



# Crowdfunding among IT Entrepreneurs in Sweden

## A Qualitative Study of the Funding Ecosystem and IT Entrepreneurs' Adoption of Crowdfunding

Claire Ingram & Robin Teigland

Stockholm School of Economics

June 2013







Claire Ingram & Robin Teigland

# Crowdfunding among IT Entrepreneurs in Sweden

---

A Qualitative Study of the Funding  
Ecosystem and IT Entrepreneurs'  
Adoption of Crowdfunding

June 2013

---



Dr. Robin Teigland  
*Robin.Teigland@hhs.se*

Claire Ingram  
*Claire.Ingram@hhs.se*

Department of Marketing and Strategy  
Stockholm School of Economics  
PO Box 6501, SE-113 83  
Stockholm, Sweden

Crowdfunding among IT entrepreneurs in Sweden: A qualitative study of the funding ecosystem and IT entrepreneurs' adoption of crowdfunding.

Version 1.0 2013

It is permitted to copy and reproduce the contents in this publication following the Creative Commons Attribution Non-Commercial licence, whose terms and conditions are available at <http://creativecommons.org/licenses/by-nc-nd/2.5/se/legalcode>.

When adapting the report, SSE's logo and .SE's graphic elements must be removed from the adapted version. These logotypes and elements are legally protected and not covered by the Creative Commons license as above.

.SE climate compensates its carbon emissions and supports the ZeroMission climate initiative. Visit <http://www.uwab.se/> for further information about ZeroMission.

When citing, please state the source as follows:

Source: Ingram, C. and Teigland, R. 2013. *Crowdfunding Among IT Entrepreneurs in Sweden: A Qualitative Study of the Funding Ecosystem and IT Entrepreneurs' Adoption of Crowdfunding*.

Cover photo: JACreative, via Flickr

## Foreword

Since around mid-year 2011, crowdfunding, which can be viewed as a subset of the more general phenomenon of crowdsourcing, has been increasingly featured in the media across the globe in countries such as the US, Australia, the UK, and Sweden. Defined as the accumulation of small investments in individual projects by a large number of individuals (the “crowd”) via or with the help of the Internet and social networks, crowdfunding can be a means for entrepreneurs and small and medium-sized enterprises to raise the necessary funds with which to take the next step in their development.

As research shows that 99% of all businesses in Europe are small to medium sized enterprises and that these firms supply the majority of new job creation, it is no surprise then that government actors, such as the European Union, have showed considerable interest in crowdfunding as a potential tool with which to stimulate economic growth and job creation, especially in a time when bank loans and other forms of credit are shrinking due to the financial crisis.

Sweden is no exception to the above; however, as with any new phenomenon, it is important to develop a deeper conceptual and empirical understanding of the phenomenon in order to ensure the best outcomes for both economic growth and society.

The phenomenon has raised a range of responses in Sweden. One actor from the entrepreneurial community was very positive, [“Crowdfunding can be a great way of providing an alternative source of financing that’s also very democratic and targeted at the audience itself.”](#)

Another actor – from the established finance community, dismissed the phenomenon, however, as not terribly important, [“Crowdfunding is a nice complement but it will stay that – just a nice complement \[to existing funding means/capital markets\].”](#)

Our intention with this report, and with our continued research on the crowdfunding phenomenon in Sweden, is to bring to the table a set of issues that we hope may spark discussion and debate related to the role of crowdfunding in the greater start-up funding ecosystem in Sweden and in Sweden’s economic development.

We would like to thank Pernilla Rydmark and Niklas Serén from .SE for their insights, comments and contribution to our research and this report. We would also like to thank Dr. Emmanuelle Vaast from McGill University in Canada, whose theoretical contributions to our working papers on crowdfunding have been invaluable, and Maria Bustamante, a Masters student at the Stockholm School of Economics, for her assistance with interviews. Lastly, we would like to thank all those we interviewed for their time and interest in the report and our research.

Claire Ingram and Robin Teigland

Stockholm, June 2013

---





# Contents

<b>Foreword</b>	<b>6</b>
<b>Executive Summary</b>	<b>11</b>
<b>Introduction</b>	<b>14</b>
<b>Crowdfunding: The Phenomenon</b>	<b>15</b>
<i>Crowdfunding and Global Market Size</i>	16
<i>Crowdfunding and Geography</i>	17
<b>Crowdfunding in Sweden</b>	<b>19</b>
<b>The Start-up Funding Ecosystem in Sweden</b>	<b>24</b>
<i>Finding Start-up Funding in Sweden</i>	25
<b>Perspectives of Crowdfunding Platforms in Sweden</b>	<b>28</b>
<i>To Test the Market</i>	28
<i>To Attract Skills and Experience</i>	29
<i>To Create Brand Awareness</i>	29
<i>Risks and Fraud Concerns</i>	30
<i>How is Crowdfunding Better than the Status Quo of Funding in Sweden?</i>	30
<i>What Do the Platforms See as the Future of Crowdfunding in Sweden?</i>	31
<b>Adoption among IT Entrepreneurs</b>	<b>32</b>
<i>General Perceptions of Crowdfunding as a Funding Source</i>	32
<i>To Test the Market</i>	33
<i>To Attract Skills and Experience</i>	34
<i>To Create Brand Awareness</i>	34
<i>Risks and Fraud Concerns</i>	35
<i>Perceived Cultural Barriers</i>	36
<b>Perceptions from Other Ecosystem Actors</b>	<b>36</b>
<i>Business Coach</i>	37
<i>Funders</i>	37

---

<b>Recommendations</b>	<b>39</b>
<i>Recommendations for Crowdfunding Platforms</i>	39
Publicize Role as Intermediary for Large Funds	39
Facilitate Intra-Crowdfunding Communication	40
Promote a Pan-Nordic Crowdfunding Platform	40
Deal with Myths and Cultural Barriers	40
Increasing Market Size and Clarity	41
<i>Recommendations for Entrepreneurs</i>	41
Seek Education and Mentorship	42
<i>Recommendations for Government and Other Actors</i>	42
<i>Other Considerations</i>	43
Reward and Donation vs. Equity?	43
Swedish Culture	43
<b>References</b>	<b>44</b>
<b>Appendices</b>	<b>46</b>
<i>Methodology</i>	46
<i>Theoretical Background</i>	48
<i>International Impact</i>	49

## Executive Summary

**Background.** This report is the result of a study commissioned in 2013 by .SE - The Swedish Internet Infrastructure Foundation around how entrepreneurs, and in particular IT entrepreneurs, have responded to the increased availability of crowdfunding in Sweden. Much of the focus in international and regional studies has been on making crowdfunding attractive for potential funders, assuming that it is inherently attractive to would-be entrepreneurs. This report tests this assumption by interviewing entrepreneurs within the IT field in Sweden, as well as other actors within the Swedish start-up funding ecosystem.

**Introduction to Crowdfunding.** One of the primary drivers of crowdfunding is that new ventures face considerable difficulties in attracting external financing. However, crowdfunding, defined as the accumulation of small investments in individual projects by a large number of individuals (the “crowd”) via or with the help of the Internet and social networks, allows an entrepreneur to pitch an idea or business plan to more than just family and friends.

**Crowdfunding Worldwide.** Four established types of crowdfunding exist: donation-based, reward-based, equity-based, and lending or debt-based. In May 2013, there were around 800 crowdfunding platforms worldwide, and crowdfunding initiatives raised an estimated 2.6 billion USD in 2012, including about 945 million USD in Europe through 470 000 campaigns. Furthermore, Massolution predicts that crowdfunding will reach volumes of 5.1 billion USD worldwide, with about 1.3 billion USD in European markets. To date, business and entrepreneurial activity comprises 16.9% of all crowdfunding activity while Information and Communication Technology projects comprise a mere 4.8% of activity.

Fraud is often mentioned as a risk inherent in crowdfunding, yet a recent study of design and technology projects on Kickstarter in the US revealed that the failure rate was only 3.6% and that those that stopped responding to funders were only worth a mere \$21 324 in pledges relative to 4.5 million USD across the rest of the projects, or less than 0.05%.

**Crowdfunding in Sweden.** In March 2011 FundedByMe launched the first Swedish crowdfunding platform catering to entrepreneurs, and several other platforms have followed. We estimated the amount raised in Sweden through reward- and donation-based crowdfunding since its inception in March 2011 until April 2013 to be just around 7 million SEK and through equity crowdfunding around 19 million SEK. Among the most well known crowdfunding projects are Flippin’ Burgers, the *Granska slöseri med skattepengar* documentary, Stockholm MakerSpace and Virtuous Vodka - FundedByMe’s first equity project.

FundedByMe is the largest crowdfunding platform and has raised over 5.7 million SEK in reward- and donation-based crowdfunding for more than 300 of a total of 689 projects on their platform, with one raising 550 000 SEK. The majority have been social interest projects while only 92 have been Internet projects, of which 15 obtained full funding, and 63 technology projects, of which 11 obtained full funding. Around 1.4 million SEK was raised on Crowdculture, a platform primarily for culture and films, with two smaller platforms comprising the difference. FundedByMe says that a mere 17% of funders are repeat funders, a surprisingly low number considering the importance of IT entrepreneurship in Sweden.

---

Important to note is that despite the concerns related to fraud, to the best of our knowledge, there has not been a case of fraud in Sweden despite the considerable number of projects launched on Swedish crowdfunding platforms during the past two years.

**The Start-up Funding Ecosystem in Sweden.** The two primary sources of funding for Swedish entrepreneurs are 1) equity financing, including Venture Capitalists, Angels and private individuals, and 2) soft loans from government agencies, such as Almi and Innovationsbrun. A recent study showed that bank loans have decreased in importance for start-ups in the past seven years.

**Perspectives of Crowdfunding Platforms in Sweden.** In addition to accessing funding, crowdfunding platform providers are of the opinion that their platforms provide other, if not more important, benefits to entrepreneurs in Sweden: 1) to test the market, 2) to attract skills and experience, and 3) to create brand awareness. Crowdfunding platforms believe that the wisdom of the crowd helps weed out potentially fraudulent projects and entrepreneurs who might give the phenomenon a bad name by defrauding funders.

Particularly in the US, it has been argued that crowdfunding will disrupt traditional funding models as it will become a *substitute* for capital from Venture Capitalists, Angel Investors and bank loans. In Sweden, crowdfunding platforms are of the opinion that crowdfunding will instead act as more of an intermediary and *complement* to traditional funding.

**Adoption among IT Entrepreneurs.** Entrepreneurs do not fully embrace crowdfunding yet as the interviewees noted that state-provided “soft loans” or equity-based forms were the obvious place to look for financing, apart from bootstrapping the financing themselves. Only three of the 14 entrepreneurs interviewed had considered or even had tried crowdfunding. They were of the opinion that crowdfunding does not provide access to the skills and resources that their new venture needed. Within the context of equity crowdfunding, entrepreneurs were uncertain about the amounts of money available in Sweden and were concerned about having a large number of individuals with equity in their companies.

Additionally, “cultural barriers”, or characteristics specific to Sweden such as a risk-averse nature, an aversion to “showing off”, a social democracy, and no critical mass of funders, were viewed as hindrances to the growth of crowdfunding in Sweden.

**Perceptions of Other Ecosystem Actors.** Crowdfunding is not yet seen as a “sure thing”, thus it is preferred to aim for more traditional sources of funding. Furthermore, funders may not realize how high the failure rate is among start-ups, potentially causing a backlash a few years down the road.

**Recommendations.** First, actors such as government agencies interested in promoting crowdfunding should create a greater awareness of the benefits of crowdfunding to entrepreneurs in addition to spreading success stories along with the fact that to date the risk for fraud is very little. Second, crowdfunding platform providers should focus on publicizing their role as an intermediary for large funds, facilitate intra-crowdfunding communication, promote a pan-Nordic crowdfunding platform, deal with myths and cultural barriers, and increase market size and clarity. Third, entrepreneurs should seek education and mentorship. Fourth, government should support the development of a crowdfunding industry association or think tank to facilitate the promotion of crowdfunding within Sweden as well as to look outside of Sweden for both good practices and lessons learned from crowdfunding “gone bad” and investigate revising how legal restrictions limit public advertisement of certain private shares.



