Valuation of Crowdfunding: Benefits and Drawbacks

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Abstract

The aim of this paper is to broaden the body of knowledge about crowdfunding. Crowdfunding is an innovative and relatively new concept that connects investors to entrepreneurs. It is a method of fundraising, based on the ability to pool money from individuals in order to turn promising ideas into actual businesses. Crowdfunding is presently growing very fast and this growth will probably be magnified after the anticipated changes in law are made. Due to the novelty of the approach, a number of problems and fears arises, what might lead to an underestimation of the approach and possibly missed opportunities. Taking a look at crowdfunding through the prism of the SWOT analysis allows obtaining a comprehensive picture of the subject. The strengths of crowdfunding are: a chance to test marketability, the accessibility of capital, benefits for communities, rights to make company’s decisions stay in the hands of entrepreneurs. Weaknesses include administrative and accounting challenges, the possibility of ideas being stolen, weaker investor protection and potential for fraud, also, crowdfunding is exceptionally internet based, so investors might lack advice. Identified opportunities include the existence of niche, information society and positive effects crowdfunding is expected to have on economy, also, such threats as the risky nature of small business and unsuitable legal restrictions arise. Gaining deeper understanding about crowdfunding could be useful for entrepreneurs choosing a way to raise capital and investors seeking for different investment opportunities.

The type of the article: Theoretical article.

Keywords: crowdfunding, startups, entrepreneurs.

JEL Classification: M13, M21, G32; L26.

1. Introduction

Crowdfunding is a new internet-based method to raise capital - pool small amounts of money from individuals. The approach is attractive to entrepreneurs, because it not only allows raising capital for small businesses, which have very limited financing options, but also serves as a tool for testing marketability. Individuals enjoy the possibility to contribute to the ideas they believe in, even if they can invest only small amounts. Governments appreciate the approach due to its positive effects on economy – creating jobs, fostering economic recovery and innovations. Crowdfunding for equity is currently illegal almost everywhere, though it would be useful for entrepreneurs, investors and governments. Legal changes are now being made, so a big part of the available literature on crowdfunding reveals lawyer’s point of view (Sullivan & Ma, 2012; Sigar, 2012; Powers, 2012; Lynn & Sabbagh, 2012). The primary aim of such literature is to discuss the changes in law, but not to give advice for investors and entrepreneurs. Moreover, it is noticed that there are supporters (Sigar, 2012; Gobble, 2012; Ramsey, 2012; Kitchens & Torrence, 2012) of crowdfunding and those who emphasize various fears regarding it (Sullivan & Ma, 2012; Hamilton, 2012). There arises a need to combine all that information and opinions in order to provide a tool for investors and entrepreneurs to deepen their knowledge on crowdfunding. Thus, the article aims to broaden the body of knowledge about crowdfunding. The research problem is: what are the strengths, weaknesses, opportunities and threats of crowdfunding?

The object of the article is crowdfunding.
The applied research methodology is based on the positivism approach. An explanatory research is conducted with attempts to clarify different aspects of crowdfunding and gain more knowledge about the subject. The research methods applied in the article are systematic literature review, comparison, induction, SWOT analysis and subjective assessment.

2. Crowdfunding: what it is and how it works

Gobble (2012) states that the term “crowdfunding” is fairly recent – it was coined only in 2006 by Michael Sullivan. Sigar (2012) describes crowdfunding as an innovative method of raising funds for entrepreneurs that has become increasingly popular in the internet age. Lynn (2012) and Lynn & Sabbagh (2012) describe crowdfunding as working based on the ability to pool money from individuals who have a common interest and are willing to provide small contributions towards the venture. The term is explained in many different ways (Table 1) and it is clear that though authors perceive crowdfunding in a similar way, some slight differences in describing the notion arise. First of all, crowdfunding can be perceived as a process (Ramsey, 2012), an approach (Bechter, Jentzsch, Frey, 2011), a capital formation strategy (Sigar, 2012), a fundraising method (Wheat, Wang, Byrnes, Ranganathan, 2012) or a financial mechanism (European Crowdfunding Network; Powers, 2012) and all of that would be true. What is more, different authors emphasize different aspects of crowdfunding – it is not only a new way to connect entrepreneurs to supporters or investors, but also an emerging source of funding, a possibility for ordinary people to invest small amounts and, what nowadays is perceived as a high priority, crowdfunding is internet-based.

