sheet via university email.

How you intend to take consent.

I have and will continue to take consent by sending the Consent Form and Information Sheet to participants via university email as part of the process of asking participants to participate in the research – this is sent before the interview. Participants are requested to either complete the Consent Form digitally or to take a picture of the hand-written form and send the picture back. I then sign the form as well and send it back to the participant so that they have a copy for their records.

How you will debrief participants and ensure appropriate follow-up/complaints procedure.

At the start and end of the interviews, I ask participants if they have any questions.

The Information Sheet includes an offer to share a summary of the findings of the research once it is complete, and I will be offering this to all the participants.

The Information Sheet includes a section at the end explaining what to do if participants have a complaint, i.e., they can contact the University Data Protection Officer or, if still not satisfied, the Information Commissioner's Office.

How you will receive, store, encrypt and ensure privacy of data.

Section 3 of the Data Management Plan answers this – please see below.

8) **How will your data be managed, structured, and stored? (Project storage)**
Formatting

- Standardized and consistent procedures will be used throughout (e.g., for thematic analysis based on Braun and Clarke (2006)**) and recognized sources, i.e., Jackson and Bazeley (2019)*.

Storing

-   The data in NVivo will be stored as an NVivo 12 (Windows) project nvp file. NVivo does allow for sharing of projects, although I am not planning to share the research;
-   The data (all digital) will be stored securely in my Newcastle University OneDrive;
-   All data will be password protected;
-   As mentioned in part 1) the above interview recordings were transferred to my University OneDrive and deleted from the digital voice recorder. Once the research is complete, the interview recordings will be deleted from OneDrive (2022 at the latest);
-   Changes to any file will be suffixed with the date, e.g.

    -04Feb20 for a file created or changed on the 4th of February 2020;

*Jackson, K and Bazeley, P. (2019) *Qualitative Data Analysis with NVivo*. 3rd edn.
    London: Sage.

**Braun, V and Clarke, V (2006) 'Using Thematic Analysis in Psychology', *Qualitative Research in Psychology*, 3(2), pp. 77-101.

How your study may change again if the quarantine is lifted before it is complete.

I don't anticipate that it will change as I have found that telephone/video interviewing is both effective and efficient.

I have completed 11 out of a targeted 40 interviews as of week 35. Without the Covid 19 situation, I estimate I would be close to 20 interviews by now[1].

On the 1st of May 2020, I received a response saying my research had been approved (see below).

RE: Research Ethics (Chris Storey)

WD Wendy Davison
To   Chris Storey (PGR)
Cc   Jonathan Kimmitt; Chris Emmerson

Fri 01/05/2020 09:51

You replied to this message on 01/05/2020 09:56.

Dear Chris

I apologise for e mailing you today, I appreciate that the current arrangement is for colleagues to be uninterrupted by zoom meetings and e mails on Fridays. However, I just wanted to let you know as soon as possible that Dr Ole Pedersen has approved the revisions to your project on behalf of the Faculty of Humanities and Social Sciences Ethics Committee. If any further revisions become necessary, I would be grateful if you could contact me and I will arrange approval.

I hope your project runs as smoothly as possible in the current circumstances.

Best wishes

Wendy

Wendy Davison
PA to Professor Matthew Grenby, Dean of Research and Innovation
Mrs Lorna Taylor, Faculty Research Manager
and Ms Louise Kempton, Associate Dean of Research and Innovation

[1]Updated on the 29th of July, 2021

On rechecking these details against my records, I would like to update this as follows. I had completed fourteen interviews (ten equity and four rewards) as of the date this document was submitted (30th of April 2020). Accordingly, I estimate that I had completed about seventy per cent (fourteen of twenty) of the interviews I would have otherwise done were it not for the pandemic. The pandemic most likely led to a delay of around six weeks in my data collection.

Appendix E: Example of Interview Setup Communication via LinkedIn

A LinkedIn 'researcher profile' was set up to help with participant selection (see https://www.linkedin.com/in/christopher-storey-82930611a/)

If a potential participant had a LinkedIn profile, InMail was used to make contact. Messages contained the following components:

- **Title that requested help**
  - Crowdfunding research (academic) - can you please help?

- **Less formal style**
  - Hi John / Joanne

- **Acknowledgement of the campaign**
  - Saw your jacket campaign on Crowdcube/Kickstarter - great idea and hope it goes as well.

- **Details of the request for help**
  - I am hoping you will be able to help with some PhD research into crowdfunding as you have experience on Crowdcube/Kickstarter. The research investigates how crowdfunding works and influences on investor/backer decision making.

- **What helping out involved and what they could get in return**
  - If we could connect for a chat that would be great. Your contribution would be anonymous, and I can share a copy of the findings.

The interview was set up via an email containing the following components:

- **Title that links to the previous InMail**

  - Crowdfunding research – Chris

- **Informal greeting**

  - Hi John / Joanne

- **Thanks, and interview set up**

  - Thanks a lot – could we set up a Zoom or telephone chat next week? Just let me know what time(s) works for you.

- **Details about interview contents, Information Sheet and Consent Form**

  - For the research, I would like to ask you general questions about how crowdfunding works and what influences investor/backer decisions. There is an Information Sheet and Consent form (attached) which explains a bit more about what I am doing and how the interview data collected is managed. I'll be happy to share a summary of the findings.

- **Thanks, and PhD Candidate Signature with Newcastle University / NUBS logo**

  - Thanks, and best wishes, Chris

  - Chris Storey, PhD Candidate

Once the day and time for the interview were agreed upon with the participant, an Outlook Calendar Zoom invite was sent out.

Appendix F: Format used in Transcribing

The first page of each transcript was designed as a title page and included a key, as shown below.

<div align="center">

Transcription of Interview

</div>

Name:	**Participant 13 (P)**
Organization:	**Career Services**
Position:	**Entrepreneur**
Date:	**21st July 2020**
Time:	**17:30 to 18:00 am = 30 minutes**
Place:	**Zoom**
I:	**Interviewer**

Key:

AAAA	= Participant's name
BBBB	= Equity crowdfunding platform in the UK
CCCC	= Crowdfunding agency that works with platforms and founders
DDDD	= Name of start-up run by participant

Here is an example of how the text was formatted and anonymised:

P: And time went by and it got to about August time, and I decided we should just give it a go and see where we could get to. And it's not a small investment, I had to pay for a video to be shot and decent design on the pitch deck and then of course all the marketing activity as you mentioned that you need to do around it, it's a significant effort. So that was how I set up on BBBB it was through a referral and they were really supportive. They also bolted in some additional support as well with an agency called CCCC, who were there to kind of manage the process with me in terms of thinking about the campaign, thinking about the messaging and that was all kind of bolted into the arrangement with BBBB.

I: *Oh, right, interesting, yeah. Just on reflection, was there anything that surprised you?*

P: Yeah, there is a dark art of crowdfunding that I wasn't aware of, and it got to mid-way through the campaign. And the campaign is like this, it's very rare that you go straight through, most campaigns take the full-time to get funded. And we were in that trajectory of like it's going to be a bit touch and go as to whether or not we are going to get there and that was around December time.

I: *Right.*

Appendix G: Reflexive Question Framework with Answers

The framework is based on Patton's 'Reflexive Questions: Triangulated Inquiry' (2015, p. 72).

My answers to the questions are shown below.

Reflexive Screens:

Culture, age, gender, class, social status, education, family, political praxis, language, values

Those studied (Participants):

1. How do they know what they know?

2. What shapes and has shaped their worldview?

3. How do they perceive me? Why?

4. How do I know?

5. How so I perceive them?

Those who receive the study (Audience):

11. How do they make sense of what I give them?

12. What do they bring to the findings I offer?

13. How do they perceive me?

14. How do I perceive them?

Myself (as qualitative inquirer):

6. What do I know?

7. How do I know what I know?

8. What shapes and has shaped my perspective?

9. With what voice do I share my perspective?

10. What do I do with what I have found?

Questions	1	2	3	4	5
Participants	Through direct experience with crowdfunding campaigns and associated decisions.	Amount of experience from less (failed to raise) to a lot (multiple successes).	An academic researcher who wants to learn more about crowdfunding and associated decision-making. Because that was the approach.	The participants who responded wanted to help out and were willing to give time for the interview, and consented to audio recording and use of anonymous quotes.	As willing participants whom I have selected based on their expertise in crowdfunding and associated decision making.
Questions	6	7	8	9	10
Myself	I can learn about crowdfunding and associated decision-making by interviewing and carefully analysing the data collected.	I am taking a systematic, scientific approach based on solid academic foundations that will produce robust results.	My academic background includes teaching in Japan, MBA in 2000, teaching in the UAE, PhD programme since 2018, and extensive reading and supervision/ research discussions.	While the thesis is written in the third person, I think being reflexive requires a move into the first person as I want to understand more about how I influence and am influenced by the research process.	I will think more about how I may have influenced data collection/analy sis/presentation and how these processes have influenced me.
Questions	11	12	13	14	
Audience	By reading what I present in terms of a coherent argument underpinned by sound scientific research principles.	Their perspectives and worldviews. An openness to and interest in the topic and findings. A desire to challenge the argument I am presenting.	A researcher who can work independently, who can draw on years of experience in academia and who will ask for feedback when he has made significant progress.	An experienced team who can provide valuable perspectives/ advice based on years of experience. Who can and will challenge the thesis based on experience, perspective, and worldview.	

Appendix H: Sample of Entries into Reflexive Analysis Journal in NVivo

The journal was kept as a daily conversation with myself regarding what I was doing, how the research was going, my role in the work and potential improvements (Patton, 2015; Creswell and Creswell, 2018).

10/02/2021 09:05

Coding P5 - descriptive coding of P5. This participant is the first who raised on Kickstarter and then went onto a UK equity platform and so offers a unique perspective. In fact, I want to add parts to the equity sample - probably about 40% of the interview discussed equity stuff, and as I think I realised at the time, I should have focused a bit more on rewards in some ways. However, I would say that the equity part will be useful, and the participant explains and summarises well.

Coding P7 - the first consultant on the rewards side and the third consultant in total I talked to. While she mostly consults on rewards, there is some content that can be coded to equity. An interesting conversation. From a reflexive point of view what are my observations? I think she is very knowledgeable from experience with many campaigns. I think I managed to draw out what she wanted to share with open questions and listening attentively.

Overall, today's coding took a bit longer than expected, perhaps because it was new and quite in-depth. Twelve remain, which should be achievable over the next 3 days!

11/02/2021 09:42

Coding P9 - a second female consultant on the rewards side, and again she had the experience of both rewards and equity, so some of the discussion covered equity.

When doing the descriptive coding, I am looking for words in the text that most accurately summarise the meaning of what the participant said - to the best of my ability, I produced codes with the minimum amount of bias. What I would say reflexively is that the conversation tended to cover equity more than I thought it would, and I think this was partly because I had in the back of my mind that my focus and planned contribution is mainly equity - also, P9 liked talking about equity as she saw it being more faithful to the idea of democratising access to finance idea that had been one of the original attractions of crowdfunding for her.

Appendix I: Data Table for Equity Entrepreneurs

2nd-Order Themes / Description	1st-Order Concepts / Description	Representative Evidence **Identifier example: P17E-Ent-Jul20** = Participant 17 from Equity is an Entrepreneur, and the interview took place in July 2020. 'PM' denotes Platform Manager, 'PM-C' denotes Platform Manager-Consultant, and 'Inv' denotes Investor
Pre Phase / Period before a campaign appears on a platform in which the groundwork for a successful campaign is carried out	**A. Gain Traction** / Demonstrating that the business has a viable business model, evidenced by the demand for the product, backed by sales, plus a means to grow going forwards	So, if you are pre-traction, trying to go onto an equity crowdfunding platform is quite a big ask because most serious investors won't back you till you've got traction. For me, well for most investors, traction means three things. It's minimum viable product, first happy users, ideally paying, and third, a marketing machine so you can scale it. (P22E-PM-C-Aug20) Well, first of all, everybody needs to see that you have traction. … You need to have sales first. I don't really know people who have raised money who did not have customers. (P17E-Ent-Jul20) Yes, totally, we use traction all the time; ultimately, traction is just another way of looking at how successful a business has been up to now, and whether it has a lot of individual investors will probably demonstrate traction or not. (P24E-PM-Aug20)

| Pre Phase / Period before a campaign appears on a platform in which the groundwork for a successful campaign is carried out | B. Develop Attractive Opportunity / Creating an attractive investment opportunity | Yes, it's about a seven hundred per cent growth from the original investment, so that's obviously an attractive thing for investors. In essentially three years, it's high growth. (P15E-Ent-Jul20)

I think one of the key things it that we have to have something that is worth investing in. And so, to use this upcoming funding round, the Coronavirus killing EEEE is obviously huge. Personally, I think it is the most important thing I have ever done. (P12E-Ent-Jun20)

What I would say, you know, the main thing for me is that what is your mission, what is your…especially on equity crowdfunding if you can convey that very nicely. Yes, you have a return for investors, but their money is going to be used for something good. (P8R-PM-C-Sep20) |
| Pre Phase / Period before a campaign appears on a platform in which the | C. Favour Consumer Businesses / Understanding that consumer-focused businesses are favoured | Because I might be wrong on this, but I think you'll find that the more consumer businesses tend to do better on crowdfunding sites. Things like breweries for example, most professional investors don't really invest in micro-breweries as there tends to be hundreds of them. On crowdfunding platforms, you see loads of them getting funded. A big part of it is just a lot of those are things that when people see things they understand and would want to use themselves. They are the kind of things that get funded. (P9E-Inv-May20) |

| groundwork for a successful campaign is carried out | because investors more easily understand them | Yeah, it's a really interesting point, Syndicate Room were definitely up there, and then there are lots of others like Angels Den and Crowd for Angels who are around that same category. The difference with them is that they tend to be very B2B focused, and their minimum investment ticket is ten grand, compared to ten pounds, which does little to blow the trumpet of democratising VC, which I think a lot of people can get behind a AAAA (UK platform) or a CCCC (UK platform) because they have very similar models. A bit more consumer-focused, the ticket size a lot lower, and therefore, it is generally us or them who are the top two for deals for the amount funded or deals that have been invested. (P23E-PM-Aug20)