## Introduction

This report is the result of a study commissioned by .SE - The Swedish Internet Infrastructure Foundation from December 2012 to May 2013 around how entrepreneurs, and in particular IT entrepreneurs, have responded to the increased availability of crowdfunding in Sweden. Much of the focus in international and regional studies has been on making crowdfunding attractive for potential funders, assuming that it is inherently attractive to would-be entrepreneurs. This report tests this assumption by interviewing a sample of entrepreneurs within the IT field in Sweden; some have used crowdfunding, either in Sweden or abroad, while others have not.

Although IT is a niche market, the reaction of IT entrepreneurs to crowdfunding could be considered a litmus test for crowdfunding more generally. As 94% of Swedes have access to the Internet (SCB, 2012), it would make sense for IT entrepreneurs in particular to be in the vanguard of those likely to use crowdfunding. Their concerns and insights, therefore, are likely to be reflected in entrepreneurs active in other industries.

The focus of this report is on the IT entrepreneurs and crowdfunding platforms active in Sweden. We therefore interviewed 14 entrepreneurs and two active crowdfunding platforms but only limited numbers of other actors in the Swedish start-up ecosystem. Please see the appendix for further details on methodology.

This report starts with a general discussion of the crowdfunding phenomenon and provides some general definitions and basic operational insight. Thereafter it looks at crowdfunding in an international perspective before turning to the Swedish market and then more specifically the other actors in the Swedish funding ecosystem, what other funding options entrepreneurs have, and the stated objectives of existing crowdfunding platforms. Finally, we look at the adoption of crowdfunding by Swedish IT entrepreneurs before delving into an analysis of what the level of adoption means and whether it could be bolstered. We conclude with some recommendations based on our findings.

## Crowdfunding: The Phenomenon

In their initial stages new ventures face considerable difficulties in attracting external financing (see e.g., Berger and Udell, 1995; Cassar, 2004; Cosh *et al.*, 2009). As such, entrepreneurs often invest their own funds or turn to friends and family to raise the needed capital (Agrawal *et al.*, 2010). Crowdfunding allows an entrepreneur to pitch an idea or business plan to more than just family and friends. Indeed it can be defined as accumulation of small investments in individual projects by a large number of individuals (the “crowd”) via or with the help of the Internet and social networks (De Buysere *et al.*, 2012).

While there are many variations on this general approach, four established types of crowdfunding exist: donation-based, reward-based, equity-based, and lending or debt-based (see Table 1).

	Form of Funding	Benefits for Funders
Donation-based	Donation	Intangible benefits.
Reward-based	Donation or pre-purchase	Rewards in addition to intangible benefits.
Equity-based	Investment	Return on investment if company does well. Rewards sometimes also offered and intangible benefits may motivate too.
Debt-based	Loan	Repayment of loan with interest. Alternatively intangible benefits if loan given interest-free.

**Table 1:** Crowdfunding models (adapted from De Buysere *et al.*, 2012)

There are several different business models when it comes to crowdfunding platforms. Many platforms behave as mere “match-makers”, serving as a public meeting place for entrepreneurs and would-be funders. In the widespread reward- and donation-based crowdfunding model, this means that the platforms themselves avoid becoming marketplaces bound by VAT and tax laws – instead, they make the fulfillment of these laws the responsibility of the actual contracting parties, namely the entrepreneur/founder and the funder. In the case of equity crowdfunding the platforms circumvent widespread prohibitions on the advertising of high-risk, unlisted firms to the general public by requiring that would-be investors opt into the service and thus waive holding the platforms responsible for the risk profile of potential investments.

Other equity platforms, like the Dutch platform Symbid, have financial licenses and act as an investment vehicle for – and give investment advice to – funders; funders then invest in the platform and the platform invests in the early-stage company.

Many of the donation- and reward-based crowdfunding platforms also set a threshold that must be met before entrepreneurs receive the funds pledged by the crowd. The Massolution (2013) report claims that 54% of platforms use this tool while 28% of platforms have no such threshold and a further 18% of platforms have an optional threshold.

Platforms, irrespective of what form of crowdfunding they practice, usually charge a percentage of the amount raised, typically between 5 and 12 percent, while some also charge an investor fee (Nesta, 2012).

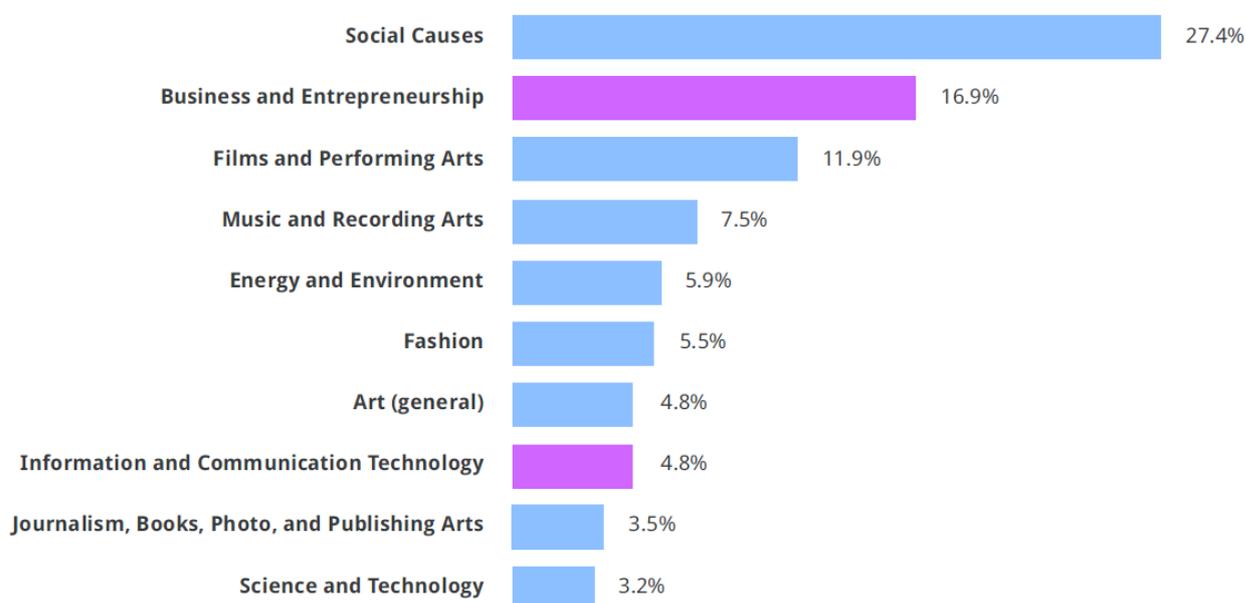
What all of these forms of funding have in common is that funders are investing in a project and expect a successful outcome. Similarly, entrepreneurs who post their idea on a platform hope, at a minimum, to raise a certain amount of capital.

### *Crowdfunding and Global Market Size*

In May 2013, there were around 800 crowdfunding platforms worldwide and crowdfunding initiatives raised an estimated \$2.6 billion in 2012 alone, including about \$945 million in Europe through 470 000 campaigns (Massolution, 2013).

Massolution predicts that crowdfunding will reach volumes of \$5.1 billion worldwide, with about \$1.3 billion of that predicted to be in European markets.

Of these, campaigns for social causes were the most common, comprising 27.4% of crowdfunding activity, followed by business and entrepreneurial activity at 16.9% of all crowdfunding activity. Information and Communication Technology projects comprise a mere 4.8% of activity (see Figure 1), although there is overlap between the two.



**Figure 1:** Types of crowdfunding venture, across the 10 most active activities (Adapted from Massolution, 2013)

The most well known of these for entrepreneurial purposes is US-based Kickstarter, which operates a donation and reward-based crowdfunding platform. As of April 2013 it had raised 198 million USD in funding, pledged to over 46 902 projects.

According to a recent study by Mollick (2013), successful campaigns either succeed or fail by small amounts. Successful projects raised on average 7 825 USD while failed projects raised on average only 900 USD, with the mean amount raised among failed projects a mere 10.3% of their stated goal.

Of those that are fully funded, most are 3% or less over their goal and only one in nine receives 200% of its goal. To date, 106 large projects<sup>1</sup> have raised over 10 times their requested amount, 33 of those raised over 100 000 USD and 31 of these were in “hardware, software, games, or product design” (Mollick, 2013:13).

Mollick further observes that a project’s preparedness is often a signal of quality and that funders recognize and reward quality projects. Standards outlined by Kickstarter itself, specifically the importance of 1) posting a video as part of the project presentation and 2) providing regular updates, are good indicators of preparedness and thus professionalism.

In the traditional entrepreneurship literature, having a large network is recognized as providing access to information and unique opportunities, while also potentially providing credibility through word-of-mouth. Unsurprisingly, the necessity of a network is clear in crowdfunding, too. Although being featured on a crowdfunding platform is strongly correlated with success, project founders who had lots of Facebook friends would be more likely to succeed than those with fewer. Moreover, because of the link between crowdfunding and social media, once a project has been flagged as “prepared”, funders share this information with their network – such that the effects are large and often picked up by the media.

Fraud is often mentioned as a risk inherent in crowdfunding. Yet Mollick’s study suggests that funders have little with which to be concerned. Investigating a sample of design and technology projects, he found that the overt failure rate of projects was only 3.6% and that those that stopped responding to funders were worth a mere \$21 324 in pledges relative to 4.5 million USD across the rest of the projects.

## *Crowdfunding and Geography*

Traditional entrepreneurship research predicts that early stage investors are geographically close to the entrepreneurs since the cost of important activities such as gathering information, monitoring progress, and providing input are distance sensitive (e.g., Sorenson and Stuart, 2001; Powell *et al.*, 2002; Zook, 2002; Mason, 2007; Agarwal *et al.*, 2011). For example, the average distance between the lead Venture Capitalist firm and the targeted firm was reported to be 70 miles (Sorenson and Stuart, 2005) while more than 50% of entrepreneurs have been noted to be within half a day travel of their Angel Investor (Sohl, 1999; Wong, 2002).

In theory, crowdfunding platforms make it possible for highly dispersed investors and entrepreneurs to meet. However, a recent study of the Holland-based crowdfunding platform Sellaband for musician entrepreneurs found that the earliest investments were made by family and friends, who were disproportionately local, but that once funding for a project picked up, distant investors increasingly invested. Researchers found that, in this particular case study, the average distance between the artist-entrepreneur and the investor was approximately 4 800 kms but that investors were located in 80 countries and across five continents (Agrawal *et al.*, 2011).