Table 1. The notion of crowdfunding

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Description</th>
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<tbody>
<tr>
<td>Ramsey, Y. A., 2012</td>
<td>The process of raising money to help turn promising ideas into business realities by connecting investees with potential supporters.</td>
</tr>
<tr>
<td>Lynn, D. M., 2012</td>
<td>A relatively new outgrowth of social media that provides funding for a variety of ventures.</td>
</tr>
<tr>
<td>Bechter, C; Jentzsch, S; Frey, M., 2011</td>
<td>An approach to raising capital required for a project or enterprise by appealing to large numbers of ordinary people for small ($1-$100) contributions.</td>
</tr>
<tr>
<td>Sigar, K., 2012</td>
<td>A capital formation strategy that raises small amounts of funds from a large group of people through online means.</td>
</tr>
<tr>
<td>European Crowdfunding Network, 2012-2013</td>
<td>Crowdfunding is the mechanism of pooling and distributing relatively small financial investments from a large audience of supporters in exchange for equity or liabilities carrying financial returns or other non-financial rewards, where supporters are people or organisations who network, usually via the internet, to jointly support other people or organisations</td>
</tr>
<tr>
<td>Wheat, R. E.; Wang, Y.; Byrnes, J. E.; Ranganathan, J., 2012</td>
<td>A new internet based method of fundraising in which individuals solicit contributions for projects on specialized crowdfunding websites</td>
</tr>
<tr>
<td>Lynn, D. M.; Sabbagh, H., 2012</td>
<td>A new outgrowth of social media that provides an emerging source of funding for ventures.</td>
</tr>
<tr>
<td>Powers, T. W., 2012</td>
<td>A financial mechanism that allows startup companies to solicit funds from the general public through website intermediaries.</td>
</tr>
</tbody>
</table>

Source: composed by the authors.

It can be noticed, that different authors’ perception and attitude towards crowdfunding depends on their point of view towards the three parties involved in crowdfunding. Crowdfunding is based on the close cooperation between investors, intermediaries and entrepreneurs:

- In the case of crowdfunding, investors are large groups of ordinary people, who can make small contributions ($1-$100) for the ideas they find promising. This provides individuals, who can invest only small amounts, a possibility to do that. Moreover, crowdfunding delivers ordinary people the decision right about which ideas are worth to be turned into businesses and which are not. Also, investors often get something in return – it can be a T-
shirt, frames of films, tickets to a concert, dinner with the director or, where it is heading now, securities.

- **Intermediaries** are usually crowdfunding platforms – specialized crowdfunding websites. Powers (2012) states, that these websites display business models and allow investors to make online contributions. The main purpose of such websites is connecting people (the crowd) to entrepreneurs. The crowdfunding platforms could be divided into two types, according to the way they behave with collected money. The first type of crowdfunding platforms hold funds in an escrow account – if the needed amount is not reached, the contributions are returned to investors. The other type of crowdfunding platforms allows entrepreneurs to keep all the funds raised.

- **Entrepreneurs** who seek financing through crowdfunding are often those, who fail to raise capital in other ways. Crowdfunding not only provides capital for such businesses, but it is also a test for the idea. If the crowd – a large group of individuals - is willing to invest, this means the idea is marketable.

The full definition of crowdfunding should emphasize not only the most important features of the method, but also the link between the three important parties. Raised capital and new investment possibilities are the results of the successful linkages. The results could not be achieved if one of the parties fails to cooperate. Crowdfunding could be described as a method to establish the connection between entrepreneurs, who aim to raise capital, and novel investors, who form an emerging source of capital and are willing to invest small amounts, through internet-based intermediaries.

Bechter et al. (2011) claim that although crowdfunding is still in its infancy, it is growing fast in both the variety of sectors to which is applied e.g., charity, music, games, and the overall value of transactions. The significance and rapid growth of the amounts of money raised through crowdfunding is also emphasized by Wheat et al. (2012). Wheat et al. (2012) state that in a wide variety of fields, particularly in the arts crowdfunding has become a mainstream method of fundraising. Recently, Wheat et al (2012) proposed the idea of raising money for scientific research through crowdfunding. Such ideas look very promising, as society addresses many issues and often do not trust the researches proposed by scientists who are funded by big monopolist companies. According to Wheat et al. (2012), “the power of science crowdfunding goes beyond financial rewards, as it has a potential to connect science and society in a powerful new way”.