Like I said, I know that the next round I do will be seed VC and then probably small VC or small private equity. But what these people were saying to me was, before you come to us, and we weren't quite big enough anyway, we'll get there in a year or whatever, but before you get to us, you need to tick that crowdfunding box. So that when you do come to us, you can say consumers buy into my brand proposition because here are twelve hundred people who have invested in CCCC not necessarily because they see it as the best financial investment in the world but because they believe in the brand. (P11E-Ent-Jun20) |
| **Pre Phase** / | **D. Warm and Network** | Yes, absolutely, and so typically, a campaign would be live for about a month, about four weeks. And during that period, the process is that before the campaign goes live, the |

Period before a campaign appears on a platform in which the groundwork for a successful campaign is carried out	/ About warming up the entrepreneurs' network so that they will invest in the campaign	company would tend to warm up their own community, and their own customers, and followers of the brand. (P24E-PM-Sep20) Crowd warming was over three to four weeks; however, more time was needed to engage with investors who might put in larger sums (P1E-Ent-Feb20) What BBBB (UK platform) always tell you is, you have to go and tap your friends and family, and clients and ask them to go and tell people about it. (P16E-Ent-Jul20)
Pre Phase / Period before a campaign appears on a platform in which the groundwork for a successful campaign is carried out	**E. Seek Professional Help** / Seeking professional help from a consultant/agency regarding campaign management.	Because each business that raises they have different requirements because they are different sizes, and so a lot of them won't have the resources internally to write a storyboard for their pitch video or get together some of their coms. So, they need a bit of a helping hand by one of these businesses that specialise in that. (P24E-PM-Sep20) So that was how it was set up on BBBB (UK platform), it was through a referral, and they were really supportive. They also bolted in some additional support as well with an agency called CCCC, who were there to kind of manage the process with me in terms of thinking about the campaign, thinking about the messaging, and that was all kind of bolted into the arrangement with BBBB. (P13E-Ent-Jul20)

		And these days, I run DDDD, which is a training and coaching service that makes it easier for founders to raise investment. Last year I worked with about 30 different founders who raised amounts between ten pounds and three hundred and fifty thousand pounds. I run a series of programmes, the AAAA is one, and there is another that is going through a pilot at the moment, which is actually a more generic funding accelerator that prepares you for crowdfunding or angel investment. (P22E-PM-C-Aug20)
Pre Phase / Period before a campaign appears on a platform in which the groundwork for a successful campaign is carried out	**F. Find Lead Investors** / Finding leads which can be large investors like HNWI, Angels or VCs	What I would say in general is that you have three phases of equity crowdfunding campaigns. The first phase is gaining lead investment, and this is normally from an angel investor or a high-net-worth individual, someone who is contributing around thirty per cent of what you want to raise on the platform. (P9R-PM-C-Sep20) Well, most of the investors, I think it was about ninety per cent plus of our investment, came from people who either I approached because I knew of them in some way or another, or they were our customers already, so they already liked the product, liked the brand. Very little of the investment came through people who were just looking at the BBBB platform, for us at least anyway. So, my four biggest lead investors, which made up one hundred and forty-five thousand pounds of our raise, were people that I knew. (P7E-Ent-Apr20)

		We talk about three metrics. We say to a client when your campaign is first seen by your public, you're probably aware they start life in a private mode; you want three things in place. You want your lead investment to be as large as possible in relation to the size of that campaign. (P20-PM-C-July20)
Pre Phase / Period before a campaign appears on a platform in which the groundwork for a successful campaign is carried out	**G. Set Realistic Official Target** / Setting an achievable official target, usually a low target, that will be met in the first few days of the live phase	Whether a campaign succeeds or fails is decided before it goes live. Make sure a realistic goal is set, and sixty to seventy percent of it should be raised pre-launch. (P18E-Ent-Jul20)

One of them, for instance, when we launch a campaign, it's a very deliberate strategy as to how the limits are set. The initial targets the overfunding limits. So, if someone says to us, I want a million quid, now the chances of us launching a campaign with a target of a million quid are almost non-existent. Because the way we all strategise is we will launch with a target such that missing the target is almost not a possibility. (P20E-PM-C-Jul20)

Yeah, I think that's where, if we do it again, we would probably definitely go for a really low round. Almost, like, what's the lowest we can justify, really? Fifty thousand pounds? Seventy-five thousand pounds, or whatever. And then you are moving into the overfunding quite quickly. I don't think having a target of – I think our target was two hundred and eighty thousand. So having that sort of target kind of hanging over you doesn't have much use for anything. (P1E-Ent-Feb20) |

| Pre Phase / Period before a campaign appears on a platform in which the groundwork for a successful campaign is carried out | H. Make Slide Deck and Financials / Preparing a pitch deck, which is a PowerPoint presentation detailing the investment opportunity and includes financial arguments for the investment | Yes, exactly, there is some capital expenditure. The materials and the collateral are stuff we would be doing anyway; I mean, we have a business plan, we updated the business plan, we updated the models, the financials, things like that. We produced a slide deck. (P2E-Ent-Feb20)

And time went by, and it got to about August time, and I decided we should just give it a go and see where we could get to. And it's not a small investment; I had to pay for a video to be shot and decent design on the pitch deck, and then, of course, all the marketing activity that you need to do around it, it's a significant effort. (P13E-Ent-Jul20)

We just say don't, so in our guidelines for an investor deck, we say give them a single slide, top-level turnover, or sales revenue or whatever you want to do and leave it there. You might have some assumptions on there, but don't get into any granularity. If someone does say they want more detail, either you just answer the question, or you say, okay, let's have a talk about this and validate their potential as an investor. And the platforms can usually help you. Are they a regular investor? Does it look like they might be a competitor? (P20E-PM-C-Jul20) |
| Pre Phase / | I. Set Reasonable Valuation | If you are an early-stage business and you're raising one hundred grand for one per cent of your company or something. And say you are valuing yourself basically at ten million. |

| Period before a campaign appears on a platform in which the groundwork for a successful campaign is carried out | / The process of deciding a valuation for the business in the current investment round | You're going to spend that money in the next few months or something. You're going to run out of that pretty quickly, so once you have run out and you are doing your next funding round, what are you going to be able to show that you are worth more than the ten million that you were last time. … That's why if you set a reasonable valuation at the beginning, you are in a much better place with more flexibility in the next round because a down round is a disaster. (P9E-Inv-May20)

I think FFFF say somewhere that they do not make a judgement call on the valuations of the companies; they say 'we are merely a facilitator'. But I think there is; I was never questioned about the valuation I put on it; when I gave the rationale behind it, they said, 'yeah, that's fine'. I think there was a suggestion that they took a view if it was genuinely just irresponsible or verging on fraudulent, then they wouldn't allow you to go with that valuation. Other than that, you are on your own; you can do whatever you want. (P11-Ent-Jun20)

What's interesting is we started with metrics of other nanotechnology companies, and back then, they were all trading at…and no one was making any money. So, it was all about what the potential value of the patent portfolio or future revenues, and then earnings would be two or three years out. So, we initially set our valuation along those lines. Then the feedback from several of the investors along the way was that, including my father-in-law, |
|---|---|---|

		well, look, what they like to see actually is a steadily increasing valuation on each round. Because it made them feel they were getting something, it just kind of validated their earlier investment. (P12E-Ent-Jun20)
Pre Phase / Period before a campaign appears on a platform in which the groundwork for a successful campaign is carried out	**J. Make a Good Video** / Investing in a video that shows the investment opportunity and the team effectively	I think the video is a good motivator. I think that I don't know how old you are, but I'm fifty-five, and I am used to looking at business plans and doing an analysis on the standard of the business plan. People produce business plans, but no one ever reads them, do they? But most people watch the video, and I think if you do a good video, and if you outline the team particularly and the idea well, and you follow it up with a reasonably good deck, pitch deck nowadays, I think that is a strong influencer. (P3E-PM-Feb20)

And invest in a good video. Then outreach to previous investors. LinkedIn is tiresome but can be very useful. (P18E-Ent-Jul20)

Yeah, I think so; it's important to see the founder and the team and understand who they are; you know who they are as a person. I think a video is essential for that. The way someone presents themselves, you know, it says a lot about who they are. (P17E-Ent-Jul20) |
| | | |

| Private Phase / Period before a campaign opens to all platform users during which most of the official target is secured | K. Get Lead Investor Commitment / The biggest lead investor should invest first, followed by other big investors (tickets) | That's why we have a very deliberate strategy on how we launch a campaign, which is you sort out who your lead investors are. Let's say you have a campaign of five hundred K, and your lead investor is two hundred, and you might have one hundred following that. We won't allow the subsequent investors to come on board and make pledges because this is all done in what's called the private phase until the lead investment comes through. That two hundred K has got to come first, because if it doesn't, then let's say the next one was a fifty K, so if someone comes and pledges their fifty K, the guy or girl who was going to pledge the two hundred K sees the biggest one there is fifty K and gets cold feet. (P20E-PM-C-Jul20)

But with GGGG (UK platform) and HHHH (UK platform), you have to have what they call lead investment, which is investment that you arrange yourself. And that can be people who have said a very firm, I will invest, or have invested within a certain time frame, and then you show that lead investment that you have arranged, nothing to do with GGGG, on your new campaign and then that success that is seen on your campaign in early days, drives the herd mentality of the other investors on the platform. (P5R-Ent-Sep20)

That makes a difference for a crowdfunding platform to sign you up is that you have money to start. So we had this twenty K, and the minimum investment was fifty K, and I thought with the twenty K we are nearly at fifty per cent of the funding, so, therefore, it will work, |

		and they were also like, yes, this will work. And that's really important; you need to have that. (P17E-Ent-Jul20)
Private Phase / Period before a campaign opens to all platform users during which most of the official target is secured	**L. Get Network to Invest** / Securing investment from the entrepreneurs' network of family, friends and customers	The crowd is an interesting thing; while we have done three crowdfunding rounds, in every single case, fifty to seventy-five per cent of the money that was raised was raised through our network. (P15E-Ent-Jul20) But in terms, therefore, of the amount that comes in. Um, first of all, is the investors the entrepreneur brings with him because really, there is nothing quite like, something that is launched on day one and on day two, his family, friends, the people who are going to invest anyway, they come in. (P5E-PM-Apr20) When you first launch your campaign, it is done in 'private mode', meaning it's not open to the general BBBB (UK platform) audience, only those with the link. I think framing this as an exclusive opportunity for our customers first really helped our customers feel rewarded for their loyalty. (P14E-Ent-Jul20)
Private Phase /	**M. Achieve 70% Plus of Target** /	For anyone who is crowdfunding now who comes to speak to me about doing it, I always say try to get on at seventy per cent. Which sort of does beg the question, why use the

| Period before a campaign opens to all platform users during which most of the official target is secured | Aiming to secure seventy per cent plus of the official target before the live phase | platform? But at the same time, it will just make it a much easier journey for you if you do. (P21E-Ent-Aug20)

So, when they went live, of the seven hundred and fifty thousand they wanted, they were already seventy percent funded. So immediately, they are being bumped up the algorithm, whereas IIII (new entrant on the platform), when it went live, probably didn't have anybody investing in it. (P11E-Ent-Jun20)

For instance, when I am working, I will never let them launch with anything under eighty per cent of the target. And if that means pulling the target down, that's what we will do. I think some of my colleagues will go to seventy, a little bit under. It just gets harder and harder, so you want your percentage as close as possible. And last year, it would have been a fairly good percentage of them, by the time they launched to the public, they had already hit their target anyway. (P20E-PM-C-Jul20) |
| **Private Phase**
/
Period before a campaign opens to all platform users | **N. Build Crowd Numbers**
/
That there is some indication of crowd | You want to have some semblance of a crowd. So, we would say not hundreds, but thirty, forty, sixty people that have already contributed to that campaign during the part of the phase before it goes live. Again, accepting that there are probably sixty people, probably fifty of them are all twenty quid with just a small number bringing in the rest of the bulk. (P20E-PM-C-Jul20) |

during which most of the official target is secured from committed investors	backing for the campaign before it goes live	The biggest factor of all, which is no secret, and it's probably what crowdfunding is all about is, you demonstrate that you have the crowd with you already, and then the rest of them will come. But if you try to get on with like a quarter of the people there, then it's a much harder sell. (P21E-Ent-Aug20) And for the investor base, the other thing we have observed is there are probably about one hundred core investors that have been with us ever since our first round in 2016. And they carry on investing in every one of our rounds, and it's quite, you know they have formed a very good stable core of support and I think BBBB (UK platform) is so much about conversation on the chat line, in any large funding round. (P12E-Ent-Jun20)
Live Phase / The period during which a campaign is live, and the aim is to reach official	**O. Achieve Momentum** / A campaign that is actively adding funds and investors	So, if you have a lot of money but only have one hundred people invested, the crowd will flag that. Or, if you have got a lot of small investors but no big tickets, then again, the crowd will flag that. So, where momentum is achieved is where you have got both, large and small investments, and large and small numbers of people. (P15E-Ent-Jul20)

and personal targets		I think the biggest ones would be absolutely the momentum and just the sort of emotional connection with the product or service or brand or whatever it is. On top of that, you are going to have the incentives. (P9E-Inv-May20) And then, I think how the crowdfunding dynamics work is that everyone loves to pick a winner, and so when they see that list of who is overfunding and all that kind of stuff, there is always that momentum that builds. (P12E-Ent-Jun20)
Live Phase / The period during which a campaign is live, and the aim is to reach official and personal targets	**P. Manage Discussions** / Managing the discussion section (chat) of the campaign where investors can ask questions and post comments	The first-time round, we had the same problem and a delay. And I had booked a holiday to Vietnam, and it was on the beach. My wife was furious, absolutely furious. Spent ten days on the laptop. This discussion forum went nuts; I mean, it was twenty-four-seven. We are texting each other, the quality of the questions was the first thing, and then the volume. I mean forget the slide deck we put up and the pitch, just read all the threads. You'll find out more from that than any business plan…that blew me away. (P2E-Ent-Feb20) And finally, from me, if you watch a campaign live, you look at it once or twice a day, and you keep up with the questions and answers that come in. I think that again, the speed at which people reply, and the standard of that reply, probably has quite a big influence on who invests. (P3E-PM-Feb20)