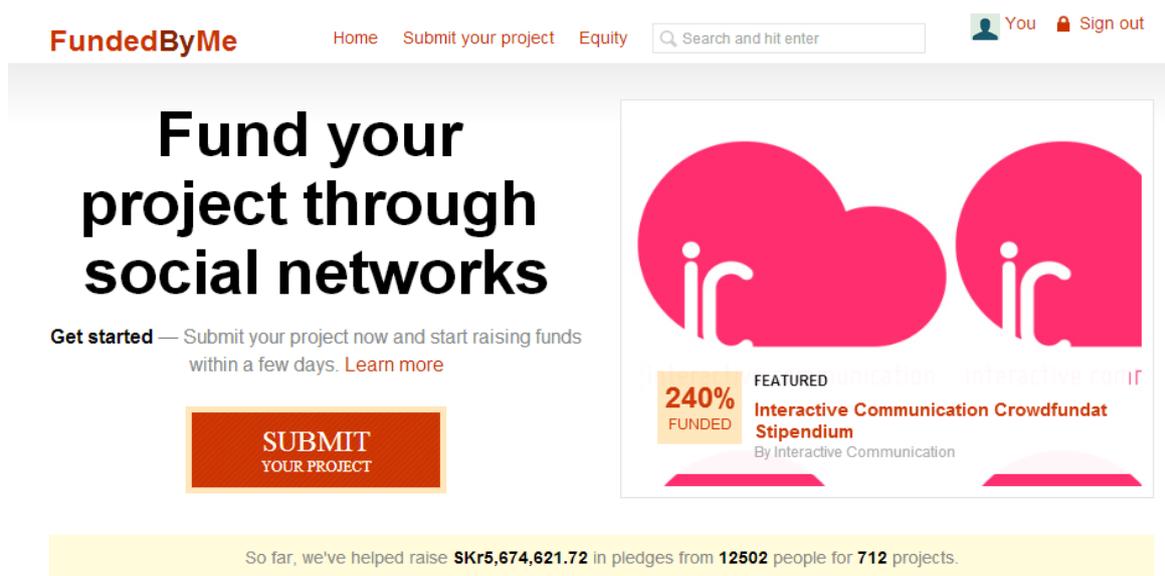
---

<sup>1</sup> Of those projects who asked for more than 100 USD

Thus, while previously constrained by networks within the same geographic proximity, an entrepreneur can now relatively easily and cheaply launch an idea to a network of strangers located across the globe. However, researchers suggest that the early funding that family and friends provide is critical to showing entrepreneurial commitment as well as for generating the critical mass that investors from further afield respond to (Agrawal *et al.*, 2011).

## Crowdfunding in Sweden

In March 2011 the first Swedish crowdfunding platform catering to entrepreneurs was launched by FundedByMe. The motivation for launching this platform was that the FundedByMe founders had their own project rejected by the US site, Kickstarter, and they realized that there was a need for a similar site in Sweden.<sup>2</sup> In particular, the initial idea behind the platform was to make raising start-up funding easier by creating an *alternative* avenue for start-ups to look to fund their venture than the debt and equity options discussed below. Due to the success of the Kickstarter platform in the US, the FundedByMe founders designed their platform with a similar set of features and the same revenue model as Kickstarter. Through the platform Swedish entrepreneurs could offer rewards and recognition to individuals in exchange for donations to their start-up ventures. In addition, the FundedByMe founders anticipated that the platform could be used as both a rallying point for the entrepreneur's friends and family to donate to the venture and as a place for outside parties to get involved in enabling the entrepreneur to "realize their dream". The founders also hoped that donors to projects on the platform would become project ambassadors for and devote more than just their time to the project, for example through publicity and maybe even offer their own skills.



**Figure 2:** FundedByMe's donation- and reward-based crowdfunding site (Screenshot, May 2013)

<sup>2</sup> FundedByMe raised just over 100 000 SEK through crowdfunding its own start-up costs, offering rewards that included talks on crowdfunding in exchange for donations. It registered as a limited company ('aktiebolag' in Swedish) in November that year and received an additional 850 000 SEK funding from the Sweden state innovation agency, Vinnova. They completed their own equity crowdfunding round shortly after comprising crowd angels, personnel stock and convertibles, releasing 104 246 shares at 39.33 SEK each to raise around 4,1 million SEK.

Since the launch of FundedByMe, several other crowdfunding platforms have launched in Sweden, some reward- and donation-based and others equity-based (See Table 2). However, FundedByMe remains the primary platform for entrepreneurial ventures. Although started as reward- and donation-based, FundedByMe has since also expanded its platform to incorporate equity crowdfunding. It has labeled this move a “pivot”, a label that sometimes implies limited success in the prior endeavor.

Furthermore, FundedByMe has had several organizations supporting it, whether by providing it with money or recommending that entrepreneurs and creatives list their projects on its site. One such collaboration is FundedByMe and .SE in order to encourage the inflow of IT and Internet projects to the FundedByMe platform. This collaboration offers to top up the amount a crowdfunding entrepreneur receives to 100% if he or she manages to raise 50% or more of the requested amount on the FundedByMe platform.

	Type of Crowdfunding	Target Projects	Website
<b>FundedByMe</b>	Reward-, donation- and equity-based crowdfunding	Artistic and cultural projects, as well as entrepreneurial ventures	<a href="http://fundedbyme.com">fundedbyme.com</a>
<b>Manymade</b>	Reward-based crowdfunding	Artistic and cultural projects, as well as entrepreneurial ventures	<a href="http://manymade.org">manymade.org</a>
<b>Crowdculture</b>	Reward- and donation-based crowdfunding <sup>3</sup>	Artistic and cultural projects	<a href="http://crowdculture.se">crowdculture.se</a>
<b>Crowdcube</b>	Equity crowdfunding	Entrepreneurial ventures	<a href="http://crowdcube.se">crowdcube.se</a>
<b>Take Space</b>	Donation-based crowdfunding	Media advertising	<a href="http://takespace.se">takespace.se</a>
<b>Invesdor</b>	Equity crowdfunding	<i>not yet fully operational</i>	<a href="http://invesdor.se">invesdor.se</a>
<b>Crowdequity</b>	Equity crowdfunding	<i>not yet fully operational</i>	<a href="http://crowdequity.com">crowdequity.com</a>

**Table 2:** Crowdfunding platforms in Sweden

Another such collaboration was between FundedByMe and Innovativ Kultur, whereby projects that were both artistic and innovative and who registered for crowdfunding could also apply for funding from Innovativ Kultur for an amount under 100 000 SEK.

Finally, FundedByMe and Umeå 2014, as part of its “European Capital of Culture” campaign funded by the European Union, listed several art and social projects that were part of the campaign on FundedByMe in an attempt to raise funds.

---

<sup>3</sup> Also works with some sources of public finance and asks the crowd to vote on who should receive public financing and how much – in addition to money crowdfunded from individuals.

As there are no public statistics for crowdfunding for Sweden as a whole, we have estimated the amount raised in Sweden. Through reward- and donation-based crowdfunding, since its inception in March 2011 until April 2013, around 7 million SEK has been raised – 5.5 million SEK through FundedByMe, fully funding more than 300 of a total of 689 projects. Five of FundedByMe’s successful projects raised more than 110 000 SEK each, with one raising 550 000 SEK. The additional 1.4 million SEK of the total raised in Sweden was raised on Crowdculture, a platform primarily for culture and films, with two smaller platforms comprising the difference.

Through equity crowdfunding around 19 million SEK has been raised for over 8 projects, including equity crowdfunding for FundedByMe itself.

Among those who fund crowdfunding projects, FundedByMe says that a mere 17% of funders are repeat funders – the rest come onto the platform once only and for a specific project. These are surprisingly low numbers considering the importance of IT entrepreneurship in Sweden.



*Figure 3: Stockholm Makerspace’s FundedByMe campaign (Screenshot, May 2013)*

One recent example of a successfully funded project is Stockholm Makerspace aimed to start a community-operated workspace for people with common interests, often in computers, technology, science, digital or electronic art, to meet, socialize and collaborate. It raised over 110 000 SEK in under 30 days – over 30 000 SEK more than its 80 000 SEK goal. The project founders ran an extensive social media campaign through Facebook and Twitter and secured funds from 141 backers, and although Makerspace qualified for a .SE 50% funding guarantee, it did not exercise this as it did not need it. The Stockholm Makerspace initiative was run by a team of so-called “Makers”,

based in Stockholm, and is one of crowdfunding's big Swedish IT success stories. Due to its successful launch, Stockholm Makerspace now operates a large space in downtown Stockholm.

Although there are success stories like Stockholm Makerspace, the amounts of money they raise and number of people they reach out to pale in comparison to projects on platforms like Kickstarter in the US. It is hard to tell whether this is because of a shortage of good projects that funders want to support or merely due to the size of the population in the respective countries.

For example, a Swedish crowdfunding and lifelogging sensation Memoto, which describes itself as a "tiny, automatic camera and app that gives you a searchable and shareable photographic memory",<sup>4</sup> chose to crowdfund through the US platform Kickstarter and raised 550 189 USD between October 23 and November 30, 2012.

Two very prominent non-IT projects that have captured the imaginations of people in Sweden. The first of these is a food project by a consultant-turned chef and the second is a cultural project – a documentary posted by an internationally-known Swedish director.



The first of these is **Flippin' Burgers**, a non-culture project initiated in 2012. It was one of FundedByMe's earliest success stories, and has been widely publicized. The entrepreneur used the 36 000 SEK and 189 backers as proof of the market viability of his idea – and used it to persuade a bank to give him the start-up loan he was denied prior to his crowdfunding success. Today, the restaurant in Kungsholmen is known for its burgers, good reviews and long queues.



The second project was started by filmmaker Martin Borgs and raised a record 550 000 SEK in 2013 for a documentary about the waste of taxpayer's money, **Granska slöseri med skattepengar**. Borgs, who is internationally known for his film *Overdose: the Next Financial Crisis*, is currently talking to television stations about airing the film as well as taking steps to start the actual filming.

Images both screenshots from FundedByMe.com

However, it is unclear whether this new, technologically enabled, crowdfunding model will actually become fully embraced by *entrepreneurs* as a viable alternative to traditional funding models in Sweden. The majority of the projects funded through FundedByMe have been social interest

<sup>4</sup> According to its Kickstarter site

projects, and there have been only 92 Internet projects, of which only 15 obtained full funding, and 63 technology projects, of which only 11 obtained full funding.

These successes, although somewhat limited, of crowdfunding in Sweden have raised considerable interest from the Swedish government in crowdfunding as an entrepreneurial tool, emphasizing the need to better understand the phenomenon. For example, the Swedish Agency for Economic and Regional Growth (Tillväxtverket) recently commissioned a study on the commercial usefulness of crowdfunding and legal barriers or risks inherent in the phenomenon.<sup>5</sup>

In fact, although several crowdfunding platforms have become available in Sweden, at least one Swedish actor expressed concern that the phenomenon is not really catching on in Sweden as quickly as expected, least of all among IT entrepreneurs. This observation is especially surprising considering that Sweden is the world's leading country in terms of ICT networked readiness and the world's second most entrepreneurial country (Global Economic Forum, 2012).

---

<sup>5</sup> This study was only recently completed and we do not yet have access to it, so we shall not refer to it in this report.

## The Start-up Funding Ecosystem in Sweden

In addition to crowdfunding platforms, funders and entrepreneurs, there are several other actors in the start-up funding ecosystem, or institutional field of start-up funding, in Sweden.

	Role	Examples
<b>Non-governmental organizations</b>	Institutional and financial support as well as legitimacy to businesses and ideas	.SE, Innovativ Kultur
<b>Private Equity Funders</b>	Financial actors who invest in entrepreneurial ventures	Swedish and international Venture Capitalists, Angel Investors
<b>Sources of So-called “Soft Loans”</b>	Provide funding and soft skills to entrepreneurs	Almi, Innovationsbrun
<b>Incubators</b>	Advice-dispensers and purveyors of soft skills	Stockholm Innovation and Growth (STING), Stockholm School of Economics’ Business Lab
<b>Cluster Organizations and Industry Associations</b>	Undertake research, monitor industry behaviors and decisions, act as a lobby group	European Venture Capital Association, Swedish Venture Capital Association
<b>Banks</b>	Provide loans at commercial or negotiated interest rates, although usually require security for the loan	Nordea, Handelsbanken, SEB
<b>Private Sources</b>	Provide funds, both large and small amounts, as well as advice and connections	Family, friends and other private individuals

**Table 3:** Actors in the Swedish IT start-up funding ecosystem

The first set of actors includes non-governmental organizations that have an interest in start-ups or entrepreneurship for its own sake. For instance, .SE is one such actor. These actors may, through their interest in the crowdfunding phenomenon, provide legitimacy to the phenomenon, additional funding (as mentioned below) or additional expertise to the crowdfunding platforms or entrepreneurs.