Due to the novelty of crowdfunding, some legal difficulties arise. Sigar (2012) draws attention to the fact that “currently, this fundraising strategy depends on contributions from donors who do not share ownership of the project, but rather only receive token gifts such as signed CD albums, dinner with the director of a film project, or concert tickets.” Crowdfunding for equity is currently illegal or requires loads of paperwork in the EU and the USA.

In the USA, the situation is changing very rapidly to the benefit of crowdfunding. In 2012 President Barack Obama signed the JOBS Act (Jumpstart Our Business Startups), in which Title III is dedicated for crowdfunding. According to Ramsey (2012), as a result of JOBS Act, entrepreneurs can soon crowdfund their businesses using equities rather than goods in exchange for money. Attorneys Sullivan and Ma (2012) shortly describe the effects of JOBS Act – “it allows any Zuckenberg wannabe with an idea to skirt securities laws to attract equity investors.” Entrepreneur can raise up to $1 million from investors putting in no more than $10 000 each, or no more than 10% of their income, whichever is less. In case audited financial statements are provided for investors, the amount increases to $2 million.

Ramsey (2012) emphasizes that being able to sell shares of their company without going through the expensive, time-consuming process of registering with the SEC is good news for entrepreneurs. However, currently crowdfunding through equities is still considered illegal as there are no means to do it - SEC has not yet issued the rules governing equity crowdfunding (Ramsey, 2012; Lynn, 2012). Despite that, the requirements by SEC were expected to be written by 2013, and it looks promising that they will be proposed very soon and the new era of crowdfunding will begin.

In the EU, “currently, efficient and transparent markets cannot arise in the field of equity and loan based crowdfunding because investor protection regimes are designed for incumbent
investment settings which exclude a large number of crowd funders.“ (Buysere et al., 2012). Crowdfunding is being discussed seriously within the European institutions as an alternative for SME financing, especially with view on the Europe 2020 Strategy. The propositions to European Comission regarding the not-yet-existing „Crowdfunding directive“ were proposed by Buysere et al. (2012) „A framework for European Crowdfunding“. The report calls for a European legal framework that provides funding for projects under 5 million Euros, which are currently excluded from a pan-European legal framework. This would reduce the costs of compliance with national legislation and create a legal framework for participatory fundraising across borders (Pick&Jourdan, 2012). The Europe 2020 Strategy aims at fostering entrepreneurship and the ways it is going to be done are presented in the Entrepreneurship 2020 Action Plan (European Commission, 2013). The invitation for the member states to “assess the need of amending current national financial legislation with the aim of facilitating new, alternative forms of financing for start-ups and SMEs in general, in particular as regards platforms for crowdfunding, as well as consider the need for simplification of tax legislation to stimulate further development of alternative financial markets [...]“ (European Commission, 2013), supports the idea that in the future crowdfunding is going to evolve in the EU.

Powers (2012) reveals the main ways crowdfunding websites currently use to avoid broker-dealer registration. Some intermediaries avoid that by prohibiting investors from receiving financial stakes in the companies listed on their websites. Such platforms only allow investors to receive gifts. Other intermediaries permit startup companies listed on their website to issue equity to investors but they avoid the “broker” definition by (a) not effecting equity transactions in companies listed on their platform, (b) not recommending investments in companies they list and (c) not charging fees for their services. Of course, both ways have drawbacks – in the first case, investors cannot get equity and in the second case funding platforms cannot earn money.

Crowdfunding is an important novelty, which appeared as an outgrowth of social media, and is currently appreciated by all – entrepreneurs, investors and intermediaries. Moreover, crowdfunding is also appreciated by governments, who see it as a way to create more jobs and benefit economy. The importance of crowdfunding is emphasized by the ongoing changes in law, which aim at expanding the scope of crowdfunding opportunities – legal changes are anticipated to make equity crowdfunding legal.