		And they carry on investing in every one of our rounds, and it's quite, you know, they have formed a very good stable core of support, and I think BBBB (UK platform) is so much about conversation on the chat line, in any large funding round. (P12E-Ent-Jun20)
Live Phase / The period during which a campaign is live, and the aim is to reach official and personal targets	**Q. Email Investors** / Effective use of email updates to support the campaign	There were a couple of big spikes, but I didn't keep; I wasn't keeping track, if you see what I mean. Right, let's have a look, yeah, it was, yeah, okay, that's it, so the way we were driving investment really was by sending emails through to people. So, we had access to FFFF (UK platform), basically say CCCC (brewery) is investing, about to invest, register your interest here. And we had the ability to send emails to people who had registered their interest. So, we would put together an email and say, here is some news, we have a new restaurant listing, grocery listing whatever it is, whatever bit of news, and then we were allowed to send that to people who had registered their interest, I think. But certainly, we could send it to our own consumer base, and that would be the thing that would often drive the spikes, as it were. (P11E-Ent-Jun20) The biggest update we made in terms of the fact it was a significant change to what we were doing was changing our total from two hundred and fifty to two hundred. So obviously, we communicated that to all our investors by email and by update, and I think, you know, we got a positive response from that update. It was an update we had to make,

		but I think it demonstrated we were thinking about the situation and sort of behaving in a competent fashion. (P7E-Ent-Apr20)
		And that's why, again, constant engagement as they recommend, and we learnt that first time round. To sort of stay front of mind, because you'll find, for example, I think we had two thousand followers on our pitch, and we have closed with six hundred investors. So why were those two thousand people following us? And how do you convert those followers into investors? Keep giving them material. Content – they have a voracious appetite, you know. Staying front of mind. So, we had a whole bunch of things that we kept going back to. Any excuse, it had to be worth it to communicate. I mean, it had to be worth it, 'we just signed up two new insurers: bang!' 'We just sponsored that so and so, got this sponsorship'. To make it as interesting and attractive as possible. (P2E-Ent-Feb20)
Live Phase / The period during which a campaign is live, and the aim is to reach official	**R. Use Herd Mentality** / About tapping into the herd mentality of investors	Yeah, I would, actually. To be honest with you, herd mentality is almost one of the fundamentals of crowdfunding. It's the reason why you have pre-committed capital, and you follow a lead investor is because it's not meant to be first money in. It's not meant to fill an entire round, it's meant to be a round that you can share on mass to people, and obviously, the crowd tends to follow the crowd, the leader. So absolutely, there is some herd mentality there. That's not to say it is necessarily a greed thing, people don't just invest because lots of people are investing, but it certainly helps**. (P23E-PM-Aug20)

and personal targets		What they say is crowdfunding is about a herd mentality, so people invest in businesses that are already significantly at their target. If you go live on a crowdfunding platform and are asking for one million pounds, and you've got fifty quid in the bank, you will fail because people just open it, look at it and think, nobody else believes in that business why would I, yeah? (P11E-Ent-Jun20)
		What I find is that most people, they are like sheep, you know. Most people take time to get on, and you have to do a lot of marketing, updates and spend money on videos. But most people come on board when you hit eighty-five to ninety per cent funded. You have the sheep mentality that, oh my god, they are going to raise whatever they target, must be okay because a lot of people believe it too, then I'll put money in. That's more the critical part. If you get to ninety per cent, everybody follows. (P16E-Ent- Jul20)
Live Phase / The period during which a campaign is live, and the aim is to reach official	**S. Use FOMO** / Using the fear of missing out to trigger investment decisions	Because there is this peak, and some investors are making their last-minute decisions based on you ending. This is FOMO, but this is also people trying to make you win, like go over. It might be someone who already invested one time, and you know they have two shots, and they are putting a bit more because they want you to see through the finish line. It comes to the point where you are getting supporters who want you to win. (P17E-Ent-Jul20)

and personal targets		In terms of the need to have sixty to seventy per cent, yeah, obviously, the reason why we do that is to play into that whole FOMO mindset so that people see that there is already significant interest in that. And that there is something about that business that they should be getting into the detail on, and whether it's going to be an attractive investment opportunity for them. And so, yeah, that's the reason for having that lead investment and written there on the bar. (P24E-PM-Sep20) So, sort of not wanting to be first to the dance floor, and that quickly flips into fear of missing out syndrome afterwards as soon as a target is hit. (P20E-PM-C-Jul20)
Live Phase / The period during which a campaign is live, and the aim is to reach official and personal targets	**T. Use Algorithms** / About understanding the algorithms that platforms employ and how these can be used to help achieve funding targets	Yes, yeah, as soon as you start to nudge it, then it properly went much quicker. Forgive me, I can't remember exactly what the spike was, but certainly, as soon as we got to four hundred and fifty, and then it's like FFFF (UK platform) have algorithms within their own system, which as you start to hit that, it pushes you to the top of the page, so the more you are funded, the higher up their page you are. (P11E-Ent-Jun20) Definitely, presentation; yeah, that progress bar really matters, but also what goes on is the algorithms behind the scenes in terms of who gets to the home page. You are more likely to be noticed if you are on the home page or if you get a promotion in one of the

		emails the platform sends out. Typically, they don't give you that email presence until you are on the route to success. (P22E-Ent-Aug20) So, one of the surprises that came through was that the BBBB account manager said, hey, EEEE, just remember the number of investors you have is as important as the value. And if you have more than one hundred investors, then it triggers something in the platform, which means that the auto-invest triggers that are in place then kick in. So, you are only like twelve people off that, so why don't you try to get some people to put in ten quid. Okay, did that, and then, of course, all the auto-invest stuff kicked in, and we added another twenty-odd grand overnight into that. That would have been helpful to have known very early in the phase of the campaign to know that was there. (P13E-Ent-Jul20)
Live Phase / The period during which a campaign is live, and the aim is to reach official and personal targets	**U. Attract Tax Investors** / Attracting tax incentivised investors who wish to benefit from SEIS or EIS	Well, I think there are a couple of things. Whether you are sophisticated or unsophisticated, a lot of people do go for the tax advantages as an alternative investment to something like, um, a pension. Particularly, in most people's view, the pension limit has reduced enormously in the last five to ten years; I can't remember when it was changed, actually. I also think that people, um, you see more investment in the first quarter before the end of the tax year. (P3E-PM-Feb20)

		As an angel investor, if they put in fifty grand and get a ten times return on that, plus the tax benefits. If they are getting half a million back or something, then as an individual, that's fantastic right? (P9E-Inv-May20)
		Then the other two large investors were family, friends, or friends of friends, who were high net worth and liked our products, and benefitted from EIS. All the lead investors benefitted from EIS tax relief. (P7E-Ent-Apr20)
Live Phase / The period during which a campaign is live, and the aim is to reach official and personal targets	**V. Attract Social Investors** / Attracting investors who are driven primarily by the social good that will result from the investment	So, the rule of thumb is that if you believe in something and you think it's a good idea and has good societal benefits, then you don't sleep too bad a night worrying what's going on with it, because you think it's doing the right thing. But if you are just doing stuff for the money, you are paying a lot closer attention to it. Because if the trade is completely about the money rather than anything that makes you want to stick for the long term. (P15E-Ent-Jul20)
		Touched on this above, but I think in general, the biggest motivation was from existing customers who love the company and our values and wanted to be a part of it. These are people who love our product, support environmentally conscious brands and as early investment was skewed towards females (although finished with an almost 50/50

		female/male split), there was an element of supporting a female-led business too. (P14E-Ent-Jul20)

Well, I live in Edinburgh, the same as DDDD, and I'm very interested in the carbon transition, and I've been doing quite a lot of thinking about that in a professional capacity, from an institutional point of view. What do we need to do to wean ourselves off fossil fuels? I feel quite strongly about it as a cause, and as a result, a friend of mine, who runs a private company in Edinburgh, said you should meet DDDD, and I met DDDD for a coffee. It was just a connection through a friend. (P10E-Inv-May20) |
| **Live Phase** / The period during which a campaign is live, and the aim is to reach official and personal targets | **W. Attract the Anonymous Crowd** / Attracting anonymous investors - those platform users who did not know the business before the Live Phase | The other point I think you touched on, we use this expression, the anonymous crowd. By that, I mean, this is the person who knows nothing about the business. Doesn't know anything; they just happen upon it when they are cruising the platform. So, they sign onto CCCC, or BBBB (Crowdcube or Seedrs), and are having a look around and say, oh, that looks interesting, and they go on to invest. If you are lucky, you'll get twenty per cent of your campaign target from that source. (P20E-PM-C-Jul20)

Yes, so first round, we had fifty in from someone that we knew, then we had another twenty-five in from a contact of someone that I knew. And then pretty much the rest, I think another six to seven grand came from friends and family. But another seventy or so |

		came from people we didn't know. Some of those were quite big tickets, like ten, five thousand, three thousand, two thousand. People that I had never met before didn't know anything about us before. (P21E-Ent-Aug20)
		Yep, and I definitely saw that myself first-hand, and I see it for my clients as well. The time I raised and hit my crowdfunding target. I knew about fifty per cent of the investors who backed me initially, but my biggest single investor, who put in ten thousand, was a guy in China. I don't speak any of the Chinese languages; we carried out a slightly random conversation over email using Google Translate, which is not foolproof, and yet he backed the business. That was certainly because he was on the platform looking at which pitches were getting the most views. (P22E-PM-C-Aug20)
Live Phase / The period during which a campaign is live, and the aim is to reach official and personal targets	**X. Hit Official and Personal Targets** / Achieving the official target, moving into excess funding, and then achieving personal targets	…is that the companies that go on the platforms basically do a top-up. What they do is, they have already raised half a million, a million and then go onto AAAA and basically start with the completed fundraising round, because it is then already successful in a way, people are ultimately more inclined to do an investment. So that's why you want to set your official target in a way that you are quite confident to reach it relatively quickly, then you overfund to the actual target you want to have. (P4E-Ent-Mar20)

		We sort of overfunded. Our original target was two hundred and fifty, and we went live just as Coronavirus was really starting to get a foothold in Europe. And during the course of our campaign, things got progressively harder; we had a few reasonably big investors drop out. We worked really closely with BBBB, as a few other brands did, to create an updated plan which basically allowed us to revise our total to two hundred. Showing that we could still grow the business and not run out of cash. So, we raised two hundred and fifty in the end, so it looks like we overfunded, but actually, we got to what our original total was. (P7E-Ent-Apr20)
		Well, first time round, we were AAAA (UK platform) virgins. We needed six hundred thousand pounds, and that's what we set the target as. We thought that made sense. Knowing what I know now I wouldn't have done it that way. Because, um, I hadn't appreciated that we had to get it all. So, there is a tactical game in inverted commas to play here, right. So, what we should have done is said the target was five hundred. We need six hundred, but the target is five hundred, but whatever happens, we have the ability to take five hundred. Um, and then the overfunding in inverted commas will be the extra one hundred to make the six. But we didn't know any of that. (P2E-Ent-Feb20)

Appendix J: Data Table for Equity Investors

2nd-Order Themes / Description	1st-Order Concepts / Description	Representative Evidence **Identifier example: P4E-Ent-Mar20** = Participant 4 from Equity is an Entrepreneur, and the interview took place in March 2020. 'PM' denotes Platform Manager, 'PM-C' denotes Platform Manager-Consultant, and 'Inv' denotes Professional Investor
Financial Gain Drives / Investors whose primary investment drives relate to financial gain	**Y. Leads** / An investor who is the largest contributor to a campaign and is seen as the lead investor by others	For us, with AAAA *(UK platform)*, it is important that you have lead investment, so nowadays, I think they say twenty or twenty-five per cent lead investment, but the more amount you want to raise, the higher the amount you should have in lead investment. So, lead investment means that before the investment goes live on the platform, you are basically already, the pitch is basically already live, and people have already invested. So, I think we were never under thirty per cent lead investment of what we wanted to raise as an official target. That gives you a lot, lot better start and a better momentum. (P4E-Ent-Mar20) Yeah, I think it's not necessarily; as I was saying before, I don't think the people saw the investment there and just piled on board because it didn't work like that. But, I think, the way our campaign worked, I got some very good lead investors who were very credible, and a couple of them wanted to be involved in the business in an advisory capacity. (P7E-Ent-Apr20)

		We talk about pre-confirmed investments, cornerstone, lead investments and all that sort of stuff. So, the idea is that you launch a campaign and take it public, and we are pretty sure it will hit that target really quickly; on the same day is really good, and the next day is sort of okay. (P20E-PM-C-Jul20)
Financial Gain Drives / Investors whose primary investment drives relate to financial gain	**Z. High-Net-Worth Individuals-Angels** / Investors who have a high net worth and invest larger sums	Fifty per cent of investors have invested less than one hundred pounds. At the other end of the spectrum, there are people, absolutely high-net-worth individuals clearly, who we have never had a conversation with, that have invested twenty-five, thirty or fifty thousand pounds. (P2E-Ent-Feb20) But I think for a lot of brands, and this was certainly the case for us, it was very much our customer base, people that already liked what we were doing. Probably they were all very high-net-worth individuals who benefitted from tax relief. Who also liked the rewards we were offering, and the discounts on products. (P7E-Ent-Apr20) We know who all the investors are, and through KYC, we have their passports, etcetera; you have to do a quick ten-question quiz on investing to make sure that they at least know the risks, and they might not get their money back in a lot of cases. And its anywhere from people who have never made an investment, and they joined to make one investment, to

		some real angel investors who will actually source deal flow from the platform, even venture capital firms have invested into campaigns while they were live. (P23E-PM-Aug20)
Financial Gain Drives / Investors whose primary investment drives relate to financial gain	**AA. VCs** / Venture capital investors	And that was part of the tactics of doing the raise, really; they agreed to put the money in if we raised on CCCC (UK platform). The VCs do this all the time outside of equity fundraising. Let's say you want to raise three million pounds; they'll say, great, we'll put in a million and a half, as long as you can get a million and a half from two other investors. They said exactly the same to us; we'll give you the money, whatever it was, as long as you raise the balance on CCCC. (P19E-Ent-Jul20) And there are different investors at different stages; some will get involved early stage, and some won't touch it with a barge pole. They'll say it's too early for me; I'll wait. In the big picture that's VC, most VCs will say we don't get involved until growth stage and we are not interested in seed. (P22E-PM-C-Aug20) Yes, that was organic. They (VCs) approached us. And I think they approached us largely as a result of the PR that came out of the crowdfunding. (P2E-Ent-Feb20)

| Financial Gain Drives / Investors whose primary investment drives relate to financial gain | BB. Portfolio Builders / Retail investors who, over a period of time, build up a portfolio of investments | Yes, we try to have a complete range of different companies and different sectors that will appeal to investors to they can build a fully diversified portfolio of businesses. (P24E-PM-Sep20)