Second, other funding actors, discussed in detail below, include Venture Capitalists (VCs), so-called ‘Angel’ investors from both Sweden and abroad, and providers of soft loans and grants. They are part of the existing funding landscape and their prominence as a source of funding for entrepreneurs is undeniable. Venture capital has been described as “independent, professionally managed, dedicated pools of capital that focus on equity or equity linked investments in privately held, high-growth companies” (Gompers and Lerner, 2001, p. 146). Angel Investors, on the other hand, typically invest their own money as an individual or in a collective (Söderblom, 2012). They usually invest at a very early stage in companies within close geographic reach and typically for smaller amounts than venture capital would. Moreover, they are often actively involved in the running of the company and may be seasoned entrepreneurs themselves (Söderblom, 2012).

Third, sources of so-called soft loans are provided largely from state sources. These actors screen entrepreneurial endeavors and grant finance according to their own criteria. They also provide advice, coaching and mentorship.

Fourth, incubators at universities and elsewhere also provide a working space, coaching and expertise to fledgling entrepreneurs. Business coaches, who are usually linked to incubators, coach new entrepreneurs as to how to make the most of their business, including advising them on appropriate avenues of funding and introducing them to would-be funders.

Lastly, cluster organizations and industry associations, such as the Swedish Venture Capital Association (SVCA), European Venture Capital Association (EVCA) and international crowdfunding associations set industry standards, monitor the health and longevity of certain industries and undertake research about their performance.

### *Finding Start-up Funding in Sweden*

Globally, funding for entrepreneurs has traditionally been regarded as being either debt-based or equity-based. In Sweden, governments have also long-since played a role in investment. Indeed, the very first Swedish venture capital firm, Företagskapital, was created through a partnership between the Swedish government and several Swedish banks in 1973 (Herzog 1990; Isaksson and Cornelius, 1998).

Typically, selling equity entails selling a share in a company that, for the entrepreneur, can also mean some loss of autonomy or – depending on how you look at it – the injection of new ideas into the company. On the other hand, debt financing does not come with this loss of autonomy. Most debt financing is through bank loans, which bear lower risk than equity as they typically get preferential treatment should a company go bankrupt. Sweden has historically had a bank centered financial system rather than a stock market centered system. Nevertheless, a recent study by Bornefalk (2013) showed that bank loans have decreased in importance for start-ups in the past seven years.

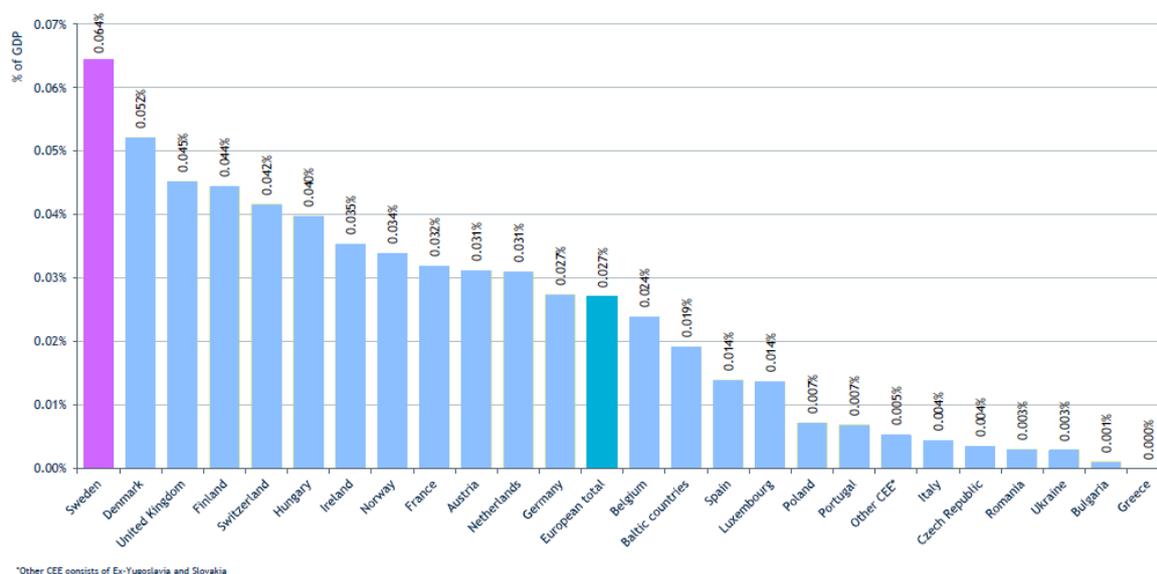
This makes sense, for two reasons: firstly, start-ups typically do not have the cash flow or assets required as security for a bank loan. Secondly, as Bornefalk suggests, this decrease coincides with the financial crisis suggesting, perhaps, that banks have become more risk averse and give loans more conservatively.

The two primary sources of funding for Swedish entrepreneurs are accordingly 1) equity financing, including Venture Capitalists, Angels and private individuals, and 2) soft loans from government agencies such as Almi and Innovationsbrun.

According to 2011 market data gathered by the EVCA, Sweden's Venture Capital firms have made the highest value of investments relative to GDP in Europe (see Figure 3) and the sixth highest investment value in the world. Moreover, according to Aizenman and Kendall (2008), Sweden was the second largest net exporter of venture capital in the world for the period 2003-2007, behind the United States. Such investors generally target firms in their seed, start-up or expansion phases on the premise that the firm is either pre-value creation or undervalued (Söderblom, 2011).

According to Söderblom (2012), based on Tillväxtverket and SVCA data, on average 1.2 percent of the 46 000 firms founded yearly in Sweden between 2002 and 2009 were financed by venture capital. Although the numbers are small, those that do receive VC funding obtain large sums.

Söderblom (2012) points out that this is comparable to the US, wherein, based on Ballou *et al.* (2008), on average less than one percent of the approximately 600 000 new businesses (that employ others) started in the US each year obtained venture capital financing.



**Figure 4:** Venture capital investments in Europe as % of GDP (Adapted from EVCA, 2012)

As for Angel Investors, in the US (Sohl, 2005) and the UK (Mason and Harrison, 2000), the Angel Investor segment of the investment market has been assessed as larger than the venture capital market. In Sweden the market is thought to be between 385 and 450 million EUR per year; approximately one percent of the Swedish GDP (Avdeitchikova, 2008). This is somewhat higher, but comparable to, the formal Swedish venture capital market.

Although the well-known NASDAQ alternative private equity market exists in the US, such markets have been less successful in Sweden and Europe generally. They generally have lower listing requirements and are thus more appropriate for small firms. The best known and most diversified such market is First North (Söderblom, 2012).

A final source is soft loans, or capital provided by governmental institutions. Although this funding has a higher interest rate than commercial loans, it can be written off should a start-up go bankrupt (Isaksson, 2006). According to Söderblom (2012), a rough estimation gives that around six to eight percent of all start-ups in Sweden receive loans from ALMI, the largest such loan-giver. In 2012 it gave loans to the value of 2364 million SEK.

Contextually, this is the funding market into which crowdfunding platforms have entered; one in which low-risk, government-provided loans are available and in which equity funding, though not always easy to obtain, is nevertheless an option.

	<b>Investment Role and Type</b>	<b>Investment Value, 2012</b>
<b>Angel Investors</b>	Usually get involved in entrepreneurial venture, invest large amounts, make few investments and take an equity share.	3313-3873 million SEK p.a. (approximation, based on 2008 data)
<b>Venture Capitalists</b>	Usually get involved in entrepreneurial venture, invest large amounts, make few investments and take an equity share.	1817 million SEK p.a. (2010 data)
<b>Soft Loans</b>	State loans at high interest rates, but which can be written off on enterprise dissolution.	2364 million SEK p.a. (ALMI alone)
<b>Crowdfunding</b>	Either donation, pre-purchase/reward-based or equity, depending on the platform and entrepreneur's preferences.	26 million SEK p.a.

**Table 4:** Typical investment options for IT entrepreneurs in Sweden  
(From Söderblom, 2012; Almi, 2012)

## Perspectives of Crowdfunding Platforms in Sweden

The two crowdfunding platforms in Sweden interviewed, one of which was a recent entrant to the market and the other an older entrant, highlighted why there was a need for crowdfunding in Sweden as well as what they believe the benefits of crowdfunding to be. In addition they discussed some risks and fraud concerns with the phenomenon as well as how they perceived crowdfunding as better than the funding status quo and the future of crowdfunding in Sweden.



*Figure 5: An advertisement from FundedByMe (Screenshot, April 2013)*

Both platforms first pointed to the difficulties that entrepreneurs face in raising financing in the early stages of their ventures and see crowdfunding as a possible avenue for them to find funding.

For example, FundedByMe's online branding suggests that crowdfunding in Sweden is mostly about raising financing for a project using crowdfunding. Indeed, across all platforms the emphasis is on funding – platforms track investments and have target investment amounts prominently displayed next to every project. There is little emphasis on tracking anything else.

However, we found that there is inconsistency between the online branding and the messages conveyed on the various platforms and the narrative given by the two platform founders whom we interviewed.

Both these platform founders clearly pointed to the additional, if not more important, benefits that they thought crowdfunding platforms provided entrepreneurs in Sweden: 1) to test the market, 2) to attract skills and experience, and 3) to create brand awareness.

### *To Test the Market*

Both crowdfunding platforms suggested that crowdfunding would help entrepreneurs prove that there was a market for their business idea. They viewed crowdfunding as an excellent way to generate a following of individuals around a particular idea and that early stage entrepreneurs could use this following later for other purposes, such as a litmus test for marketability or a guarantee for a bank loan.

One platform noted that once a crowdfunding campaign had been completed, if the entrepreneur had managed to raise the money he/she requested, this amounted to proof that people wanted

what he/she was selling and that this market validation would be beneficial when trying to get funding elsewhere:

*So he actually turned to us, and through being able to convince a crowd and getting a crowd that doesn't exist he could take a client base back to the bank and said: "Hey here is my proof of concept, give me a chance". And what happened is with that money he could actually get a very expensive loan and secure an expensive place – where he is today. So it's not always about the money ... money is a positive side effect, but there are certain other things that crowdfunding brings to the table; it could be crowdsourcing, it could be connecting with other people, it could be simple information – it's basically feedback at an early stage that could make or break your idea.*

This sentiment was echoed by the other crowdfunding platform, although they thought that this market validation should be used to generate money *through* crowdfunding, rather than after it. They foresaw the small amounts invested by private investors as key to demonstrating the market appeal of an idea at the beginning of a crowdfunding process, but that big equity investors – like VCs and Angels – would invest through their platform and then bring larger sums to the table.

### *To Attract Skills and Experience*

Both platforms also suggested that things other than market legitimacy and funding could result from crowdfunding. By putting a business idea online, they argued, people with skills or connections who believed in the business venture could pledge their time or expertise.

In the first platform's case, individuals could show interest, which entrepreneurs could then pursue:

*...you actually report your interest and specify what it is that you want to do: you want to just receive updates, or maybe you are a well-connected person and you can connect them to a dropship company or someone who can handle sales or maybe they know a potential person who's willing to help out for free 10 hours a week. Or maybe, if it's that good, you say that you're willing to invest in that company.*

The second platform said that, in theory, these skills could come from any individual yet pointed to large investors as the likely providers of these skills:

*So business Angels come in and they say, "Hey, I want to invest 1 million, but I also want to have a board position or vice position in the company."*

However, despite expressing this as a possibility, neither platform actively facilitated the pledging of skills or expertise or had a strategy for encouraging or capturing it.