3. Valuation of crowdfunding: SWOT analysis

Crowdfunding, as an innovative capital formation strategy and investment possibility, has both supporters and skeptics. In order to investigate and evaluate the new phenomenon of crowdfunding, qualitative evaluation is invoked. SWOT analysis is a powerful qualitative research tool, which serves for gathering information and decision-making. According to Briciu et al. (2012), timely apprehension of threats allows adoption of appropriate measures in order to avoid or minimise their impact. SWOT analysis not only diagnoses past and present condition, but also has an insight in future, ability to outline development perspectives. As crowdfunding is very new and rules regarding it are still being set, SWOT analysis can help to understand and position the method with regards to others and avoid mistakes. The application of this tool is based on distinguishing the strengths and weaknesses of crowdfunding and, respectively, the opportunities and threats, arising on the method from the external environment. To clarify aspects related to the SWOT analysis, some notions need to be explained:

1. Strengths are distinctive features of crowdfunding and advantages of using it in comparison with other means to raise capital or invest. Strengths are of internal origin and this means they arise from the nature of the method: the way it is designed and applied.
2. Weaknesses are negative features and the features the method is lacking in comparison to other ways to raise capital or invest. Weaknesses are also of internal origin.
3. Opportunities represent the attributes of the environment that can be exploited in order to improve the method or increase the use of the method.
4. Threats are exposures to negative elements of external origin harmful to the method and decreasing its performance.

**Strengths and weaknesses of crowdfunding**

Though the SWOT analysis of crowdfunding is still absent in the scientific literature, many authors (Bechter *et al.*, 2011; Sigar, 2012; Ramsey, 2012; Kitchens & Torrence, 2012 and etc.) identify various benefits of crowdfunding. Some of those benefits are of internal origin; they place crowdfunding at an advantage relative to others, and therefor qualify for strengths.

First of all, in the case of venture capital and business angels, investors gain significant control over company’s decisions. Crowdfunding is different – entrepreneurs do not need to give away such rights. So, when a company’s capital is raised through crowdfunding, *entrepreneurs do not lose the right to make company’s decisions themselves*.

Secondly, raising capital through crowdfunding platforms is *exceptionally accessible*. According to Bechter *et al.* (2011), crowdfunding platforms “address the problem that the majority of entrepreneurs fail to raise venture capital for two reasons. Firstly, most entrepreneurs do not qualify for venture capital since they can’t grow fast enough, nor do they have the potential for a large public offering. Secondly, there are too few venture capitalists versus the masses of entrepreneurs who need money.” Sigar (2012) expresses the same ideas – small businesses have very limited financing options. According to her, bank loans are often denied due to a lack of collateral, operating history and a proven track record. Also, private financing from venture capital firms and angel investors only fund a small number of businesses. Sigar (2012) perceives crowdfunding as an opportunity to fill this capital gap by connecting small businesses, which are marginalized from the traditional sources of funding, to the general public.

What is more, entrepreneurs seeking to raise capital through crowdfunding platforms are awarded with *a chance to test marketability*. The whole mechanism of crowdfunding is based on attracting a big number of individuals, who find an idea interesting, worth their investment, time and attention. When a funding portal announces a new idea or business model, a deadline for reaching a fundraising goal is usually set - some make and even exceed the goal, some don’t. Ramsey (2012) emphasizes that “they can gauge the potential for a successful start-up of the business based on the public’s response to the request for support”. In other words, if so many individuals believe in an idea or a business model and it is crowdfunded, this probably expresses the “wisdom of the crowd” – the idea or business model is likely to succeed.

Lastly, crowdfunding provides *benefits for communities through both local and global means*. Kitchens and Torrence (2012) state that crowdfunding is going to be a tool for people to invest in their own communities and this will help to create sustainable economic health. Ramsey (2012) supports the idea by stating that crowdfunding creates “opportunities to talented people with limited resources and to investors who want to keep that talent in the community”. According to Blechter *et al.* (2011), nowadays modern technologies allow to overcome geographical barriers and access money globally. Findings of the research (Blechter *et al.*, 2011), reveal, that most entrepreneurs focus on a project within their geographical community but try to raise funds globally.