So, everyone has the ability to be an investor, and sure they are predominately retail investors. Many investors through the platform will be people who have never rated themselves as investors before. They now have the opportunity to; the idea is that the first time they get through and they invest into DDDD because it's a challenge bank they really like. They get into the habit of checking their AAAA (UK platform) account and their portfolio, and they see what campaign is live at the time and start to build a bit of an angel investing portfolio. (P23E-PM-Aug20)

We believe that we give a lot to the investors. If they are coming to it through that, then they have got a regular form of communication both from CCCC (UK platform) and from the organization they have invested in that can then lead them to, um, become a multiple investor in a number of different ones. Our ideal investor, it's not really about the amount; as I say that, I realize that of course, it is about the amount, but it's not really; it's much more about someone building up a portfolio. (P5E-PM-Apr20) |
|---|---|---|
| | | |

| Emotion and Values Drives / Investors whose primary investment drives relate to emotion or values | CC. Family and Friends / Family and friends of the entrepreneurial team who are likely to invest at the beginning of the campaign | But in terms, therefore, of the amount that comes in. Um, first of all, is the investors the entrepreneur brings with him because really, there is nothing quite like, something that is launched on day one and on day two, his family, friends, the people who are going to invest anyway, they come in. And then that immediately gives it a boost…(P5E-PM-Apr20)

While the platform is good, the majority of the money you raise is from your own client database of friends and family anyway. (P16E-Ent-Jul20)

I mean personally, I very much enjoy that dynamic because most of our friends and family as well are investors. So, it's a very good approach if you got a decent business model. (P12E-Ent-Jun20) |
| Emotion and Values Drives / Investors whose primary investment drives relate to emotion or values | DD. Community and Customers / Contacts and customers in the entrepreneurial team's network who invest on the basis of knowing the people and the brand | And by the way, there are a whole lot of other people that come with businesses. You know, their community as well. Did you see the campaign for LLLL (English football club) when it was up on CCCC (UK platform)? That was a massive, a massive community thing wasn't it. Most of those investments were ten pounds, or twenty pounds. Everyone just wanted a name on a seat. They wanted to be associated and be down the pub saying I invested in LLLL, I am a shareholder. Um, that wasn't an economic, that's an emotional investment, that's not an economic investment, in my view anyway. (P3E-PM-Feb20) |

| | | And obviously, being pushy middle-class mums, sometimes they have some money to invest. Whereas if your core demographic was students, or kids, it would be a lot harder. It seems like it is great if you have core, because obviously, if your customers can invest in your company, A, they will probably stay loyal, B, they will probably recommend you to friends, and C, they will probably feed you all sorts of cool ideas because they use your product and have a stake in the company. It seems to be a real virtuous cycle if your customers are the kind of people who are also investors, or a fraction are. That seems to be good. (P6E-Inv-Apr20)

In simple terms, they were either AAAA (name of the business), customers first and investors second (i.e., they invested because they knew of and loved the business but perhaps hadn't invested before) or investors first and customers second (i.e., people who have experience with investment who found us through their BBBB (UK platform) profile and saw it as an investment opportunity). As we were really keen to be able to offer the opportunity to our customers and not just seasoned investors, something like BBBB, which allows investment from just ten pounds, was ideal. (P14E-Ent-Jul20) |
|---|---|---|
| **Emotion and Values Drives** / | **EE. Social Good** / | From the people I spoke to, it was mostly an interest in mental health. It wasn't a great deal about the company and how successful it would be, it was more like they liked this area, or had experienced some kind of mental health problem before, and they saw the |

| Investors whose primary investment drives relate to emotion or values | Platform-based investors who find out about the campaign when it goes live and who invest based on a perceived social good the business provides | value in that. Just as a kind of as a social investing almost type mentality. That's the reason they put in an amount of money. (P8E-Ent-May20)

I would say that one of the things that I have learnt from CCCC (UK platform) is that not all the investors on those platforms are just interested in return on investment, like some of them are interested in being part of a project around sustainability, or, around a subject area that they like. (P21E-Ent-Aug20)

Obviously, it's a green business, so let's make sure there is an ethical supply chain behind it. So we went to China and went and visited the manufacturers. It was very modern; it was very up to code with Bamboo farming behind it; it played perfectly into the green messaging, so we said, yes, let's do this. (P15E-Ent-Jul20) |
| **Emotion and Values Drives** / Investors whose primary investment drives relate to emotion or values | **FF. Support Female Entrepreneurs** / Investment that is in part motivated by the opportunity to support female-led businesses | …early investment was skewed towards females (although finished with an almost 50/50 female/male split), there was an element of supporting a female-led business too. (P14E-Ent-Jul20)

I think one thing that has been very interesting from an HHHH (UK platform) perspective is that I think we are the biggest funder for female-led businesses compared to VC and Angel investors. And so, we have really been able to give female-led businesses, founders, the |

		opportunity to raise money more easily, which traditionally, it was white men in their suits sitting round the board table. Um, and then we subsequently find our female investors, I think twenty-one per cent of our investors are female; they then tend often to follow female-led businesses. Often because they are mission, purpose-driven, sometimes because they are products born out of their own frustration, or issues, which other women can relate to. (P24E-PM-Sep20)
Emotion and Values Drives / Investors whose primary investment drives relate to emotion or values	**GG. Valued Rewards** / Investment decisions made on the basis of valuing the rewards offered	For us in fashion, maybe it's an interest for the rewards that we gave them. For a lot of them, it's like giving them their money back. You get a fifty-pound voucher, or you get a free pair of shoes. I think fashion has the ability to attract people because it's quite a closed world; that's nice to be linked to a luxury fashion brand. (P16E-Ent-Jul20) Yeah, we gave everyone a lifetime pass to DDDD (business name), so those two hundred-odd people have free access to everything that we do forever, right. And in terms of when the campaign finished and we issued everyone their codes, we had about a forty per cent take-up, so it clearly made a difference in terms of their thinking that there was something else that they would be able to get. (P13E-Ent-Jul20) What you have there, they will be appealing to a big mass of consumers. They will be giving the opportunity to invest from ten pounds; they might offer some perks as well to try and

		incentivise a high-ticket investment as well. For five thousand pounds, it might be half price for a few months, like half a year, or whatever, it's up to the entrepreneur to come up with something compelling. That will be one of the motivations, too, to invest more. (P23E-PM-Aug20)
Momentum Drives / Investors whose primary investment drives relate to campaign momentum	**HH. Near to Target** / When the campaign is nearing its official funding target	What they say is crowdfunding is about a herd mentality, so people invest in businesses that are already significantly at their target. If you go live on a crowdfunding platform and are asking for one million pounds and you've got fifty quid in the bank, you will fail because people just open it, look at it and think, nobody else believes in that business why would I, yeah? (P11E-Ent-Jun20) Number two, there is the whole percentage thing. Again, it depends a bit on how different members of our team launch. For instance, when I am working, I will never let them launch with anything under eighty per cent of the target. And if that means pulling the target down, that's what we will do. (P20E-PM--Jul20) Yeah, so one of the things is there is a huge difference between being nearly funded and reaching your funding target, you know being overfunded. And er, we've been very lucky

		to have is, we've tended to get to one hundred per cent funding in a matter of days, and in some cases on the day that we launched. (P12E-Ent-Jun20)
Momentum Drives / Investors whose primary investment drives relate to campaign momentum	**II. Number of Investors** / A substantial number of investors are investing in the campaign	So, one thousand investors at ten pounds each are much more useful than one hundred investors at ten thousand pounds each in that particular one. So that was more around building a movement and the number of shareholders being more important than the amount of money. Because with something like that, it's got to have the idea of stakeholder capitalism and being associated with that particular eco-system is really important and having a lot of people who can spread the word and be part of it. (P10E-Inv-May20) I think our last funding round was closed at around six hundred and twenty thousand, so the dynamics were exactly that. By the time we opened up to the regular BBBB, as opposed to the existing investor base, I think we were already ninety per cent funded on the day, or seventy per cent funded, something like that. By the end of the third day, we were overfunding, and momentum just kept on going. Sort of every day, or actually every hour, we would have a couple of ten-pound investors that kept us in the eye all through that month, and then on the last day, there is always a surge where people go, well, I've been watching this, and I better get in, and so we would pretty much add another thirty per cent, so we went from say four hundred per cent overfunded to six hundred per cent. (P12E-Ent-Jun20)

		There are two sides to that. There is the financial momentum, and then there is the number of investors momentum. So, if you have a lot of money, but only have one hundred people invested, the crowd will flag that. Or, if you have got a lot of small investors but no big tickets, then again, the crowd will flag that. So, where momentum is achieved is where you have got both, large and small investments and large and small numbers of people. (P15E-Ent-Jul20)
Momentum Drives / Investors whose primary investment drives relate to campaign momentum	**JJ. Fear of Missing Out** / When the fear of missing out on a perceived opportunity drives action	So, sort of not wanting to be first to the dance floor, and that quickly flips into fear of missing out syndrome afterwards as soon as a target is hit. (P20E-PM-C-Jul20)
		Well, first of all, everybody needs to see that you have traction. They don't want to be scared of missing out, the FOMO. That is clearly one. (P17E-Ent-Jul20)
		You are probably, at that point, looking to give a bit of FOMO to investors as well; they don't want to miss out at that point. So, there might be more of a push to try to get people absolutely locked in before the window goes. People would much rather look at something that is oversubscribed than something that is struggling to hit its target. (P23E-PM-Aug20)

| Momentum Drives / Investors whose primary investment drives relate to campaign momentum | KK. Reach Target and Overfund / Reaching the official campaign target and moving into overfunding (excess funding above the official target) | That's why you are trying to have a good amount of lead investment and then a clear plan on driving the investment as quickly as possible, and then you overfund. Overfunding is always easier, and you need to make sure that between your lead investment, so when you go live, to the point where you actually hit your official target that people keep on investing. Because with every investment that has been done, your pitch is going to move up on the page. (P4E-Ent-Mar20)

Yeah, I think that's where, if we do it again, we would probably definitely go for a really low round. Almost, like, what's the lowest we can justify, really? Fifty thousand pounds? Seventy-five thousand pounds, or whatever. And then you are moving into the overfunding quite quickly. (P1E-Ent-Feb20)

And absolutely looking to set realistic targets, because actually, if you don't hit your minimum target within your forty days, then the money gets returned. So you would rather hit a lower target that you could definitely achieve and overfund from there. (P23E-PM-Aug20) |
| Momentum Drives / | LL. High-Risk-High-Rewards Punters / | …a lot of them are relatively novice investors, and most of them are basically looking at it as a kind of…You know we have these great tax breaks; I can just pick a business that sounds good. Nine times out of ten it's something like where they are, oh…I understand that and |

| Investors whose primary investment drives relate to campaign momentum | Retail investors who view investment in a similar way they view gambling - as a high-risk-high-rewards 'game' | would use that as a consumer. Um, and they like the sound of it, and they pile in basically for the tax break, and they stick in not very much money because they think, well, it's a bit of a punt, I'll either lose the lot, or it'll fly, right. (P9E-Inv-May20)

Yes, it's true; it is super high risk, but returns are good, and you definitely back some that don't come off and your back some that will. If you could take any approach of looking at horse racing, or football betting, or whatever, it's a similar mindset really. It's like figuring out what the form looks like, and whether you are going to be in it for one hundred quid or in it for four hundred quid, it's, and that's the delta as well, right. I saw that happening quite frequently where I saw that someone invested, and they had put two hundred quid in, and then I looked at what else they invested in and find they put a grand in. What? Why did you put a grand into that business? Why have you given us two hundred pounds, come on? (P13E-Ent-Jul20)

Whereas your archetypal GGGG (UK platform) investor, a lot of them will be not amateur, but it's not what they do normally. They are just sort of dabbling in it. There might be a few people who use it to scout things who are perhaps more towards the high net worth, but generally, it's a different kind of mentality of investor on there. So they are investing like fifty quid, one hundred quid, that's very different to investing ten K, twenty K. (P5R-Ent-Sep20) |

Appendix K: Data Table for Equity Platform Managers-Consultants

2nd-Order Themes / Description	1st-Order Concepts / Description	Representative Evidence **Identifier example: P14E-Ent-Jul20** = Participant 14 from Equity, an Entrepreneur, and the interview took place in July 2020. 'PM' denotes Platform Manager, 'PM-C' denotes Platform Manager-Consultant, and 'Inv' denotes Investor
Equity Environment via Platforms / Platforms provide an environment for crowdfunding campaigns	**MM. Funding for Growth** / Offering entrepreneurs an opportunity to raise funding for growth	Crowdfunding allows a small business to generate funds, which will allow us to invest in a marketing strategy (something we've previously not been able to prioritise within our budget), while also giving customers shares in our business, so they can follow and feel a part of our growth. (P14E-Ent-Jul20) First time raising any external investment, actually. So, up until now, it has been self-funded by myself and my father. And it was getting to the point where we had had good growth, but we needed a bit more of a cash injection. I looked at a few different routes. I looked at the venture capital route and met with some venture capitalists as well, but the kind of return-on-investment VCs are looking for and the speed they want you to go at. Um, I didn't think that was suitable for my business, just because we can grow quickly, but I didn't genuinely believe we could get to the point where we could give them ten times return on investment in three to five years. (P7E-Ent-Apr20)

		And so, I think businesses have realised that they don't just get that short-term capital that they need but that it also fuels their long-term growth because they are engaging with their community. And so they have been backed by a big group of customers who love their brand, who are loyal to their brand and who, when they become shareholders, they are also going to tell their friends about that brand. (P24E-PM-Sep20)
Equity Environment via Platforms / Platforms provide an environment for crowdfunding campaigns	**NN. Marketing Channel** / Platforms can help entrepreneurs with marketing as well as raising funds, especially those with a consumer focus	Yes, because we were a B2C product, it made a lot of sense for us to use a platform like CCCC (UK platform). The thing about CCCC is that sure, you can raise money on it, but actually, you've got a whole set of people there who, if you do it right, become your fans, and a proportion will become customers. So, it's well-suited to B2C products, equity crowdfunding because of that. Because you want the word of mouth of that retail investor to work for your marketing as well as your investment, so that was the reason why we picked equity crowdfunding. (P19E-Ent-Jul20) Another thing we wanted to do was use them. I mean, the best form of marketing is word of mouth. I say that not because it is the cheapest, but it is the most powerful. When someone you know says to you check that out, you probably will; you might not like it. We wanted to create that kind of viral concept. (P2E-Ent-Feb20)