### *To Create Brand Awareness*

Both crowdfunding platforms also emphasized the importance of so-called "Brand Ambassadors" in successful crowdfunding. They suggested that by posting their business idea online, entrepreneurs could rely on would-be customers and funders to create brand awareness through promoting their crowdfunding project and thus their ultimate business plan. They note that the crowd does not

necessarily come from the platform though and that entrepreneurs need to drum up a crowd themselves in order to be successful:

*We always say that input equals output, what we want to do is we want to encourage people to go out and sell themselves ...You want to see people with a passion and then going out and connecting and if we see that they do the work we obviously lift a little bit on our sides as well, maybe like cross-promoting in newsletters or sending it out from, you know, putting it onto Facebook, putting it onto Twitter, stuff like that.*

## *Risks and Fraud Concerns*

While crowdfunding offers several benefits, the platform providers were cognizant of the risks and fraud concerns that surround the crowdfunding phenomenon due to its newness. However, both crowdfunding platforms believed that the wisdom of the crowd would help weed out potentially fraudulent projects and entrepreneurs that might give the phenomenon a bad name by defrauding funders:

*A lot of people ask the question “how do you actually handle fraud and payments”. And we always say, yes, we do have certain expertise but we’re not experts on everything. That being said, we have thousands of people out there that have the ability to spot something that we might not be able to spot. So we provide them with the ability to say: “Hey, flag this project because there’s something wrong with it; we don’t believe that this person can achieve it or this person has done something like this before and never followed through on his goals”. So our biggest police is our crowd.*

The first of the two crowdfunding platforms was so convinced of the efficacy of the crowd in weeding out bad elements that prior to listing a project, they merely checked to see if the entrepreneurs behind it had profiles on social networks like Facebook, Twitter and LinkedIn. This was, according to the person interviewed, mostly to check if the entrepreneurs had the networks and social presence to raise money through crowdfunding.

The second platform took a different approach; they planned to do background checks on entrepreneurs, including their criminal and credit histories. Although they believed in the crowd’s capacity to sort the poor projects from the bad, they wanted to provide credibility and a safety net for both their platforms and the entrepreneurs who listed on their platform.

## *How is Crowdfunding Better than the Status Quo of Funding in Sweden?*

The two different platforms have slightly different ideas about what crowdfunding adds to the current funding environment. Elsewhere, particularly in the US, it has been argued that crowdfunding will disrupt traditional funding models in that it will become a *substitute* for capital from Venture Capitalists, Angel Investors and loans.<sup>6</sup> This is not what crowdfunding platforms think;

---

<sup>6</sup> For example in the June 29, 2012 panel discussion sponsored by the MIT/Stanford Venture Lab in which the topic was *Crowdfunding: Disrupting Traditional Funding Models*. On the panel were the CEO of crowdfunding platform Indiegogo, Slava Rubin; Ryan Caldbeck, CEO of CircleUp; Daniel Zimmermann, partner at WilmerHale and Don Ross, managing director, founder and board member at HealthTech Capital and Sand Hill Angels.

instead both think that crowdfunding will act as more of an intermediary and *complement* to traditional funding.

As discussed above, the first platform sees crowdfunding platforms and thus crowdfunding itself as acting indirectly as an intermediary between entrepreneurs and the traditional sources of funding. However, this “market validation” tool is not the only thing that the platform believes is an improvement on the status quo. They also argue that the international reach of crowdfunding can put entrepreneurs in touch with potential clients and brand ambassadors from all over the world:

*The concept of crowdfunding means that you can reach across the globe within seconds, thanks to social media and engage people that are willing to give you money or willing to back you or willing to take that chance in order to make things happen... So it's about networking, it's about selling it to a network and it's about engaging people that want to be part of something.*

Moreover, they suggested that, through putting their projects online, even the entrepreneurs who did not manage to find a following or raise any money would be able to showcase their skills, get feedback as to what was lacking in their idea, and thus improve on it and either try to crowdfund again in the future or discard a losing idea.

The second platform, through their attempts to attract large investors like Angel Investors and Venture Capital, believed that crowdfunding would act as a direct intermediary between traditional equity investors and entrepreneurs. Although they too touted the benefits of an international crowd and potential brand ambassadors who were familiar with the product, they thought that the benefits that crowdfunding brought to society went far beyond that.

Firstly, they argued that funding networks, in particular soft loans, tie money up in regional areas, which they would like to change:

*So many companies move to Öre and Östersund just to get this money, so they move for their company. So they're moving for funding, while we're saying you can choose wherever you want to be, so if you want to be in northern Dalarna, you can live there, you don't need to move to Östersund, which is how it is at the moment.*

Furthermore, they argued that by including traditional funders in crowdfunding, they could not only use the market for validation, but they could speed up the funding process so that entrepreneurs obtain funding in a matter of weeks rather than months or years. This was because Angel Investors would invest *through* the crowdfunding platforms so entrepreneurs could get the volumes of money that they would normally raise from traditional investors but in the much shorter time frames common on crowdfunding platforms.

### *What Do the Platforms See as the Future of Crowdfunding in Sweden?*

The second of the two crowdfunding platforms was particularly positive about the future of crowdfunding in Sweden:

*We'll see that there will be 2 or 3 players in the Swedish market... although it's also very early stage, so we don't know if there's enough market in Sweden for crowdfunding. We think so, because of course we're doing it.*

They emphasized that part of the need for crowdfunding in Sweden was because of a shortage of medium-sized enterprises; that the Swedish way was to have small businesses and large businesses but very little in-between and that crowdfunding, by allowing customers to be investors too, could allow, in their example, a small sausage-maker using only organic produce, to stay small and cater to a niche market because of the support of customers through crowdfunding.

They did add, however, that they thought that the Swedish legal system may need to adapt:

*And so if you look at the legislation in Sweden... it's not really adapted for crowdfunding, so one is how you communicate when you do a fundraiser – you cannot do it. Many of those who do it at the moment can go to jail. Another part is the limitations... You can only reach out, if you're not a public company, to 150 shareholders. So you can't do a big crowdfunding [campaign]. So if you have a passion for IT or Clean Tech or something and you want 1000 investors, that's not possible in Sweden. The legal framework is still very limited in Sweden where others, like Italy and the UK, are changing.*

This then impacts on the scalability of crowdfunding, meaning that it remains only a possibility for small amounts of funding and a small number of investors, rather than a larger undertaking.

The first crowdfunding platform emphasized that equity crowdfunding was particularly successful in Sweden and that it was an excellent filter for other funders, which is why it fits in well with the existing funding ecosystem and is sustainable in the long run.

In terms of the future of crowdfunding, the first platform emphasized the international nature of crowdfunding:

*What we're encouraging, trying to do, is trying to promote cross-border investments. And we have done that already. People from the UK, people from Spain, people from France, investing into Sweden and the other way around.*

Moreover, although they admitted that they did need considerable legal advice in order to navigate Swedish laws on investment and funding, they did not see the laws as unfair or needing to change:

*So I think the legal aspect of it, it's fair, because people have to realize that there's a legal risk involved when investing into a company and that is the first thing we want to make them abreast of.*

## Adoption among IT Entrepreneurs

Our interviews with entrepreneurs provided us with considerable insight as to their current perceptions of crowdfunding as well as how they viewed the potential benefits of using the platforms for funding.

### *General Perceptions of Crowdfunding as a Funding Source*

In response to our questions about funding sources in general in Sweden for start-ups, the funding sources discussed earlier arose, with all of them except one suggesting that either state-provided “soft loans” or equity-based forms were the obvious place to look for financing, apart from

bootstrapping the financing themselves. Many of the entrepreneurs envisioned, or actually did, receive a combination of the above forms of financing.

Interestingly, only a mere three of the 14 entrepreneurs whom we interviewed volunteered crowdfunding as a source of capital for their businesses without any prompting from our side. Of those, two had actually used crowdfunding – one successfully and one unsuccessfully – and the third liked the idea of it but was very hesitant in using it. This hesitancy was reflected by many of the other entrepreneurs.

One reason that entrepreneurs gave for being hesitant was that they did not think that there was enough money in crowdfunding in Sweden to make it worth their while. This was particularly true of donation- and reward-based crowdfunding, with every single entrepreneur expressing this concern in some form or another:

*I think it's much more difficult to launch a crowdfunding service in Sweden because there is a much smaller critical mass of people who use it, compared to the US. The US is 350 million people. Sweden is 9 million. If it's the same percentage that invest in crowdfunding then it will take much longer in Sweden.*

Within the context of equity crowdfunding, entrepreneurs were more uncertain about the amounts of money available, and most adopted a “wait and see” attitude to the amounts raised using equity crowdfunding. However, they did express uncertainty about having a large number of individuals with equity in their companies. Some, because they thought that it would be hard to come to consensus on big decisions with lots of small private shareholders, others because they thought that they would have problems tracking down and convincing lots of individuals to sell if they tried to sell the company later.

### *To Test the Market*

All of the entrepreneurs liked the idea of using the crowd for market validation in principle, but as mentioned only two had actually used crowdfunding and one considering it while two more noted that they would consider it if they were a new start-up:

*I don't believe in most cases that crowd funding would be the way to found a company. It will be a part of it, yes, it could be a part of it, and as I said if I started now I would look into it mainly to get the attention and to get the ambassadors on board and that can help you with the next step if you have that.*

One added that he had found that Angels were the most adept at understanding complex IT business plans, but those giving out soft loans – state institutions – often did not really understand them and the fact that the successful crowdfunding ideas are often really simple may mean it is hard for complex ideas, like some IT ones, to succeed at crowdfunding:

*Well, I mean generally I would say that the easier people can understand your product the better it is for crowd funding. [For example] you look at some, like FundedByMe, some successful products, like this new vodka. But if your project is make it easier to cut down trees in the forest or something [more nuanced] like that of course you appeal to a much smaller audience.*

Finally there were two strong perceptions from entrepreneurs about the importance of finding funding; the first was that if an entrepreneur could not persuade a bigger investor to invest then there was something wrong with the business idea:

*[Talking about getting Angel or Venture Capital investment] ...it's not that hard. I mean, it's hard, yes, but it's quite doable. I mean, if you have like, a decent idea, you should be able to get an investor that can due proper due diligence and that can actually get excited about the idea to add some value and not get random people on the street to invest.*

The other strong perception that came out was that crowdfunding is seen as something that is appropriate for social ventures rather than IT entrepreneurs:

*We feel like it's more for like social ventures. I mean, rather than, I mean of course companies could and did it also in Sweden. But I think it's different kind of...different kind of company that would approach that than us.*

These sentiments came up many times in several forms over the course of the interviews and it became clear that the entrepreneurs thought that there was an element of randomness or desperation in seeking crowdfunding – that there was some sort of legitimacy attached to obtaining funding from a recognized investor that could not be achieved through crowdfunding. One entrepreneur called the investments made through crowdfunding “goodwill”.

### *To Attract Skills and Experience*

Although entrepreneurs were clear that sometimes taking in outside investors, no matter whom, could undermine the autonomy of their company, they also made it clear that by taking outside investment they were not just looking for money – they wanted an investor who believed in their idea, was well-connected and had skills that would benefit the company:

*The kind of guys who invested in us are really good investors, impressive investors and they add a lot to the company other than money. I wouldn't say it was easy to raise money but we had a really good case... We didn't really consider crowdfunding, but I think maybe the reason we didn't really consider it is because that wouldn't bring that much knowledge into it. As I understand it it's a bunch of different guys, maybe one person invests a lot, but it still feels kind of too random.*

What is clear from this quotation is that crowdfunding is seen as something that can be used to get funding or attract customers, but that a start-up also needs skilled individuals to succeed and crowdfunding does not provide access to these.