Some drawbacks of crowdfunding (named by Gobble (2012), Sullivan & Ma (2012), Galwin (2012), Sigar (2012), Shirky (2012) and others) are of internal origin; they are the characteristics that place crowdfunding at a disadvantage relative to other means of financing, and can be perceived as weaknesses.

To start with, entrepreneurs seeking to crowdfund their businesses should consider the *administrative and accounting challenges* they are going to face. Even though currently crowdfunding is based on donors receiving rewards, the job of recording contributions and sending rewards is time consuming. When a large number of investors become shareholders, business will face even bigger administrative and accounting challenges – “this would require meticulous and laborious bookkeeping of all investments and shares in the business to determine the share of profits to which each investor is entitled to” (Sigar, 2012). Kitchens & Torrence (2012) emphasize, that a large base of unsophisticated investors is a challenge not only to administrate, but also to
What is more, Sullivan and Ma (2012), Bechter et al. (2011) and Galwin (2012) state that entrepreneurs seeking to crowdfund their businesses face the risk of their idea being stolen by better funded investors or large corporations. Entrepreneurs might lack knowledge to protect their ideas and business plans, and, moreover, in case an idea or business plan is stolen, most entrepreneurs would lack resources to fight for it in court. Such risk in this paper is considered a weakness, because it is a feature of the mechanism of crowdfunding – presenting ideas and business models in public is a must.

Also, the concern for fraud is expressed by Sullivan & Ma (2012), Galwin (2012) & Sigar (2012). The JOBS Act (2012) loosens regulatory requirements for small businesses in various ways and it can become a precondition for fraud via crowdfunding (Gobble, 2012). As a result of reduced requirements for public disclosures, some businesses can try to conceal their true financial status. Also, some businesses might even be created as fraud – companies can be started in order to take funding, pay it all as salary and then shut down. Sigar (2012) expresses opinion that whilst implementing rules, SEC should carefully consider the ways to protect investors, especially vulnerable ones, who lack “financial sophistication”. Weaker investor protection and potential for fraud in this article is considered as a weakness, because, the ongoing legislative changes are solely subject to crowdfunding, they are not applicable to other means of raising capital.

Also, crowdfunding is an internet based approach. Sigar (2012) draws attention to the fact, that “the internet, which replaces real life encounters with virtual meetings, could make it more difficult for investors to determine whether an issuers business in legitimate”. Also there arises a problem of choosing a trustworthy crowdfunding platform. It is an issue for both, investors and entrepreneurs. Though huge amounts of information can nowadays be found on the internet, it is difficult for unsophisticated investors to decide on which intermediary and which business can be trusted and worthy. There are no brokers to give an advice.

Opportunities and threats of crowdfunding

Some opportunities of crowdfunding can also be found listed (Blechter et al., 2011; Sigar, 2012; Kitchens & Torrence, 2012 and others) amongst the advantages of crowdfunding. Despite that, an insight is needed here – as crowdfunding is a novelty and emerging very fast, exploring the elements it could exploit to its advantage could enhance the importance of crowdfunding and fasten its development.

First of all, a good look at the crowd, i.e. the contemporary society, needs to be taken. In the knowledge economy, the formation of an information society should be noticed and taken into account. As technology has become more advanced over time, the usage of internet emerged and this triggered the popularity of various social networks and projects based on crowdsourcing to increase. Social networks and crowdsourcing can be employed for the benefit of crowdfunding. Crowdfunding can employ social networks for promotion. Blechter et al. (2011) state, that social networks can serve as a medium in promoting a project to friends and, respectively, their friends. Blechter et al. (2011) present data, suggesting that “investment accelerates as the entrepreneur gets closer to the required sum whereby outsiders contribute most funds as opposed to the initial phase where friends contribute the most”. So, after family members and friends contribute in the initial phase, they can recommend the business for their friends through social networks and serve as a trustworthy source. Having such recommendations and seeing that a big part of the amount is already raised, outsiders are more likely to contribute. Also, the possibility to couple crowdfunding with crowdsourcing looks promising. According to Sigar (2012), crowdfunding can serve as a tool for innovators to improve their business models and products or services before they are even offered to public. Blechter et al. (2011) say that an idea being posted online would be evaluated and after consensus has been reached crowdfunded. Blechter et al. (2011) state, that such coupling may not be suitable for commercial projects due to the issue of ownership.