		Given the fact that one of the main appeals for the entrepreneurs anyway, it's not just the fundraising it is the marketing element, bringing in the community and making them feel part of that business in any way, shape or form. (P23E-PM-Aug20)
Equity Environment via Platforms / Platforms provide an environment for crowdfunding campaigns	**OO. Nominee Structure** / The platform provides a nominee structure in which the platform is the holder of shares while the investor retains the economic rights. This arrangement benefits both entrepreneurs and investors.	The approach that pretty much all the platforms are taking now, with a nominee structure which, means our cap table is super clean. We just have BBBB (UK platform) as the nominee; they do all the management of the two hundred and thirty-odd people who invested. They did all the share certificate issuances. All of those bits and pieces happened without us having to do anything. (P13E-Ent-Jul20) We had the nominee structure right from the beginning, so one thousand people can invest in a company, but it appears under one name on their cap table. (P23E-PM-Aug20) And over time – but that's very much a long-term thing, it doesn't really matter of course if you get one thousand investors who each put ten pounds in, it doesn't really matter much to an entrepreneur who is raising, say, a few hundred thousand pounds. And we take all the company secretarial costs on board, therefore. All the nominee rights, and so we take that on. (P5E-PM-Apr20)

| Equity Environment via Platforms / Platforms provide an environment for crowdfunding campaigns | PP. Follows FCA Regulations / Platforms follow the FCA regulations regarding due diligence and servicing of entrepreneurs and investors | Yes, so we worked with, and alongside, our competitors, like GGGG (UK platform); for instance, we all worked together with the FCA on how the regulation should work. And that again, that has evolved as the market has grown and as there has been more equity crowdfunding. And we both abide by the due diligence processes that are in place. (P24E-PM-Sep20)

And we were the first to be FCA regulated and pan-European. So we are constantly trying to become more than the sum of our parts, I suppose. (P23E-PM-Aug20)

The FCA knows what they are doing. It's pretty tough to be licenced. Then there is the application to put your business up on AAAA (UK platform). What a bloody nightmare! In terms of due diligence. It makes the FCA look like Blue Peter! Which I wasn't expecting. I'm complaining as a business. As an investor, brilliant news! (P2E-Ent-Feb20) |
| Equity Environment via Platforms / Platforms provide an environment for | QQ. Due Diligence / How platforms carry out due diligence and screen opportunities | In the business plan you put up, every assertion you make or statement you make has to be validated. You said here, LLLL (entrepreneur's name), on page 15, that Compare The Market charge thirty-five pounds commission. 'Prove it, please'. …in many respects tougher than the FCA! Which from a business point of view is extremely time-consuming and tedious, but from the other side of the fence, the investor, that gives me great comfort to think that level of due diligence has been done. (P2E-Ent-Feb20) |

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| crowdfunding campaigns | | But also, we do what you might call due diligence on the organisation. But really, we are doing things like, do they do forecasting? Do they have financial people in? Do they have any business experience? Have they ever run any businesses before? Then we do look at their business plans and their operations. And we do with them some questions, and therefore usually, the process of them coming to us to listing, all be it with a number falling along the wayside, is much more robust than they imagine. (P5E-PM-Apr20)

Producing a video, and the script and all the due diligence and all that kind of stuff is really straightforward because we're very much a known organisation. I mean, for somebody starting out – it took us probably two months going through the process, the due diligence, to send in the documentation in order to have something that was presentable to the BBBB (UK platform) investor group. But now, it takes us about two weeks to sort of get through the paperwork and the due diligence to go to launch. (P12E-Ent-Jun20) |
| | | |
| **Attractive Campaigns from Entrepreneurs** / | **RR. Campaign Management by Platforms** / | It was huge, and I was, wow, this is working! You actually do have investors. I was actually surprised that they had investors, so it worked really well, and we had a bit of fuel money to put in halfway through the campaign; each time, you got a bit of a curve. They have a way of managing your campaign that is three or four stages, where their investors see you |

| Entrepreneurs need to present attractive campaigns to potential investors | Benefits entrepreneurs get from campaign management provided by platform managers | a lot, and you get more. So, it was a big success; in the end, we were two hundred percent overfunded. (P17E-Ent-Jul20)

So, as they are pushing out social media, pushing out LinkedIn posts, they are marketing and trying to get as many people to have eyes on the pitch as possible. (P8E-Ent-May20)

So, one of the surprises that came through was that the BBBB (UK platform) account manager said, hey EEEE, just remember the number of investors you have is as important as the value, and if you have more than 100 investors, then it triggers something in the platform which means that the auto-invest triggers that are in place, then kick in. So, you are only like twelve people off that, so why don't you try to get some people to put in ten quid. Okay, did that, and then, of course, all the auto-invest stuff kicked in, and we added another odd twenty grand overnight into that. (P13E-Ent-Jul20) |
| **Attractive Campaigns from Entrepreneurs** / Entrepreneurs need to present | **SS. Algorithm Use** / Understanding and benefitting from the algorithms used by platforms | By the time you get to one hundred, by the way, you automatically get funded by our fund, which is called LLLL fund, for obvious reasons. As soon as you get one hundred investors, we then allocate a proportion of the fund to it, it's done by an algorithm. (P3E-PM-Feb20)

So, on GGGG (UK platform), it is literally the number of investors and the total amount raised. So, if you had one-thousand pound investors, that's worth something more than |

| attractive campaigns to potential investors | | one thousand pounds with one investor. It will affect your ranking on the page, and very simply, the same with Google searches, the higher you are in the listings, the better you do. So, part of it is that you aim to get higher in the listings by asking to line up people that you know to invest at strategic times to help you stay up on the rankings. (P5R-Ent-Sep20)

The other thing is we noticed is that actually, because the way that BBBB (UK platform) works, they list the most recent investments, so when you go on, you see which companies received investment in the past whatever – the most recent top three. And so, even if it's a ten-pound investment well, it is still the most recent investment. We are very happy to have those ten-pound investors because, actually, it's a very good way of keeping us in the eye of the BBBB investor base. (P12E-Ent-June20) |
| **Attractive Campaigns from Entrepreneurs** / Entrepreneurs need to present attractive | **TT. Campaign Management by Consultants** / Benefits entrepreneurs get from campaign management provided by consultants/agencies | They also bolted in some additional support as well with an agency called CCCC, who were there to kind of manage the process with me in terms of thinking about the campaign, thinking about the messaging, and that was all kind of bolted into the arrangement with BBBB (UK platform). (P13E-Ent-Jul20)

That's something that has really built over the years, the whole kind of crowdfunding ecosystem. And I always equate it a bit to Airbnb really, you have Airbnb, but then there are all these businesses that have been built around them which service the relationship |

campaigns to potential investors		between the customer and Airbnb, so it's a little bit like that because each business that raises they have different requirements because they are different sizes, and so a lot of them won't have the resources internally to write a storyboard for their pitch video, or, get together some of their coms, so they need a bit of a helping hand by one of these businesses that specialise in that. (P24E-PM-Sep20)

Last year I worked with about thirty different founders who raised amounts between ten and three hundred and fifty thousand. I run a series of programmes, the AAAA is one, and there is another that is going through a pilot at the moment, which is actually a more generic funding accelerator that prepares you for crowdfunding or angel investment. (P22E-PM-C-Aug20) |
| **Attractive Campaigns from Entrepreneurs** / Entrepreneurs need to present attractive | **UU. Manageable Costs** / Making costs manageable for entrepreneurs compared to alternatives | Um, I suppose we tell people that overall, they will need to allow ten to twelve percent of their raise as their overall costs. A lot of people have a sharp intake of breath, but the reality is those numbers aren't too much different for a Series A or any other round at the end of the day. Sometimes people don't grasp that; they think there is not going to be too much cost involved; there always is. (P20E-PM-C-Jul20) |

campaigns to potential investors		We chose BBBB (UK platform) originally because there was no up-front cost, whereas, with CCCC (UK platform), there was a bit of an up-front cost. With us having very little money, it made BBBB a bit more desirable. (P8E-Ent-May20) Which hopefully will do us a lot of good because, probably as you know, our fee structure, we take a fee from the entrepreneurs raising money, then we take a carry on the profits from investors. (P3E-PM-Feb20)
Decision-Making by Investors / Decision-making by investors based on financial gain, emotion and values, or momentum	**VV. Qualified Investors** / Screening of investors so platform users know the risks involved	We have about five hundred thousand registered users through KYC, so basically, we front end compliance. We know who all the investors are, and through KYC, we have their passports, etcetera. You have to do a quick ten-question quiz on investing to make sure that they at least know the risks, and they might not get their money back in a lot of cases. (P23E-PM-Aug20) You know, you've been on the CCCC sign-up, you can just tick yourself off as an investor – either as a sophisticated investor, or I can't remember what the other choice is – if you have made an investment, or something, in the last twelve months. So, you don't have to demonstrate a financial net worth, investible net worth, in order to make an investment. (P3E-PM-Feb20)

		Yeah, it's interesting, some of the stuff on the charity campaigns we have run, people putting ten pounds and twenty pounds in, and it does seem to be, and obviously, we are not a charity, but you can get thousands, tens of thousands of people donating over a two, three-week kind of time frame. If you can get the exposure right on that. At that scale, it's not about sending people off to AAAA (UK platform) to sign up, complete the investor checklist, put the card details in and wait for it to kind of work. (P1E-Ent-Feb20)
Decision-Making by Investors / Decision-making by investors based on financial gain, emotion and values, or momentum	**WW. Range of Investors** / Having a range of investors from retail to HNWI-Angels which provides some community benefits to users	And its anywhere from people who have never made an investment, and they joined to make one investment, to some real angel investors who will actually source deal flow from the platform, even venture capital firms have invested into campaigns while they were live. So, it's a mix of genuine professional investors, the accredited sophisticated investors, to real have-done-it-once-or-twice retail, and everything in between that as well. (P23E-PM-Aug20) You have the full spectrum, of course. Fifty per cent of investors have invested less than one hundred pounds. At the other end of the spectrum, there are people, absolutely high-net-worth individuals clearly, who we have never had a conversation with, that have invested twenty-five, thirty or fifty thousand pounds. (P2E-Ent-Feb20)

		Um, I suppose there is a difference between the different platforms in the kind of people you get on there. Things like Investors and Syndicate Room try and stuff, like that they tend to try to attract the larger tickets and more considered investors. Whereas DDDD and CCCC (UK platforms) are much more the novice end and the ten to twenty, fifty quid kind of just loads of people chucking in a little bit. (P9E-Inv-May20)
Decision-Making by Investors / Decision-making by investors based on financial gain, emotion and values, or momentum	**XX. Tax Breaks** / Being able to benefit from reduced tax bills through government-backed schemes designed to promote investment in early-stage businesses. (see Appendix O for more details of EIS and SEIS)	So, with almost with every investor they are probably looking initially at some sort of tax relief, even the lower ticket investor still gets some money back from investing, and that's one of the big perks of private equity investing in this country. We have SEIS and EIS. (P23E-PM-Aug20) I looked at American platforms as my benchmark, and the thing was, do we go for an American platform that is going to have a very big user base, or should we go for a UK platform? And in the end, we concluded the UK, obviously. I don't remember the rationale, ah, something about taxes, I think. Something about SEIS and taxes which the American buyers wouldn't be able to benefit from. (P17E-Ent-Jul20) Then when you launch, that is when you are appealing to a wider circle which predominately is people looking to offset their tax bill. Within that, you have people who haven't heard of the product who think it is really cool, and they decide to invest. … And

		those people who are less connected are predominately those people who want to offset their tax bills. (P9R-PM/C-Sep20)
Decision-Making by Investors / Decision-making by investors based on financial gain, emotion and values, or momentum	**YY. Secondary Marketplace** / Being able to benefit from a secondary marketplace which provides some liquidity	And the secondary market is a really good tool for us to see the desirability of shares. So, people who have got our shares don't tend to sell our shares. Whereas a lot of other companies that sell on AAAA (UK platform), you see an awful lot of churn. Or see a lot of lots coming up, and the lots not necessarily being bought either. I think that tells you about the performance and the health of the company. (P15E-Ent-Jul20) Um, the one big thing that we have offered investors, that I think is a really significant one, is a secondary marketplace. It doesn't encourage people to trade, but although everybody, I believe, understands that these are long-term investments, there might well come a time when people want to move on, or circumstances change or whatever. And we just do that by setting up something very simple in-house to match people who want to sell their shares and people who might want to buy them, to achieve some kind of a spread. (P5E-PM-Apr20) I think all those things together, and we are constantly innovating; we were the first company to make a secondary market. The ability to sell the shares as well as buy them. (P23E-PM-Aug20)

Appendix L: Data Table for Rewards Entrepreneurs

2nd-Order Themes / Description	1st-Order Concepts / Description	Representative Evidence **Identifier example: P5R-Ent-Sep20** = Participant 5 from Rewards, an Entrepreneur, and the interview took place in September 2020. Correspondingly, 'PM-C' denotes Platform Manager-Consultant.
Pre Phase / Preparing for a successful campaign	**G. Develop Attractive Product** / Use of rewards crowdfunding to demonstrate the attractiveness of the product	Obviously, no one in the trade, or retail, is going to buy or commit to a product that isn't ready yet. And similarly, a consumer isn't normally going to commit to a product that isn't ready yet either, so we were in this Catch 22 of how do we show there is demand if we can't sell it, so Kickstarter was always part of that to show that we could sell it. (P5R-Ent-Sep20) Obviously, it's a green business, so let's make sure there is an ethical supply chain behind it. So, we went to China and went and visited the manufacturers. It was very modern; it was very up to code, with Bamboo farming behind it. It played perfectly into the green messaging, so we said, yes, let's do this. So, we used BBBB (UK platform) initially to market test the idea. So BBBB was used more as do people want to buy this product? And if we hadn't hit our BBBB target, the business would have never gotten off the ground. It showed us there was demand there, it was a small target, like twelve and a half grand, and it was rewards-based crowdfunding. (P15E-Ent-Jul20)