### *To Create Brand Awareness*

The 12 entrepreneurs who had not used crowdfunding often referred to ambassadors in an abstract form, implicitly assuming that there was something inherent in crowdfunding that would attract a crowd. The individuals who had actually crowdfunded, however, made it clear that the platform was just a rallying point – and that you had to do a lot of marketing and work on social media to attract a crowd before you thought about crowdfunding:

*So and we started to build a community like 6 months before via Facebook, started a community page, started to reach out and started to do all of this small stuff. And when we actually started the crowdfunding campaign we already had a community of say 400 people that we were already daily talking to, on a daily basis. So that was hugely facilitating because people were like eager for something to happen and then we could just like oh guys now we're on FundedByMe so just people could give 100 SEK or more and people gave like 10 000 SEK. So I think we had a community before and around a very niched interest so people were very much investing in themselves rather than in us.*

However, there were also some issues that arose where the entrepreneur suggested that perhaps the platform could do more to facilitate communication between the entrepreneur and the funders once a project was up on a platform, both as a way to say thank you and as a way to allow funders to “brag without actually bragging” – and thus tell others about the crowdfunding project:

*I think that people are a bit self-conscious... people don't want to brag but still want to brag a little bit, so you have to do the bragging for them sometimes. So we knew this and we wanted to make it spread and have people still feel involved and like part of the group so we did this graphic format with [public] thank you notes that we pushed out on a regular basis saying thanks to new backers with popping graphics. Maybe the platform could become better at like sending thank you notes or perhaps like a personal one ... or like on a group... or like pins or buttons or badges or stuff like that so people could collect.*

## *Risks and Fraud Concerns*

There were mixed responses to questions about fraud or idea theft on a crowdfunding site and in Sweden in general. Some entrepreneurs emphasized that the execution was more important than the idea, but several also said that web applications and IT ideas were very easy to replicate so perhaps they should be concerned:

*And I also think a disadvantage could be the uncertainty that you give your idea out and it's out there for many months, someone can, people can also get inspired, people with better connections can then start creating something similar at the same time. So I think it could be somehow an issue if you don't succeed but you give your idea away.*

Interestingly, fraud was only discussed once in all the interviews. The entrepreneur suggested that funders may be concerned about both fraud and the quality of projects on a crowdfunding platform and he thought it would add to the credibility of crowdfunding if there were a referrals community that would certify the credibility of the entrepreneur:

*So what we're talking about is how can we sort of make this platform unique for our community, so that people know those people are good, these are great people behind this project... and the backers of those, the founders of the projects... Any platform you have out there is about referrals: Facebook, LinkedIn. When you buy things off the Internet you always look at referrals - so how could we integrate that even more into that kind of platform.*

## Perceived Cultural Barriers

Other things that prevented entrepreneurs from fully embracing crowdfunding included what we have labeled “cultural barriers”, with characteristics that we view as specific to Sweden. The first of these is that there is the perspective that because Swedes pay high taxes, they do not think that they should pay for anything more – that the state should do it. This translated into the perception that “Swedes do not invest”:

*I mean Swedes are not used to giving away money easily (laughs). We don't pay for events. We don't like to pay for members. We don't really like to give away even small sums of money unless the value's justified. And I guess that goes for the investor...it goes all the way down through investor to the individual Swede. That we take less risk with our investment.*

Several noted this as a cultural norm, with one of those interviewed suggesting that Swedes were not known for their confidence or risk-taking:

*In, like, the US people are more likely to understand this because it's more naturally commercial, whereas in Sweden we're more like “Oh, I have this really nice cause, support me please.” So I think you have to be a bit cocky and I think that might not be something associated with Swedes.*

Similarly, some entrepreneurs expressed anxiety around crowdfunding, with one saying:

*[speaking about equity crowdfunding] ...this terrifies me a bit as it is my first crowdfunding project, but maybe it is a better way of creating something really big.*

A very prominent argument point of view was that there was little point in going to a Swedish crowdfunding platform with an idea when one could go directly to one based in the USA. All entrepreneurs were aware of the success of the Kickstarter platform in the USA as well as the Swedish start-up Memoto discussed above. One entrepreneur put it thus:

*If they [Memoto] went for the Swedish version, would they have come on the Colbert report and got mentioned there? Would they have been so big in Techcrunch? You know, would they have come in that big? Because it's still, Internet is not a democracy – it comes from a small pile of really powerful people or platforms that kind of influence the rest of Internet or tech. And those are the big ones, those are the big in entertainment and in tech. You know, tech and Techcrunch and all the big investment companies and Angels and start-up gurus. And those are almost all in the US so if you want them to like your product then everyone else will, almost automatically.*

## Perceptions from Other Ecosystem Actors

In addition to crowdfunding platforms and entrepreneurs, we also interviewed a range of other actors in the Swedish funding ecosystem. Several of these actors indicated that they had their reservations about crowdfunding. One non-governmental actor suggested that part of the reason that crowdfunding was not taking off in Sweden was because there was a dearth of quality projects:

*We haven't had that many projects, and the projects we've had haven't really held the kind of quality that we had hoped for... And we don't know why.*

## Business Coach

A business coach added that some of the entrepreneurs with whom they had worked did not see crowdfunding as a “sure thing” and thus preferred to aim for other sources of funding:

*We have generally been very reluctant to advise them to go for that kind of, you know, funding [crowdfunding] in terms in spreading the ownership to a lot of small owners. But I think if FundedByMe or Crowdcube, they can show that they can get serious investors in, you know secure funding, then of course I think it's a great opportunity. But so far the entrepreneurs have not been very interested in that.*

The business coach added that, in the context of equity crowdfunding specifically, taking lots of small equity funders through crowdfunding may also have a chilling effect on further investment:

*It's more the risk of getting an ownership structure where you have many small owners, that is not, that has not historically been positively viewed for example from Venture Capital investors. They are really hesitant to invest in companies with a lot of small owners.*

## Funders

From a repeat funder perspective, one of the concerns that entrepreneurs have, namely that they are unlikely to get skills from crowdfunded backers, may be legitimate:

*I follow the project and of course I want to see it succeed so I market that and help market it and help get other people to crowdfund it and they depend on it, because in some case when it comes to backing products, you sometimes you just sit back and wait for your perk, which most of the time is the product itself. Whereas, some projects you never see a result – like a weekend away for some girls – but things are documented in other ways... I would say I'm more of a passive participant unless there's a specific project that I want to be part of.*

The repeat funder said that he watched projects from a distance and, although he was willing to help out with his skills in theory, he never had. Instead, he provided the money requested and passed on the message, providing publicity. He added that he mostly invested in social projects in Sweden:

*I see much more charity or activist or culture projects in Sweden than I do on Kickstarter. I mostly see non-technical stuff or activist causes and I haven't seen any technical things here. The Swedish technical guys tend to end up on Kickstarter.*

In terms of concerns about fraud, both repeat funders said that they thought that a person's willingness to put his name and link his social networks to a project provided enough credibility for them to feel comfortable investing in a project:

*I want to see a Facebook page being connected. Basically, the more social services are connected the better... another thing I do is check the comments from other backers to see how the creator has responded, how they're handling things because that's also a sign of whether it's legit or not. I mean, if someone is not answering any questions that says a lot.*

The bigger concern, from a funder perspective according to one repeat funder, was that other funders may not realize how high the failure rate is among start-ups and he feared that there would be a backlash a few years down the line when lots of funders potentially lose a considerable amount of money because many start-ups failed:

*I think it's really cool but there is a little problem that's going to show up in a year or two, and that's that 90 or 95 percent of all founding attempts fail. Period. If you go to the best investors in Silicon Valley they may come down to 85 percent because they know what they're doing. So at least 9 out of 10 projects on FundedByMe will fail. And that 9 out of 10 people who put money in thinking that they'd get rich will not get rich and the risk is that gives a communicative backlash or PR backlash.*

In his eyes, this means that equity crowdfunding has a short lifespan – that projects will only be funded through equity until funders start losing money in large amounts, something he believes is inevitable. No matter how much crowdfunding platforms warn people about the risk, people will naively believe that more projects will succeed than is statistically likely and this will be crowdfunding's downfall.

## Recommendations

Below we present a set of recommendations based on the findings emerging from our study. It is important to note that these have been developed based on the assumption that actors within the Swedish ecosystem are interested in the continued acceptance and further growth of crowdfunding in Sweden for IT entrepreneurs.

In general, we found that IT entrepreneurs first mentioned Kickstarter and its model of crowdfunding when we brought up crowdfunding with them. This suggests that platforms and their projects in Sweden are not as visible, which is something that would help them overcome obstacles. For example, although Flippin' Burgers received a lot of publicity in the mainstream media after their success, few other success stories have had the same kind of attention. Memoto was an international sensation, and one that Swedish platforms could have leveraged to draw attention to the IT scene in Sweden as well as crowdfunding opportunities in Sweden – and the benefits they might offer compared to opportunities abroad.

Indeed, many actors in the Swedish ecosystem would benefit from more information about crowdfunding and clear discussions around the benefits it offers, how it fits into the existing funding ecosystem and what the risks are in trying to crowdfund a project. This could be done through conferences, engagement with the media and a clearer message from platforms about what their purpose is. Furthermore, organization and cooperation between platforms could be used to highlight the differences between them as well as provide a consistent and clear picture of how crowdfunding operates in Sweden.

### *Recommendations for Crowdfunding Platforms*

Although it is clear that crowdfunding platforms have exerted considerable effort in informing entrepreneurs in particular about how crowdfunding works in general, there are still some gaps that they could fill. Based on our interviews, the filling of these gaps should encourage more entrepreneurs to engage in crowdfunding as well as make crowdfunding more successful in Sweden in general.

#### *Publicize Role as Intermediary for Large Funds*

Firstly, entrepreneurs are under the impression that crowdfunding is mostly about raising funding for a project. As mentioned earlier, one of the reasons that entrepreneurs choose to look to traditional existing sources of funding, rather than crowdfunding, is because they believe there is more money to be raised through these traditional means. Indeed, this seems to be true. Up until very recently, no project on FundedByMe's donation- and reward-based site had raised more than 120 000 SEK, which is not very much money in start-up terms.

The fact that the entrepreneurs associate Swedish crowdfunding platforms primarily with money is unsurprising given that the platforms promote this in their branding and only track amounts raised and little else. Furthermore, platforms elsewhere in the world, particularly prominent ones in the US like Kickstarter, also focus on raising funds – the publicity that crowdfunding campaigns generate is largely treated as a means to get *more money through* crowdfunding, not in any other way.

Therefore, that crowdfunding in Sweden should be viewed as primarily a “filter” or an “intermediary” needs to be conveyed to entrepreneurs better on the platforms. In addition, the platforms need to somehow distinguish themselves from “big money” platforms in the US to avoid confusion. This flow of information should help entrepreneurs to better understand what the platforms have identified as the merits of crowdfunding in Sweden and thus make a more informed choice about whether crowdfunding is right for them.

This strategic realignment would also need to be conveyed to Venture Capitalists, Angel Investors and the like, as well as to crowdfunders; however, we cannot comment on how receptive they would be to this and recommend further study to assess their receptiveness.

#### Facilitate Intra-Crowdfunding Communication

The second gap that the crowdfunding platform could fill is to encourage two-way communication between funders and entrepreneurs through the platform. Although the platforms argue that the potential is there for funders to contribute skills, experience and time, they do not have deliberate strategies to facilitate this. This is particularly important because one of the things that pulls entrepreneurs towards other sources of funding, rather than crowdfunding, is the desire to harness the “soft skills” that experienced investors bring with them.

In this way, crowdfunding platforms could incorporate more crowdsourcing-like elements; crowdsourcing has been successful in many different and prominent areas and it is likely that similar strategies could be employed here. As asserted by the platforms themselves, it is likely that members of the crowd have skills and time that they could contribute to a start-up. By facilitating this skills transfer, crowdfunding platforms could encourage increased interaction with funders beyond “perks” like gadgets and equity dividends.

Increasing communication and visibility will also have the added spin-off of increasing the visibility of the platform. If, as many of the entrepreneurs have suggested, Swedes do not want to publicize their donations but would like people to know anyway, then providing a way for entrepreneurs to publicly call-out funders would increase both their and the entrepreneurs’ visibility. Of course, this public calling out is only an option in the case of reward- and donation-based crowdfunding campaigns, due to the legal limitation on the advertisement of private shares.

#### Promote a Pan-Nordic Crowdfunding Platform

It is also suggested that platforms themselves, or industry associations, better promote a pan-Nordic crowdfunding site. Such a site would attract a larger number of funders and projects, which would increase the potential pool of funds and skills that entrepreneurs can access through a crowdfunding platform. Currently, FundedByMe has listings from other Nordic countries on its reward- and donation-based platform and has recently expanded its equity platform into Denmark, Finland and Norway with plans for further expansion. Crowdcube currently cross-lists projects on both its Swedish and UK sites. However, both sites mostly contain projects from their base countries and few from the countries they have recently entered.

#### Deal with Myths and Cultural Barriers

Statements from non-governmental actors, entrepreneurs and crowdfunding platforms themselves make it clear that Swedish entrepreneurs are apprehensive and feel ill-prepared to pitch an idea in an online format. Although part of this uncertainty may stem from uncertainty around crowdfunding in general, success at crowdfunding also requires other skills than those entrepreneurs already have.

Crowdfunding platforms could use the experience that they have gained from projects thus far to guide and mentor entrepreneurs around the specific skills that they need to succeed at crowdfunding.

While there are risks associated with crowdfunding, our interviews have highlighted that neither the funders with whom we spoke nor one of the crowdfunding platforms was worried about fraud as a risk. Indeed, if the crowdfunding phenomenon is to be taken seriously, which we submit it should, then concerns around rates of fraud need to be addressed. Based on Mollick's study of Kickstarter in the US, fraud cannot be considered rampant, yet no such study has been done in Sweden. Conducting such a study in Sweden – or making the information readily available if such a study has already been done – would provide credibility for funders and entrepreneurs alike.

Similarly, platforms could do more to highlight the risks associated with early-stage investments. As one repeat funder noted, the failure rates are much higher than many imagine – and the size and scope of investing in these early-stage companies needs to be made very clear for funders in order to avoid possible future backlashes.

The large number of investors that crowdfunding potentially attracts to a single project has been cited by several actors as a concern. However, it is not entirely clear why this should be a problem. Crowdfunding platforms need to communicate better with entrepreneurs and other funding sources around whether and if this really is a problem as well as engage them as to why they see it as a problem. Until this happens and both entrepreneurs and other funders' concerns are discussed and addressed, they are unlikely to be able to fully exploit the “crowdfunding platform as intermediary” model that they describe.

#### Increasing Market Size and Clarity

Existing crowdfunding platforms have spread themselves across lots of sectors in the small ecosystem that is Sweden. Some, like FundedByMe and Crowdcube, operate outside of Sweden and although this is useful for expanding the size and reach of a crowdfunding platform, this effort does not address the incredibly low levels of repeat funders – a mere 17 percent. In addition to expanding the number of funders geographically, platforms should also focus on capturing existing once-off funders and encouraging or incentivizing them to get more involved with crowdfunding.

Moreover, as the platforms grow larger, it is possible that they may become so large and inclusive that they cannot fulfill the needs of all of the projects that they post. Platforms therefore need to prioritize communication around what kinds of projects are appropriate for crowdfunding and the specialization focus of each platform. Although competition between the platforms is healthy, they also need to communicate with one another in order to present a clear message to both entrepreneurs and potential funders.

#### *Recommendations for Entrepreneurs*

Crowdfunding presents entrepreneurs with the opportunity to tap a new source of funding for their early stage start-ups, and yet they are apprehensive about using it. Their hesitation stems from uncertainty around whether crowdfunding is a good idea for *their* particular project as well as how to sell both their ideas and their skills to potential crowdfunders.

### Seek Education and Mentorship

One way to tackle this hesitation could be for entrepreneurs to educate themselves about crowdfunding through other Swedish and international success cases. Memoto, for example, has been very forthcoming about the drivers of their success and has released videos and blog posts on the subject. Although the crowdfunding successes within Sweden have not received the same sort of publicity, the individuals behind those successes are part of the Swedish start-up ecosystem and are easily accessible and most likely quite willing to talk about their experiences around crowdfunding.

Given that entrepreneurs have expressed anxiety over their public presentation and pitching skills, it is vital that they seek information and experience that could help them improve in this area. Again, other start-ups are one source of information. Other sources of information include pitching sessions held at Incubators and with Business Coaches. Entrepreneurs would also benefit from approaching an experienced entrepreneur or funder and asking them for guidance, assistance and potentially even mentorship.

### *Recommendations for Government and Other Actors*

As more crowdfunding platforms emerge and their reach expands, it will become more necessary to see platforms represented and discussed at a policy level. What this requires of platforms is that they organize themselves and learn to communicate with one another about successes, failures and other concerns. It will also require that the platforms learn to speak with one voice on issues like risk and fraud. Although the platforms may organize themselves, think tanks and industry organizations could also play a pivotal role in this development.

More research and a better understanding of the crowdfunding phenomenon in Sweden and abroad are also vital. This will help the Swedish start-up ecosystem remain a competitive, innovative place for new firms while also mitigating future risks within the phenomenon. Crowdfunding platforms could undertake this research on their own for their individual benefit, but because it has benefits for all platforms as well as other actors in the start-up ecosystem, it would make sense for this research to be a collaborative effort with government actors.

Moreover, depending on the policy considerations of government actors, specifically how large they wish the equity crowdfunding market to grow, it may be worth investigating the legal restrictions that limit the public advertisement of certain private shares. This has been done widely in the rest of the world and is considered in many places necessary to allow crowdfunding to replace ailing banks in providing much-needed start-up capital. One of the two platforms interviewed in this study recommended this and although the other was content to work within existing laws, they nevertheless expressed frustration in having to determine how to run an equity crowdfunding platform within the bounds of the law.

## *Other Considerations*

### Reward and Donation vs. Equity?

Judging by the speed with which equity crowdfunding has been adopted by Swedish entrepreneurs – it has attracted larger amounts of money than donation- and reward-based crowdfunding, and in a shorter period of time – it seems likely that the equity crowdfunding market will grow. The fact that it so resembles forms of funding that already exist and the link that equity crowdfunding platforms articulate, the role of equity crowdfunding will also help to limit resistance from entrepreneurs and other actors, particularly providers of other forms of start-up financing.

However, it is hard to tell if this is the case with donation- and reward-based crowdfunding. This form has certainly grown in recent months, but it seems as though Swedish IT entrepreneurs in particular are more likely to pursue this form of crowdfunding on a US site like Kickstarter and this limits the form's potential for growth among IT entrepreneurs.

### Swedish Culture

It is clear that there is widespread modesty, or at least the perception of modesty, among Swedish entrepreneurs. If this is true of entrepreneurs, who are often more extrovert than most, then it is likely true of society generally. It may be that this cultural inclination limits the extent to which both entrepreneurs and funders engage in the public and self-publicizing displays necessary to make crowdfunding a roaring success in general. Social entrepreneurship on the other hand may be more successful.

Moreover, it is unclear how to combat perceptions that ideas put into the public realm will be “stolen”. Perhaps this is something that will self-correct as crowdfunding grows in the Swedish market and abroad.

## References

- Agrawal, A., Catalini, C. and Goldfarb, A. 2010. The Geography of Crowdfunding, NET Institute Working Paper No. 10-08.
- Aizenman, J. and Kendall, J. 2008. *The internationalization of venture capital and private equity* (No. w14344). National Bureau of Economic Research.
- Aldrich, H.E., and Fiol, C.M. 1994. Fools rush in the institutional context of industry creation. *Academy of Management Review*, 19 (4), 645–670.
- Aldrich, H. E. and Reese, P. R. 1993 Does networking pay off? A panel study of entrepreneurs in the research triangle, in Churchill, N. C., Birley, S., Doutriaux, J., Gatewood, E. J., Hoy, F. S. and Wetzel, W. E. Jr (eds), *Frontiers of Entrepreneurship Research* (Wellesley, MA: Babson College) pp. 325–339
- Avdeitchikova, S. 2008. On the structure of the informal venture capital market in Sweden: Developing investment roles. *Venture Capital*, 10(1), 55-85.
- Ballou, J., T. Barton, D. DesRoches, F. Potter, E. J. Reedy, A. Robb, S. Shane and Z. Zhao (2008). The Kauffman firm survey: Results from the baseline and first follow-up surveys. The Ewing Marion Kauffman Foundation.
- Battilana, J. and Dorado, S. 2009. Building Sustainable Hybrid Organizations: The Case of Commercial Microfinance Organizations. *Academy of Management Journal* 53(6), 1419-1440.
- Battilana, J., Leca, B., and Boxenbaum, E. 2009. How actors change institutions: Towards a theory of institutional entrepreneurship. *Academy of Management Annals*, 3(1), 65-107.
- Berger, A.N. and Udell, G. F. 1995. "Universal Banking and the Future of Small Business Lending," Center for Financial Institutions Working Papers 95-17, Wharton School Center for Financial Institutions, University of Pennsylvania.
- Bornefalk, A. 2013. Funding of New Firms during Financial Crisis and Changing Bank Regulations: A European Example. Paper presented at the 15<sup>th</sup> annual conference on European integration in Mölle, May 21<sup>st</sup>-24<sup>th</sup>, 2013
- Cassar, G. 2004. The financing of business start-ups, *Journal of Business Venturing* 19(2), 261-283.
- Child, J., Lua, Y., & Tsai, T. 2007. Institutional entrepreneurship in building an environmental protection system for the People's Republic of China. *Organization Studies*, 28(7), 1013–1034
- Colomy, P. 1998. Neofunctionalism and neoinstitutionalism: Human agency and interest in institutional change. *Sociological Forum*, 13(2), 265–300.
- Colomy, P., & Rhoades, G. 1994. Toward a micro corrective of structural differentiation theory. *Sociological Perspectives*, 37(4), 547–583.
- Cosh, A., Cumming D. and Hughes A. 2009. 'Outside Entrepreneurial Capital', *Economic Journal*, 119(540), 1494–1533.
- De Buysere, K; Gajda, O; Kleverlaan, R and Marom, D. 2012. "A Framework for European Crowdfunding" [Online] Available at: [http://evpa.eu.com/wp-content/uploads/2010/11/European\\_Crowdfunding\\_Framework\\_Oct\\_2012.pdf](http://evpa.eu.com/wp-content/uploads/2010/11/European_Crowdfunding_Framework_Oct_2012.pdf) [Accessed 24 January 2013]
- Faraj, S., and Bijan, A. 2012; The Materiality of Technology: An Affordance Perspective. In P. M. Leonardi, B. A. Nardi, J. Kallinikos, S. Faraj, and B. Azad (eds.) *Materiality and Organizing: Social Interaction in a Technological World*, Oxford University Press, pp 237-258.
- Fligstein, N. 1997. Social skill and institutional theory. *American Behavioral Scientist*, 40(4): 397-405.
- Garud, R., Jain, S., and Kumaraswamy, A. 2002. Institutional entrepreneurship in the sponsorship of common technological standards: The case of Sun Microsystems and Java. *Academy of Management Journal*, 45, 196–214.
- Global Economic Forum. 2012. Global Information Technology Report 2012. [Online] Available at <http://www.weforum.org/issues/global-information-technology> [Accessed February 1, 2013]
- Gompers, P. and Lerner, J. 1999. The venture capital cycle. The MIT Press: Cambridge, MA.
- Granovetter, M. 1983. The strength of weak ties: A network theory revisited. *Sociological theory*, 1(1), 201-233.