		It was better than we hoped; actually, I think we hit our target in four days, which was one hundred thousand dollars and then we went on to do two hundred and fifty thousand by the end of the campaign. But we stopped marketing after the first four days because we weren't doing it to presell units; lots of people do it to give them the funds to make the product. We were doing it to prove that there was a market. (P19E-Ent-Jul20)
Pre Phase / Preparing for a successful campaign	**H. Seek Professional Help** / Seeking professional help in designing prototypes or campaigns	So, one of the reasons I was able to take my idea of the FFFF tray and have it on a Kickstarter campaign within three months was because, like we are doing now, I had a Zoom conversation with my contact at EEEE, a chap called Martin. I spin up an idea; he comes back with some digital drawings, we get it 3D printed. We played around with a few designs; for example, this was their first tray. …we went back to the drawing board and came up with the idea of the mixed polypropylene and silicone tray that weighs about a quarter. But all that development was done in three months because EEEE were like, here is the prototype. (P16R-Ent-Oct20)
		So, I had a good chat with her, and she also gave some good suggestions around the sorts of things that are good rewards for people, to encourage them to donate, to begin with, and to donate a little bit more because of the reward you might get back. Um, that was a really useful conversation for me to have as a piece of research. (P4R-Ent-Mar20)

		My crowdfunding accelerator is predominately equity, but it is specifically designed to be suitable for people doing rewards-based crowdfunding as well. And I do have clients who go through it and do rewards-based crowdfunding initially, often as a pre-curser to going on to do equity. They are testing market demand if they are really early stage, and perhaps pre-traction, then they are not going to get, well it's going to be harder to get equity investment, so they use rewards-based crowdfunding to prove a bit of demand almost. (P22E-PM-C-Aug20)
Pre Phase / Preparing for a successful campaign	**I. Build Trust** / How entrepreneurs build trust amongst their community and try to get expert approval to increase their credibility	Unlike other crowdfunding companies, we like to be like ninety per cent or ninety-nine per cent ready for production before launching it because we don't want to have something on the road that happens, and then we lose all the trust of our community. (P13R-Ent-Sep20)

It is also very beneficial to get a recognised expert in the industry to review your product, so people know what you are doing is legit and something worth getting involved in. (P6R-Ent-Sep20)

And so at the end of it, as a human, you say, I like these two humans, I think their intention is good, I trust them enough with my money, and I believe in their vision and want to be |

		part of that vision, I want to be part of that story, and so I'm going to pledge my money to be part of that story. (P18R-Ent-Oct20)
Pre Phase / Preparing for a successful campaign	**J. Set Marketing Budget** / Deciding on a marketing budget and targeting potential backers via Facebook and other advertising	I don't generally recommend rewards-based crowdfunding for businesses unless they have twenty per cent of what they want to raise as a marketing budget. Because it is so competitive on those platforms. Now, if you really want to use it to make a mark in any way and have it be a useful steppingstone, you have to be willing to spend money. Which means that it's not really the right thing for someone who doesn't have any money. (P9R-PM/C-Sep20) Yes, that's right, BBBB is an Israeli-based Facebook add-buying platform. I worked with them with numerous projects in the past; they know the market niche of crowdfunding quite well and can advertise very efficiently yeah. (P15R-Ent-Oct20) These campaigns do millions and millions; there was a company called Peak Design that was running at the same time as us, three million pounds of a camera tripod, something like that. They will be shovelling loads of marketing money into that campaign – it's a marketing exercise. (P5R-Ent-Sep20)

| Pre Phase / Preparing for a successful campaign | K. Develop Rewards Options / How entrepreneurs create rewards (product) options, including early bird | Yeah, other than that, we always structured the rewards in a way that they are not confusing for the backers, so we took the lowest number of rewards as possible, live on the platform. If you put too many, then it's just confusing; if you put like ten different offers, it's confusing, so we like try to keep it less than five. (P13R-Ent-Sep20)

And so it is important to give pretty generous early-bird rewards but not in a way that overly complicates your offering. So we learned that the hard way, in many ways, we offered quite a large number of early-bird tiers. You would only see a handful on the campaign, but if you were to look at our backend, there would be probably, um, we had on hundred and ninety product variations and probably another twelve different price points for each of those. (P18R-Ent-Oct20)

Yeah, the rewards were a funny one, because I think some of our rewards, it's very much people are just buying a product in advance, and there's a much more significant cost to us for that, you know, whether it's a hamper that I bought or a brunch for two or anything. But then balancing that with rewards which actually cost us either nothing or very little, but were more experiences or sponsorship, I think that was really important. You know, six people paid one hundred pounds to literally get up for the four AM shift on a Saturday. They paid one hundred pounds to do work experience, and that doesn't cost us anything |

		other than like cups of tea, so I think balancing those rewards with tangible products was a good way of raising money. (P11R-Ent-Sep20)
Pre Phase / Preparing for a successful campaign	**L. Build Email List of Backers** / Building a large email list of potential backers to contact when the campaign goes live	I think the key thing is that you have to have a really strong pre-launch strategy to really drive the pre-signups, to like a pre-order site basically. If you get that email list together, even if they haven't purchased the product yet, and then fire that out on day one. (P10R-Ent-Sep20) The equivalent of a big lead investor for the equity campaigns is like an early-bird mailing list. So maybe your product is like seventy-five pounds, and you are putting out on your social media beforehand that you can get it at forty per cent discount, if you sign up and then that list is like the absolute most engaged and they are going to get the biggest discount and they are going to give in the early days, that's like the equivalent of a big lead investor. (P7R-PM-C-Sep20) What is your main objective of pre-launch, it is to generate email leads, qualified email leads. (P17R-Ent-Oct20)
Pre Phase /	**M. Make a Good Video** /	I think that is the actual key to crowdfunding is you need to invest in a video. I know people who have invested in that they have paid a videographer to shoot a video for them. And

Preparing for a successful campaign	Making a compelling video that communicates the product effectively	we would normally always do that for our events, but for the HHHH (festival), we had no budget, so we just did it on my phone. Um, but with a bit of free editing software, you can make it look vaguely professional. And I think, even just having a mobile phone shot video that's trying to be engaging, and like a bit humorous, and really explaining what the project is about, that makes like such a difference. (P3R-Ent-Mar20)
		So yeah, we had the idea, we had the first prototype, and we said, let's do it, let's try to see what people think about it. So, we made this very homemade video to explain our idea. At that time, I was in university studying engineering, and my brother was still in high school. So, he was seventeen, and I was twenty-three, so we said, okay, let's try it, and we had a huge response from the people like they really loved the project, and it was very competitively priced. (P13R-Ent-Sep20)
		I mean, I bet that I'm a, like ninety-eight per cent of the people would perform better than me in front of the camera and be able to express ideas eventually much better than I was able to do it on that video. But then, those people may be actors or people that you hired to do that, and it just has to be a different feeling if the person behind the idea, behind the project, is right there and in your face. The fact of making face has real relevance. It's not me hidden under a huge corporation or brand name, but it's me here with my face telling

		you this is a dream, and we want to make it true, and we need you, so it's a different feeling if you have that on your video. (P17R-Ent-Oct20)
Pre Phase / Preparing for a successful campaign	**N. Set Realistic Goal** / Setting realistic goals in terms of official target, personal target and stretch goals	Because then the crowd, the crowd wants to back a successful campaign, they don't want to back one that might not make it, so it's important to set a realistic goal, generally shooting quite low and to exceed it as quickly as possible, and so then the energy of the campaign, the campaign takes off with some energy. (P18R-Ent-Oct20) Obviously, if the goal is that much lower, you are going into the most funded categories more and more because as people toggle on the searches and go 'most funded', you'll be going for the higher percentages. We try and keep our goal quite realistic. We just keep it as low as we possibly can because we know we can hit it in a quick amount of time. Also, it's a nice claim on your social media – you know, funded within three hours. (P10R-Ent-Sep20) So, we were repeatedly hearing that people want an option of the pants without the zippers, without being convertible to shorts, and I mean a lot of people. So, we said, you know what, this, of course, complicates everything for us, we need to get bigger quantities. So basically, we said if we reach our numbers, and this is called stretch goals, if we are able

		to reach two hundred and fifty thousand dollars, we are going to be able to offer not only the convertible pants but the non-convertible pants as well. (P17R-Ent-Oct20)
Pre Phase / Preparing for a successful campaign	**O. Pass Review Process** / Passing the platform review process	So originally, I wanted to launch it with Kickstarter. I set up the whole campaign on Kickstarter, and then there's a review process, which was like a couple of days' time, and crazily because mine and AAAA (another baker) were the same. It was the same; we were building on an existing business, we were offering new services, but they had okayed AAAA, and then they rejected mine because they said, what you're doing isn't new; you are just trying to offer more of the same. (P11R-Ent-Sep20)

Essentially, in a nutshell, that's what happened, but I didn't submit that; the platform will determine that themselves, and there are certain factors that play a role, such as education and putting your own identity. Your face in front of it is a pretty dominant factor for them. They also explain on their website what makes a project a project they love. Mine had an educational aspect, and there was a Kickstarter limited colour edition, so I guess that kind of plays a role. (P15R-Ent-Oct20)

Again, there are exceptions, but we have seen that raising fifty K is pretty hard work. Over one hundred is really, really hard work and probably a good deal harder than equity, and also, both Kickstarter and Indigogo have tidied up their rules quite significantly in the last |

		few years. So once upon a time, you could literally go out and get funding for an idea; they won't let you do that now, you've got to be pretty close to product ready. There are ways around that, but you've got to satisfy some pretty strong criteria there. (P20E-PM/C-Jul20)
Live Phase / During which backers make pledges for rewards and targets are achieved	**P. Contact Primed Early Birds** / Contacting the primed group of early backers, asking them to confirm their orders	You have this primed group of people, and you let them know when it goes live; you get a hit rate from those people, and that bumps you up on the listings, and it rolls from there. The pre-arrangement of Kickstarter is about you generating a tribe, or following, of people that are potentially going to buy what you are targeting them to buy. (P5R-Ent-Sep20) Because you have been amazing and clicked through early, we would like to give you some kind of reward, and so what that is most of the time is early bird, first twenty-four hours. We'll tell you when it's launched, and you will get an opportunity to get involved in the really cheap prices in the first twenty-four hours. (P16R-Ent-Oct20) You really want to reward those early people as much as possible because early people are your chief evangelists, they are your heroes, and they are the ones you want to make happy. Because if they can get it early and incentivised, the whole campaign will run smoother, and the more you make upfront often translates to more towards the back end of the campaign. (P18R-Ent-Oct20)

Live Phase / During which backers make pledges for rewards and targets are achieved	Q. Generate Momentum / How entrepreneurs manage campaigns so that they gain and maintain momentum	And we had some local press, um, and I think it was JJJJ (local TV news) came, so they then helped to promote all of that at the same time. So, we could say when we were interviewed, and it went on the six o'clock news kind of thing, we could say that we were launching our IIII (campaign) to raise money for our next film. So, we combined as much as we could, momentum at that time, to really give it a good kind of push at the start of the campaign. (P4R-Ent-Mar20)
		You build a mailing list before you launch. You promise a discount for those people already on your mailing list. It's kind of building a dam. You put a stop to people buying the product, but you keep them on your mailing list, so you have momentum moving into your campaign. (P9R-PM-C-Sep20)
		Yeah, what I normally like to do is you can create FOMO by offering the early bird rewards, so like the first one hundred people. So, it's like, 'I'll have to be one to get the sixty per cent off or whatever. In my particular case, I offered a limited edition in Kickstarter colours, which was only available during that campaign. Basically, you pledge, or you will never receive that limited edition again. (P15R-Ent-Oct20)

| Live Phase / During which backers make pledges for rewards and targets are achieved | R. Continue Engaging / Continuing to engage backers to counter any middle-campaign drop-off | One thing that was again clear from the Kickstarter experience was that, and of course, other campaigns too, was that there is this initial surge from these people who are prepped to see you, and then it flattens out in the middle, and then there is the time element of get it in before its finished. So the middle is quiet, and the end goes busy, and there are lots of little tricks that all the places we were working with were using or suggesting that were perfectly legitimate ways of doing things. (P5R-Ent-Sep20)

So don't despair in the middle, right, as long as you have contributions every day. You get the right metrics because conversion rates both in equity crowdfunding and in rewards crowdfunding are not very far from the normal conversion rates we have in any other forms of e-commerce, really, of one to three per cent, right. So, if you have a lower conversion than one per cent, you probably have an issue with the design of the campaign or perhaps targeting the wrong people. But if you have a higher conversion rate you might have potential there, right. (P8R-PM-C-Sep20)

But it's that third week that is the hardest. That's when you really need to focus on engagement. So instead of like 'give us the money', it's like, 'wow, did you see us in The Guardian this week? Or 'we have four hundred amazing backers we want to thank you all, here are some names, that sort of thing. Or some poles, or something like that to keep engagement high. (P7R-PM-C-Sep20) |

| Live Phase / During which backers make pledges for rewards and targets are achieved | S. Manage Rewards / Monitoring and managing rewards during the campaign | So, the middle is quiet, and the end goes busy, and there are lots of little tricks that all the places we were working with were using or suggesting that were perfectly legitimate ways of doing things. For example, on Kickstarter, you have different reward levels, same product but different prices, and there are a limited number of rewards. One of our partners said if you keep the number of rewards at a couple of them left, so almost running out, then that will drive your conversion rate, so people will buy more because they don't want to miss out, right. Even to the point where someone else was selling an app to plug into your page that would do it automatically for you. (P5R-Ent-Sep20)

So even though we hit our target, because we sold a lot of passes on our Crowdfunder for the festival, it just made it very complicated. So, in the last one, we kept it very simple and either offered merchandise, or we offered services like a music lesson or a funding advice session or whatever it is. Um, and that worked a lot better because you have the stock in front of you, and you can work out who is getting what. Yeah, so from now on, I would definitely only use rewards either as physical objects or services. Tickets don't work. (P3R-Ent-Mar20)

We had the super early-bird, the early-bird, and the Kickstarter special. And what happened was we jumped from the super-early bird to the early bird, and it was a full stop |

		on our pledges. I mean from level ten to level two in one day. So, we even had to make like a special Halloween, like er final opportunity for all the people we are leaving out, hey, we are offering again this price, and if you have bought from the more expensive gear, you can just change and pay the lower price. (P17R-Ent-Oct20)
Live Phase / During which backers make pledges for rewards and targets are achieved	**T. Manage Updates and Comments** / Managing updates and comments while countering hostility	For this, if people just get demanding, there will be updates about the manufacturing process, videos from the factory with people pulling items out of the factory. For the DDDD (previous product), we did a video where one of the guys in Taiwan walked around with his phone, and it actually showed one of the tiles being made in the injection moulding system and it popping out, and he puts it in a pile of other tiles. It adds validity to the fact that we are not just taking your money and sailing off to the Bahamas. We are doing this, we are making this, and that's what we normally do, lots of updates, lots of photos of us holding the product, all that kind of stuff, and then when things get delayed, you just have to be open about it. (P16R-Ent-Oct20)
		Today we are launching an update. Sometimes it happens that people comment over there, but the majority of that feedback goes into the comment threads. I mean, these guys, if you are going to use Kickstarter for the first time, you are probably not even going to notice that, but with time you get better at stuff, like just in everything, right. So normally, the first thing that you do whenever you are interested in a project is check out the comments.