- Greenwood, R., Suddaby, R., and Hinings, C. R. 2002. Theorizing change: The role of professional associations in the transformation of institutional fields. *Academy of Management Journal*, 45, 58–80.
- Herzog, H. 1990. *Risikkapitalet och de mindre företagen: om venture capital-marknadens utveckling*. Statens industriverk: Stockholm.
- Lounsbury, M. 2007 A Tale of Two Cities: Competing Logics and Practice Variation in the Professionalizing of Mutual Funds. *The Academy of Management Journal*, 50(2), 289-307.
- Maguire, S. and Hardy, C. and Lawrence, T.B. 2004. Institutional entrepreneurship in emerging fields: HIV/AIDS treatment advocacy in Canada. *Academy of Management Journal*, 47(5), 657-679.
- Majchrzak, A. and Markus, M.L. 2012. Technology Affordances and Constraints in Management Information Systems (MIS). In E. Kessler (ed.) *Encyclopedia of Management Theory*, Sage Publications.
- Mason, C. and Harrison, R. 2000. Informal Venture Capital in the UK. *Small Business: Critical Perspectives on Business and Management* 2, 755
- Mason, C. 2007. Venture capital: a geographical perspective," in H Landström (ed) *Handbook of Research on Venture Capital*, Edward Elgar, Cheltenham, pp. 86-112.
- Massolution, 2012. 2013CF-The Crowdfunding Industry Report [Online] Available at: <http://www.crowdsourcing.org/research> [Accessed 3 May 2013]
- Mollick, ER. 2013 The Dynamics of Crowdfunding: Determinants of Success and Failure. Available at SSRN: <http://ssrn.com/abstract=2088298>
- Powell, W. W., Koput K. W., Bowie J. I., and Smith-Doerr L. 2002. The Spatial Clustering of Science and Capital: Accounting for Biotech Firm-Venture Capital Relationships. *Regional Studies*, 36(3), 291-305.
- Sohl, J. E. 1999. The early-stage equity market in the USA. *Venture Capital: An International Journal of Entrepreneurial Finance* (1), 101-120.
- Sohl, J. 2005. Analysis of 2004 Angel Investor market. Working paper. Center for Venture Research. Available at <http://www.unh.edu/news/docs/cvr2004.pdf>.
- Sorenson, O., and Stuart T. E. 2001. Syndication Networks and the Spatial Distribution of Venture Capital Investments. *American Journal of Sociology*, 106(6), 1546-1588.
- Sorenson, O., & Stuart, T. E. 2007. The evolution of venture capital investment networks. *Federal Reserve Bank of Atlanta*
- Suddaby, R., & Greenwood, R. 2005. Rhetorical strategies of legitimacy. *Administrative Science Quarterly*, 50(1), 35–67.
- Söderblom, A. 2011. Private equity fund investing: Investment strategies, entryorder and performance. Doctoral Dissertation. Stockholm School of Economics.
- Söderblom, A. (2012). *The current state of the venture capital industry in relation to other financing sources for startup firms*. Entreprenörskapsforum.
- Thornton, P.H. 2004. *Markets from culture: Institutional logics and organizational decisions in higher education publishing*. Stanford, CA: Stanford University Press
- Witt, P. 2004. Entrepreneurs' networks and the success of start-ups. *Entrepreneurship and Regional Development* 16, 391–412
- Wong, A. 2002. Angel Finance: The Other venture capital. University of Chicago Graduate School of Business Working Paper.
- Zook, M. A. 2002. Grounded capital: venture financing and the geography of the Internet industry, 1994-2000. *Journal of Economic Geography*, 2(2), 151-177.

# Appendices

## *Methodology*

Over the course of six months, between December 2012 and May 2013 we interviewed 14 IT entrepreneurs, two institutional actors, two repeat funders and two crowdfunding platforms.

In order to collect our data, we needed to find active entrepreneurs in the technology and internet sector in Sweden. We furthermore needed to identify entrepreneurs who had not necessarily chosen to use or had used crowdfunding. Therefore, we started with a database of 143 individuals who attended an annual Swedish networking event called Internetdagarna (“The Internet days”) and who had identified themselves as entrepreneurs during registration.

Although there are several widely used models for how to measure individual networking abilities (see Witt, 2004), we decided to select individuals based on the size of their online social network. Our rationale for this was that the individuals who had a medium to high degree of online social networks were those who were more active in their community and network building activities and would be more likely to consider crowdfunding as a funding source. They would also likely be entrepreneurs who were part of Swedish entrepreneurial networks and would therefore not only be aware of crowdfunding, but had some perspective when it came to other funding options too. We categorized the entrepreneurs based upon their online networking activities by tallying the number of connections that each individual had on three of the most widely used social networking sites in Sweden: Facebook, Twitter and LinkedIn.

Although we could not necessarily identify the full composition of the network (i.e., the proportion of so-called “strong” and “weak” ties), we tried to distinguish between an individual’s personal network (strong ties) and professional network (weak ties) (Granovetter, 1973) by choosing those individuals who, although having a large number of personal connections on social networking sites like Twitter, Facebook and LinkedIn, had smaller numbers of connections linked to their professional accounts. This structural measure is intended to identify the number of people that the entrepreneur may have shared details of his/her business plan or idea prior to its inception (Aldrich, *et al.*, 1987; Aldrich and Reese, 1993).

Of the 143 entrepreneurs on the original list, we then selected 10 individuals for the first round of interviews based on their online social networks while ensuring a diversity of demographics. We then conducted eight of these interviews during January 2012.

We then asked those entrepreneurs to recommend other people that we should speak to, as well as identified two individuals who had funded multiple projects on FundedByMe, and interviewed them in April and May 2013.

The list of individuals interviewed is found in Table A.

Time Period		Type of Actor	Industry/Interests
First round of Interviews (January 2013)	1.	Entrepreneur	Mobile questionnaire
	2.	Entrepreneur	Co-working space
	3.	Entrepreneur	Crowd sourced food data
	4.	Entrepreneur	Online education
	5.	Entrepreneur	Digital design agency
	6.	Entrepreneur	Online storyboard
	7.	Entrepreneur	Co-working space
	8.	Entrepreneur	Digital storytelling
Second round of Interviews (March-May 2013)	9.	Entrepreneur	Blog aggregation tool
	10.	Repeat funder	Media industry
	11.	Institutional Actor	Business coach
	12.	Repeat funder	Media and academia
	13.	Institutional Actor	Not-for-profit agency
	14.	Entrepreneur	Travel experience app
	15.	Entrepreneur	Clothing size simulator
	16.	Entrepreneur	Wifi-sharing app
	17.	Entrepreneur	Student competition site
	18.	Entrepreneur	Crowdfunded advertising
	19.	Crowdfunding platform	Equity-based site
	20.	Crowdfunding platform	Equity- and reward-based site

**Table A:** List of individuals interviewed pursuant to this project

## *Theoretical Background*

Theoretically, we analyzed the data in terms of Technological Affordances, the “action possibilities and opportunities that emerge from actors engaging with a focal technology” (Faraj and Bijan, 2012: 238) while technology constraints are the “ways in which an individual or organization can be held back from accomplishing a particular goal when using a technology or system” (Majchrzak and Markus, 2012: 1). Affordances enable and constrain action with the technology (Faraj and Bijan, 2012), and they are *relational*, i.e., they are conceived “as potential interactions between people and technology, rather than as properties of either people or technology” (Majchrzak and Markus, 2012:1). One example is a computer game: for a student, the game may afford some escape and fun, but due to a variety of social reasons such as the inappropriateness of playing games in class, the affordance may not be available (Faraj and Bijan, 2012).

Through this theoretical lens, we looked at the features that the new technology – in this case crowdfunding – allowed for, and then looked to see what the users of the technology – entrepreneurs – perceived as being the affordances of the technology. We could then assess whether there was a discrepancy between what the intended features of the technology were and the perceived affordances, and whether more could be done to align the two.

In this context, what entrepreneurs see as the affordances of the new technology, crowdfunding, directly impacts on where they think they should look for start-up financing. The logic around where to look for financing is known as an institutional logic. These part of a broader, accepted belief system about what constitute legitimate expectations and goals within a shared field (Thornton, 2004; Suddaby and Greenwood 2005, Battilana and Dorado 2009, Lounsbury 2007). Changes in institutional logics result from a process driven by an institutional entrepreneur within an institutional field consisting of actors that can be organizations or groups of organizations (Garud *et al.*, 2002; Greenwood *et al.*, 2002) or individuals or groups of individuals (Fligstein, 1997; Maguire *et al.*, 2004).

In order for an actor to be considered an institutional entrepreneur, the literature suggests that an actor fulfill two conditions: 1) initiate divergent changes and 2) actively participate in the implementation of these changes (Battilana *et al.*, 2009). Early studies tended to suggest that institutional entrepreneurs deliberately developed strategies aimed at changing the institutional environments within they were embedded (Colomy, 1998; Colomy and Rhoades, 1994). Other, more recent, studies have suggested that intentions and narratives evolve at different steps of the change process (Child, Lua, and Tsai, 2007).

In this study, we treated the crowdfunding platforms as institutional entrepreneurs and gathered data on their intentions, narratives and attempts to encourage others in the institutional field to adopt crowdfunding technology – and in so doing, adopt crowdfunding as a logical source of funding within their institutional logic.

*International Impact*

Title	Type	Date	URL
Stimulating Entrepreneurship and Innovation through Crowdfunding	Keynote speaker, <i>International CSR Conference</i> , Milan, Italy	Oct 2013	<a href="http://csreinnovazionesociale.it">csreinnovazionesociale.it</a>
Is Crowdfunding Doomed in Sweden?	Presentation, <i>ECIS - European Conference on Information Systems 2013</i> , Utrecht, Holland	June 2013	To be published here: <a href="http://opennessandtransparency.net/">opennessandtransparency.net/</a>
Crowdfunding av forskning allt populärare	Interview, <i>Vetenskap &amp; Miljö</i> , Sveriges Radio P1	May 2013	<a href="http://sverigesradio.se/sida/artikel.aspx?programid=406&amp;artikel=5526399">sverigesradio.se/sida/artikel.aspx?programid=406&amp;artikel=5526399</a>
Jakten på kapitalet – Vem satsar på din affärsidé?	Interview, <i>Entreprenör</i>	April 2013	<a href="http://www.entreprenor.se/nyheter/jakten-pa-kapitalet-vem-satsar-pa-din-affarside-186756.html?service=Print">www.entreprenor.se/nyheter/jakten-pa-kapitalet-vem-satsar-pa-din-affarside-186756.html?service=Print</a>
<i>Crowdfunding - framtiden för popkulturen?</i>	Interview, <i>Kulturradio</i> , Sveriges Radio P3	March 2013	<a href="http://sverigesradio.se/sida/artikel.aspx?programid=4283&amp;artikel=5464264">sverigesradio.se/sida/artikel.aspx?programid=4283&amp;artikel=5464264</a>
<i>Il Crowdfunding: la nuova frontiera per finanziare le proprie idee cresce in Europa</i>	Interview, <i>Fondazione Italiana Accenture Newsletter</i> , Italy	Jan 2013	<a href="http://ideatre60.it/condividi/condivisione-sociale-blog/autore/40/post/il-crowdfunding-la-nuova-frontiera-per-finanziare-le-proprie-idee-cresce-in-europa-i-dettagli-nellintervista-a--a-robin-teigland-professore-ed-esperta-del-tema">ideatre60.it/condividi/condivisione-sociale-blog/autore/40/post/il-crowdfunding-la-nuova-frontiera-per-finanziare-le-proprie-idee-cresce-in-europa-i-dettagli-nellintervista-a--a-robin-teigland-professore-ed-esperta-del-tema</a>
<i>The Future of Crowdfunding</i>	TV interview, <i>Associated Press</i> for international distribution	Feb 2013	None available

## Working Papers

Ingram, C., Teigland, R., & Vaast, E. 2013. *Is Crowdfunding Doomed in Sweden? An Empirical Examination of Institutional Logics, Perceived Affordances and IT Entrepreneur Behaviors*, SSRN Working Paper, [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2263965](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2263965).