		You know, because this company may have been before in Kickstarter, maybe their quality was terrible, maybe their fulfilment was terrible, and you don't want to invest yourself in a company, by history, that had done things the bad way. (P17R-Ent-Oct20) And regarding the comments on the campaign, it's always hard because actually, when a backer is happy about it, they tend not to comment, you know. They just use their product, they are happy about it, and they don't take their time to comment. Obviously, when someone has a problem, they comment that they have a problem. So, an outside view, to give you an example, like DDDD, we have sixteen thousand backers, not even that big, but we have six hundred comments, not so many negatives luckily because DDDD has a very low faulty rate, so there are not many. But if you scroll these six hundred comments, probably you will find more or less the same positives and negatives. (P13R-Ent-Sep20)
Live Phase / During which backers make pledges for rewards and	**U. Hit Official and** **Personal Goals** / How entrepreneurs manage a campaign so it achieves the official target	Four thousand pounds is just made up because we want something to be hit very quickly. Our ad agency ran a six-week pre-launch campaign on Facebook and are very good at predicting what amounts we think we will see. Not in that you will raise this much, but in terms of how much return on ad spending you will get, it's called ROAS – return on ad spend – we were getting a six to seven to one return on ad spend. So, we knew roughly speaking what our ad budget was going to be; we knew roughly speaking how successful it was going to be, at least for a launch. We didn't know how long that spike at the beginning

targets are achieved		of the campaign was going to last. We didn't know how long people would be interested. Would everyone get their tray on the first day, and no one get one after that? That you can't predict, but you set the goal so you can smash it straight away, but in your head, you say, right on day twenty-nine, if it hasn't raised one hundred thousand or plus, we'll just cancel the campaign. (P16R-Ent-Oct20) Obviously, every single time you do a campaign, and it's successful, the belief of the backers follows you from campaign to campaign. That's always going to help the launch because if you have a successful launch, you should have a successful campaign, but you need to be hitting your goal on day one. We usually hit it within the first few hours. Because our mailing list is massive, so we do an email blast out. (P10R-Ent-Sep20) Yeah, with crowdfunding, the goal is to have half of your goal in the first twenty-four hours, so really in advance of this, I had loads of friends who bought the bike, and friends of friends, so we told...I had been speaking about it to friends for quite some time. So, we actually had an Excel sheet of all the people that we knew would back on day one, and as soon as it went live, we messaged them all, phoned them up, and they all backed it. So that meant that the crowd was observing an already successful campaign, and we were fully funded in the first day. And really, that is the goal to be fully funded in the first forty-eight hours. (P18R-Ent-Oct20)

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Post Phase / During which rewards are delivered	**V. Manage Delivery Delays** / Managing communications about delivery delays	It is also important to be very transparent with customers – if there are delays, let them know as soon as you can and how the product is progressing from a prototype to manufacture. (P6R-Ent-Sep20) They are excited, they ask questions, they have concerns, they…it's just an open forum for discussion. And comments sections on crowdfunding campaigns are really mixed, and they generally start off very positive, and they inevitably go the opposite when there are delays. I would say somewhere between eighty per cent plus of crowdfunding campaigns will experience delays. (P18R-Ent-Oct20) In my case, I encountered a minor delay. I just cleared the last few orders, the last few days. For me personally, it was because of the fact I just had so many backers. So, I think it's the biggest playing card project by the number of backers on the platform. So, eleven or twelve thousand people, which is a logistical challenge to, so with the size, it automatically became longer, and the workload increased, but yeah, generally, I think it's very important to be open about it, and to communicate whatever is going on. It's like the personal image of your brand will suffer. (P15R-Ent-Oct20)

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Post Phase / During which rewards are delivered	W. Confirm and Additional Rewards / How entrepreneurs contact backers to confirm their details and at the same time offer additional rewards	…since it passes a long time from the campaign, it can pass several months from the campaign to when you ship out. Many of your backers move, many want to add more units, many want to change their colours. Indiegogo doesn't let you do that; Kickstarter doesn't let you do that, so there are external software to do that: BackerKit is the leader. (P13R-Ent-Sep20) And as I said for DDDD, that was, we did collect the postage, which was about three hundred dollars' worth, and then another three hundred dollars' worth was secondary sales. So it was about a quarter. We increased our pledge levels by about a quarter. (P16R-Ent-Oct20)
Post Phase / During which rewards are delivered	X. Learn From Experience / How entrepreneurs learn from experience	Yeah, we tried a card game, a group game based on internet trolling, quite similar to cards against humanity in its gameplay methods but a different subject. We launched that purely based on social media interaction, and we didn't have any advertising budget for it at all. We didn't have any professional ad agency working for us. The lesson was that you can't do a Kevin Costner Field of Dreams, where you build a baseball pitch in the middle of nowhere and hundreds of cars arrive. If you build it, they will come, not on Kickstarter; no, don't run a campaign without advertising and expect it to do well. So, in the end, it did okay, and it beat its target, but we cancelled it because there was no momentum behind it. (P16R-Ent-Oct20)

| | | The first year we made a really big mistake where we listed some of our tickets on the Crowdfunder. And I would never ever do that again because it made working out venue capacity and things like that incredibly difficult. And it made it, so our ticket income was wrapped up in our crowdfunding income, and it was just a big mess. (P3R-Ent-Mar20)

Never thought anything of it, we put everything into Kickstarter, and they approved the project at the beginning, and then we got to one hundred thousand, and we were four days away from the end of the campaign, and they cancelled it. Absolutely catastrophic, it put us in, we were really skinning things, we were running up the sand dune constantly to keep ourselves within the bills every single month and actually be able to work for ourselves. …they just said it resembled too much of a previous product, even though it was approved. The problem is with Kickstarter; there is no arguing. They are very, very difficult to talk to – I have never talked to anyone at Kickstarter. (P10R-Ent-Sep20) |

Appendix M: Data Table for Rewards Backers

2nd-Order Themes / Description	1st-Order Concepts / Description	Representative Evidence **Identifier example: P15R-Ent-Oct20** = Participant 15 from Rewards, an Entrepreneur, and the interview took place in October 2020. Correspondingly, 'PM-C' denotes Platform Manager-Consultant.
Value Drives / Backers whose decision-making is driven by getting the best value for money	**S. Early Birds** / Backers who respond to early-bird offers	Yeah, what I normally like to do is you can create FOMO by offering the early bird rewards, so like the first one hundred people. So, it's like, I'll have to be one to get the sixty per cent off or whatever. In my particular case, I offered a limited edition in Kickstarter colours, which was only available during that campaign. Basically, you pledge, or you will never receive that limited edition again. (P15R-Ent-Oct20) You really want to reward those early people as much as possible because early people are your chief evangelists, they are your heroes, and they are the ones you want to make happy. Because if they can get it early and incentivised, the whole campaign will run smoother, and the more you make upfront often translates to more towards the back end of the campaign. And so, it is important to give pretty generous early-bird rewards, but not in a way that overly complicates your offering. (P18R-Ent-Oct20) So maybe your product is like seventy-five pounds, and you are putting it out on your social media beforehand that you can get it at a forty per cent discount if you sign up. And then

		that list is like the absolute most engaged, and they are going to get the biggest discount, and they are going to give in the early days, that's like the equivalent of a big lead investor. (P7R-PM-C-Sep20)
Value Drives / Backers whose decision-making is driven by getting the best value for money	**T. Price Responders** / Backers who want to know that they got the best price on offer for a particular item	And then some things on Indigogo, more than anywhere else, um, have been much more transactional. Um, so for the last few Christmases, I have definitely got stuff for my kids on Indigogo. Stuff that is being launched late summer-autumn time with a kind of November-December shipping date. It's been much more, well, that's a good price for that thing, you know. (P1R-Ent-Feb20) One of our partners said if you keep the number of rewards at a couple of them left, so almost running out, then that will drive your conversion rate, so people will buy more because they don't want to miss out, right, even to the point where someone else was selling an app to plug into your page that would do it automatically for you. So, you just pay them a daily fee, and it will check how many you have got left, and it would inch it up. And you would think that people would get wise to this, and be upset about it, and all that kind of thing, but the marketing agency we worked with said people only care that they got the best price. That's all they care about, so they wouldn't even connect that there were only one hundred available, and now there are one thousand available, but it is just the mentality of not missing out. (P5R-Ent-Sep20)

		Right, so basically, backers subscribe on the platform, then the platform sends an email, hey, the BBBB pants have just been released; we have a special deal. So basically, we offer to those backers a special perk…it's a coupon, fifteen per cent off in our online store to all the backers that come from Backer Club. So basically, it's a platform that helps creators with an email blast and, at the same time, helps backers with special rewards just for being part of their platform. (P17R-Ent-Oct20)
Brand Drives / Backers whose decision-making is driven by a connection to the brand	**U. Brand Connection** / Backers who like the brand/product	You need to make sure people are very connected to the brand and the people behind the campaign. Contributing to a crowdfunding campaign is a risk for the customer, and they really need to feel special and that they are vital to the success of your business. (P6R-Ent-Sep20) …like the majority of our previous customers buy our new products because they like the brand and they are within the same niche on products, so I don't have a percentage in mind of people who buy again our products, but it is definitely more than a third of our backers. (P13R-Ent-Sep20) …ultimately a content strategy that works over six to eight months and is constantly iterated and developed to the point where you are developing content that people want

		to see and interact with and they have a genuine affinity with your brand, which gets them in a position when it comes to buying it's a lot easier decision because they genuinely believe in what you are doing. (P9R-PM-C-Sep20)
Brand Drives / Backers whose decision-making is driven by a connection to the brand	**V. Gifting Motivation** / Backers who buy intending to gift the item to another person	In terms of the products, we have found that some things really fly on crowdfunding and some things don't, and I think the less subjective you make it, the better. My business partner, CCCC, has done watches and wallets and stuff. Watches are great, but we get a lot of people who buy from us as gifts for other people. (P10R-Ent-Sep20) So, we did like this family pack kind of deal, because we knew that people would find it interesting and then buy five or ten, and then give that to family or friends. So, we did this kind of quantity deals. (P13R-Ent-Sep20) Whether you are a beginner camera owner or advanced, or your best friend, or your husband, or your wife, or whoever it is, then gift it, and a deck of cards are just so innocent. So, I thought that would be a good additional factor to appeal to people who are not necessarily photographers themselves. Or, they are photographers, and they want to gift it to people that they want to drag into the scene, or whatever. I think gifting is always quite powerful. (P15R-Ent-Oct20)

| Impulse Drives / Backers whose decision-making is driven by impulse and the influence of others | W. Impulse Buyers / Impulse buying of lower value products | Um, whereas with the FFFF tray, that is an impulse purchase. That it is something that people buy off-hand while they are on the tube, or, with the phone in their face, stood by the water cooler, or whatever. (P16R-Ent-Oct20)

If you go to the supermarket, as they call - people who already have an account on Kickstarter, already have their payment details there, and for them, it's just I like this, 'click' and I buy it. Rather than having to explain to people who are not familiar with crowdfunding, they have to create a user on the platform and then – there are so many barriers in that journey. Those agencies go for the low-hanging fruit, basically, those impulsive buyers who back ten-plus projects a year. (P8R-PM-C-Sep20)

I think that is relevant to how you consider the decisions that people are making because rewards-based crowdfunding is a lot more impulse buying, whereas equity crowdfunding, a user has to go through a stringent process of meeting the requirements of the platform before they are even allowed to invest, whereas on Kickstarter people go from seeing a Facebook ad for the first time to buying. (P9R-PM-C-Sep20) |

| Impulse Drives / Backers whose decision-making is driven by impulse and the influence of others | X. Friends' Influence / Influence of friends or associates on buying decisions | Many, many times, our backers buy because they saw their friends using it. They say, 'oh I've never seen this thing before', you know the form factor is unique, and then they decide to buy it. (P13R-Ent-Sep20)

That's an affiliate of the platform where you could, for example, become a booster, and you could share the link with followers or friends, and then you would receive a kickback. So that's another useful site; I would say not the main driver of pledges, but nice to have. (P15R-Ent-Oct20)

This platform it's a real kicker because what they do is basically you publish your campaign on your platform. And then, for example, you are a student in the UK, or wherever, that has a bunch of friends on Facebook, so basically, you take that campaign, that link, you join CCCC (affiliate) platform, which is free for you to use and then you share that campaign with your friends. If one of your friends actually buys the product, then you get a kickback of ten, or, fifteen per cent of whatever the company decided to share with that affiliate marketer. It's affiliate marketing in a very basic way, and it's a win-win situation. (P17R-Ent-Oct20) |

Appendix N: Data Table for Rewards Platform Managers-Consultants

2nd-Order Themes / Description	1st-Order Concepts / Description	Representative Evidence **Identifier example: P17R-Ent-Oct20** = Participant 17 from Rewards, an Entrepreneur, and the interview took place in October 2020. Correspondingly, 'PM-C' denotes Platform Manager-Consultant.
Rewards Environment via Platforms / Platforms provide an environment for crowdfunding campaigns	**Y. Funding for Growth** / Platforms offer entrepreneurs opportunities to raise funding for growth	The reason, of course, why these guys are the majority is because it started there. Kickstarter is a US company, and I think it has a lot to do with the mentality of the American guy. You need to understand the psychology behind a Kickstarter and what it represents; it's a vote of faith. It's an idea of being part of something, of entrepreneurship, that spirit of building great stuff together, and I think if there is one country that has traditionally been strong on that, it's the US. (P17R-Ent-Oct20) This shop came up that I wasn't expecting. I've been looking for a shop, for like two years, since I started. And then one of my customers had bought a property, a commercial property just down the hill from the bakery, and said do I want it? So, it was kind of unexpected. I had the money. The plan was to upgrade my equipment; it wasn't to have a shop. And I thought, how am I going to get the rest of the money to help towards this? So, I thought I'll do crowdfunding. (P2R-Ent-Mar20)

		There are often products when they can't afford to do a full production run, perhaps because they need to get tooling, etcetera, and so they use rewards-based crowdfunding to pre-sell the product and to raise enough money to do the tooling for a production run. That is a sound strategy for getting started, but it's not a long-term strategy as the money you raise does not last very long. You need to go again quite quickly. (P22E-PM-C-Aug20)
Rewards Environment via Platforms / Platforms provide an environment for crowdfunding campaigns	**Z. Innovative Products** / Platforms allow backers to pre-order innovative products	We always try to bring something innovative and a different cut to our product, so that it's not just because of the specs that you buy technology, but it's actually because we want to sell something useful to give to our community, we want to give useful tech, something that doesn't end up in a drawer. (P13R-Ent-Sep20) So, generally, my approach was, I'm trying to identify a product market and fit a need within a particular industry; in my case, its photography. So basically, I thought photography is an abstract subject, and it's quite difficult and technical to explain, and sometimes people struggle with that. So, I thought, what can I do to bring that into a simplified format? And then it started out as these cheat-sheet cards, so to speak, and then I have just combined it and made it hybrid with the playing cards, and that was quite well regarded by the people in general, yeah. (P15R-Ent-Oct20)

		Main motivation was to make great coffee easily. Important USPs were zero retention, quality materials, quiet, simple to use and range of settings. (P6R-Ent-Sep20)
Rewards Environment via Platforms / Platforms provide an environment for crowdfunding campaigns	**AA. Global Network of Backers** / Platforms bring together a global network of backers	Without going into too much detail, quite a few from the USA. I don't see any correlation between population and backers, which I was a bit surprised about. Probably the USA, Japan, some of the other Asian countries, and then English-speaking countries and then quite a few from Europe, Italy is quite a high one. I think there are about forty-one different countries, and literally, it's all over the world. Literally all over the world – global appeal. (P14R-Ent-Oct20) If you take into account two thousand backers from seventy countries, you can just imagine the amount of talent that you have there. (P17R-Ent-Oct20) It's always fifty to sixty per cent of our sales are from the US and Canada, so very US targeted. BBBB (coffee machine), we are skewed a little bit towards the UK just because of expresso being quite a niche area for quite a few European countries. (P10R-Ent-Sep20)
Rewards Environment via Platforms	**BB. Transparency and Trust Building** /	And the company that makes it is most of the time a new company, and so they can have many obstacles along the way, and they can easily burn all the money and not be able to deliver the final product to the customer. That still happens today to many crowdfunding

| / Platforms provide an environment for crowdfunding campaigns | Platforms work to build trust by encouraging transparency | projects, so they are trying, I think, both Kickstarter and Indiegogo, in order to survive and to have a good reputation, they are trying to give the customer the best chances and best experience. So, Indiegogo, for example, …they make some assessment; they require you to send samples, working samples, in order to assess at which stage you are of the production of these products. So, if it's a concept, or you are already in production and ready to produce. So, they analyse this, and then they make it transparent to the end customer. (P13R-Ent-Sep20)

So what often happens, and something we have learned from and observed a lot in the crowdfunding industry, is that communication is not good enough. And so when communication is not good enough, trust is eroded, and when trust is eroded, the experience that the users, the people, the backers have starts to diminish and whenever one or two people start to kick up a ruckus, then the crowd sort of gets behind that. (P18R-Ent-Oct20)

And if you read the comments on these people, people love the brand. The brand communication is amazing, their quality is great. Whenever some problem arises, they are willing to help immediately. I have seen that myself because I have purchased from them, and these kinds of companies are the ones that build the credibility for the platform. (P17R-Ent-Oct20) |
|---|---|---|

Rewards Environment via Platforms / Platforms provide an environment for crowdfunding campaigns	**CC. Screening Campaigns** / Platforms screen campaigns applying robust criteria	Kickstarter and Indigogo have tidied up their rules quite significantly in the last few years. So once up a time, you could literally go out and get funding for an idea: they won't let you do that now; you've got to be pretty close to product ready. There are ways around that, but you've got to satisfy some pretty strong criteria there. (P20E-PM-C-Jul20) They have a mission that goes with making money, right, it's to enable creators, right. So, they are quite strict usually on the things that they allow on the platform. (P8R-PM-C-Sep20) Yes, they add that to each project to show what stage they are at, and in order for a project to be shown, for example, as a prototype, they have to present some evidence to get that badge. (P9R-PM-C-Sep20)
Attractive Campaigns from entrepreneurs /	**DD. Feedback from Users** / Providing entrepreneurs with feedback from users	So yeah, I would have said that crowdfunding has just been great to give us that feedback, to know which product is going to really fly, and which one is worth our time. (P10R-Ent-Sep20)

Entrepreneurs need to present attractive campaigns to potential backers and, in return, receive benefits	which can be used to make improvements	But then we really liked this approach to tech because it's not like just making a product and selling it to the distributor or to stores and then not having any feedback from the customers. When you launch a campaign, there is a really strong interaction between us, which we are the creators, the backers which are the end-users. So other than just marketing, the marketing aspect, we feel that the community aspect behind it is very, very crucial. It's a very important role because you can get direct feedback from the final user. (P13R-Ent-Sep20) We obviously took that road, in what would they like to see. In all-round clothing, in durable clothing that basically can perform in a variety of situations, what would you like next? And in that survey, over eighty per cent of the guys that answered the survey, they mentioned pants. I mean, we wouldn't have thought about it, actually, in my mind, there were other products to go before pants, but when you have such a big majority, they are telling you, it just makes all the sense in the world involving them in your pipeline, in developing your stuff. (P17R-Ent-Oct20)
Attractive Campaigns from entrepreneurs /	**EE. Reduces Risk and Costs** / Reduced risk and costs benefits for	Well, there are different campaigns and different contributors, and at the end of the day, we are still a rather small team. And we want to keep our fixed costs low, so basically, when we need help to escalate things or make things happen, we rely on different partners. (P17R-Ent-Oct20)

Entrepreneurs need to present attractive campaigns to potential backers and, in return, receive benefits	entrepreneurs	Because of the demand, we did variations of the pencil and a pen and things like that. We did like a stationery thing for quite a while. It was stuff we were working on outside of our work hours, and it was quite low risk because of that; it wasn't consuming as much time. (P10R-Ent-Sep20) That's right, I have a warehouse in China, and I think that's a fairly common way from an economic perspective. You know, say your product has like a unit price of one hundred dollars, and you are offering an incentive for the people. If you are offering an incentive for the people, like you are offering fifty per cent discount, and if you would bring it to the UK and pay like stamp duty and taxes and everything on that, and then you use a fulfilment agent there, with UK salary and so on then I think your profit margin would be relatively small…and there are very good logistics there, so it makes a lot of sense from the economic perspective. (P15R-Ent-Oct20)
Attractive Campaigns from entrepreneurs / Entrepreneurs need to present	**FF. Validate Product Ideas** / Validation of product ideas from actual users	Because it's a very efficient way to validate an idea, and its real people's market demand, right. It's purely an economic decision, as opposed to making five thousand decks and putting up the capital for the factory and everything, and then maybe nobody wants it ever, and then I have it in my garage or something, right. (P15R-Ent-Oct20)

attractive campaigns to potential backers and, in return, receive benefits		At that time, we went with Indiegogo. Why we decided to go with crowdfunding? Well, we didn't have any money to invest in the products, of course, but at the same time, we felt crowdfunding was a great way to validate our idea, to validate our product, in front of hundreds of thousands, if not millions of customers. (P13R-Ent-Sep20) We had one brew and one variant, and we wanted to do more and thought that if we validated with the crowd, we would know there is a demand for it. So we did a campaign on Crowdfunder, and then I did another one personally as well; I was collaborating with a charity here. They had this project to open a community café. (P8R-PM-C-Sep20)
Attractive Campaigns from entrepreneurs / Entrepreneurs need to present attractive campaigns to potential backers	**GG. Brand Building** / Building a brand following over time	This is a bit of a change for us now with BBBB (coffee maker) because this is the first product we have released. Between myself and my business partner CCCC, we have done about ten campaigns, and this is the first campaign that we truly believe has got clout to build into a multi-million-pound brand that we can then eventually exit. (P10R-Ent-Sep20) So, after that, we are at our seventh campaign now with AAAA, which is our brand of wireless earbuds. And we are planning to increase our team so that we are able to launch more products throughout the year because right now, we focus a lot on creating a product. It can take us like more than a year, like it did for AAAA, one and a half years of product development before launching. (P13R-Ent-Sep20)

and, in return, receive benefits		That then became the DDDD (board-game accessory). We designed that and released that as a Kickstarter at the beginning of the year, still doing day jobs, hoping one day after eight to ten products launched, we could set up an online store and maybe CCCC and I could go full-time at it. It raised one point one million dollars on the Kickstarter campaign; we have subsequently, through pre-orders and Backer Kit survey out to the backers, raised another six hundred thousand pounds or eight hundred thousand dollars. So, we are just under two million dollars so far with the DDDD, and we are now in the process of organising crowdfunding campaigns in Japan and Taiwan, where we have distributors who will be running those campaigns for us. And it sells on a monthly basis enough now for CCCC and I to give up the day job and to actually do this full time. (P16R-Ent-Oct20)
Decision Making by Backers / Backers need to make buying decisions and, in return, gain benefits	**HH. Range of New Products** / Providing backers with a range of new products	This is also why it takes a really long time for us to develop, because we do a lot of research prior to developing the product, so we don't sell generic stuff. That goes very well with crowdfunding because on crowdfunding the backer is always looking for something new and something they haven't seen before. We couldn't launch just a simple cable or a simple power bank; we always need to bring something new and exciting to the table. (P13R-Ent-Sep20)

| | | Yeah, yeah, our first campaign was a type of magnetic pencil and that did about eighty thousand. We did a pen that was about seventy thousand. We did titanium variants of both; they did quite well. We did a knife, a pocketknife, and that did a one hundred-odd, one hundred and thirty, I think it was. Our goal with BBBB (coffee maker) was to get over the quarter mill; that was the main goal, and we launched in October, so it would have been coming up to a year ago, and it's pushing towards two million revenue now with crowdfunding and external sales. (P10R-Ent-Sep20)

Well, I believe the true test, if you are wanting to start a company, the first question to ask yourself is: 'do I have a product'? And then the next question to ask, is the product something that I want for myself, in which case I can go and cook up a meal and eat it, and it be delicious, but what if no one else wants that meal? What if no one else wants that flavour combination? So that's what Kickstarter is good for, because I had a gut feeling, no rational basis for this really, other than this a time when e-bikes are considered to be quite uncool, quite unattractive, quite heavy objects, I thought that someone else might want this as well, so let's give it the best chance it can have. (P18R-Ent-Oct20) |
| **Decision Making by Backers** / | **II. Community Experience** / Providing a community experience for backers | I think I also really liked the idea that it would be community-supported and that people would really be invested in what was happening and kind of understanding our thinking behind it, and yeah, I think they really invested in the business. (P11R-Ent-Sep20) |

Backers need to make buying decisions and, in return, gain benefits		We always try to bring something innovative and a different cut to our product so that it's not just because of the specs that you buy technology, but it's actually because we want to sell something useful to give to our community; we want to give useful tech, something that doesn't end up in a drawer. (P13R-Ent-Sep20) And yeah, a lot of the reason behind the crowdfunding is also to give people a sense of ownership over it…and, um, an increased sense of connection with the place, you know. That was a really important part of it for us, you know. Because we were opening a physical place in a local community. (P1R-Ent-Mar20)
Decision Making by Backers / Backers need to make buying decisions and, in return, gain benefits	**JJ. Supporting Innovative Entrepreneurs** / Providing backers with opportunities to support innovative entrepreneurs	Um, so apart from the fact that I constantly back projects, and receive the items, and I'm interested, and sometimes it's just to stay up to speed with the company, and so on, I think it's quite important that you are an active member of the community. So even if I wasn't backing projects, and I would create one, it would be quite good to see that AAAA (participant's names) has backed x-y amount of projects. I back projects to sometimes lock in the deals…sometimes I just pledge for like a Euro, and I would get it through the pledge manager, or I want to stay up to speed with an innovative product in the photography space because I follow the companies there, and the innovation there. (P15R-Ent-Oct20) The guy who buys in e-commerce is Amazon chimp; I want this yesterday like I want it delivered by drone right now. The guy who waits seven months to be part of a process and

		gives his opinion that he doesn't like the colour and wants a new colour. He wants to be part of a process to get a final product, the pants, in several more months and say I helped in bringing these ideas to life. (P17R-Ent-Oct20)
		And then the other side of it would be, anytime someone I have a good connection with artistically is running a project, I will normally try and support it. Whether that's a festival, or money for a show, or whatever it is. Just because I know how difficult it is and every little bit helps for them to reach their target. (P3R-Ent-Mar20)

Appendix O: Illustration of the Benefits of EIS and SEIS

The following illustrative examples are based on those provided by the Development Bank of Wales in a blog post (Banc, 2022).

EIS[1] (Enterprise Investment Scheme)	Scenario 1: Investment falls in value to zero	Scenario 2: Investment stays the same value	Scenario 3: Investment triples in value
Initial investment	£10,000	£10,000	£10,000
Investment value after three years	£0	£10,000	£30,000
Income tax relief	£3,000 (30%)	£3,000 (30%)	£3,000 (30%)
Capital Gains Tax	£0	£0	£0
Loss relief (assuming rate of income tax is 45%)	£3,150 (45% of £7,000)	n/a	n/a
Total returns	£6,150	£13,000	£33,000
Total gains/losses	**-£3,850**	**+£3,000**	**+£23,000**
SEIS[2] (Seed Enterprise Investment Scheme)	Scenario 1: Investment falls in value to zero	Scenario 2: Investment stays the same value	Scenario 3: Investment triples in value
Initial investment	£10,000	£10,000	£10,000
Investment value after three years	£0	£10,000	£30,000
Income tax relief	£5,000 (50%)	£5,000 (50%)	£5,000 (50%)
Capital Gains Tax	£0	£0	£0
Loss relief (assuming rate of income tax is 45%)	£2,250 (45% of £5,000)	n/a	n/a
Total returns	£7,250	£15,000	£35,000
Total gains/losses	**-£2,750**	**+£5,000**	**+£25,000**

[1]see HM Revenue & Customs, 2019 and [2]see HM Revenue & Customs, 2018