The positive effects crowdfunding is expected to have on economy can also be perceived as an opportunity. Crowdfunding is said to be capable to create of new jobs (Sigar, 2012), to catalyze
long-term economic recovery (Gobble, 2012), foster economic development (Kitchens & Torrence, 2012) and innovations (Shirky, 2012; Kitchens & Torrence, 2012). The JOBS Act is designed to increase job creation and economic growth by improving access to public capital markets for emerging growth companies (Kitchens & Torrence, 2012). Similar effect is probably expected in the EU. Sacks (2012) says, that even if there are entrepreneurs with ideas, there will be no businesses and no jobs unless there is capital. The benefits on innovation ecosystem are also significant. According to Shirky (2012) “This isn’t the side effect, this is really the main effect of improving the startup economy: getting more people to try more ideas, which inherently means more failure. But it also means more experience, it means more surprises, it means lower cost”. Kitchens & Torrence (2012) express very similar ideas stating that economic growth is driven by innovation, innovation is driven by experimentation and experimentation is driven by crowdfunding. Also, according to Sigar (2012) small businesses provide consumers with more product and service options. With so many positive effects expected to occur, implementing crowdfunding must be considered of high importance, what means that legislators are supposed to listen to both supporters and opponents and make decisions fairly fast. Also, the positive effects of crowdfunding might be used as leverage in the discussion between supporters, opponents and legislators.

Also, crowdfunding is designed as a niche investment opportunity / way to raise capital. It is not expected to compete with other ways of raising capital or to invest. On one hand, Shirky (2012) grounds the idea, that crowdfunding is a niche method to raise capital and states that there will probably be no overlap, even in the early days, between the VC traditional targets and crowdfunding. He believes that „crowdfunding will reveal itself to be a source of all kinds of startups that just weren’t part of the current ecosystem“. On the other hand, Farrell (2012) introduces an infographic on the JOBS Act and the history of crowdfunding. The infographic grounds the importance of small businesses on economy and overviews the investing public. According to the infographic, crowdfunding should reveal itself as a new investment opportunity, available to those, who don’t have enough money to invest in stock. The idea, that crowdfunding is more likely to compete with gambling than other investment opportunities can be retrieved.

<table>
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<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
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<tr>
<td>Entrepreneurs keep the right to make company’s decisions themselves.</td>
<td>Administrative and accounting challenges.</td>
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<tr>
<td>Accessibility of capital.</td>
<td>Only internet-based, lack of advise</td>
</tr>
<tr>
<td>A chance to test the marketability.</td>
<td>Ideas and business models presented public can easily be stolen.</td>
</tr>
<tr>
<td>Benefits for communities through both local and global means.</td>
<td>Weaker investor protection and potential for fraud.</td>
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<th>OPPORTUNITIES</th>
<th>THREATS</th>
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<tr>
<td>The existence of information society (social networks for promotion, possibility to couple with crowdsourcing)</td>
<td>Current legal restrictions are not suitable for equity crowdfunding.</td>
</tr>
<tr>
<td>Positive effects crowdfunding is expected to have on economy</td>
<td>The risky nature of small businesses</td>
</tr>
<tr>
<td>A niche investment opportunity / way to raise capital</td>
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Source: composed by authors.

Every novelty is very vulnerable due to the lack of experience and existing negative forces in the environment. Finding out and monitoring threats - elements in the environment that could cause trouble for the business or project is especially important for innovative companies or in this
case methods, that are expected to foster huge changes.

As it was already overviewed in the first part of the article, current legal restrictions are not suitable for equity crowdfunding. Equity crowdfunding is a new way of raising capital and it is still illegal almost everywhere in the world (only Australia is an exception). According to Gobble (2012), in the USA, equity crowdfunding is illegal under the Securities and Exchange Act of 1934, which limits the number of investors, a company may have before it must go public and subject itself to the significant bureaucratic burdens and intensified scrutiny accorded to public companies. Gobble (2012) states that currently functioning crowdfunding platforms do not offer to become an investor, they offer to become a “backer”, who pledges small amounts in return for personal engagement with a project, a gift, pre-order and etc. Powers (2012) states, that viability of crowdfunding depends on whether the SEC implements flexible and cost effective rules to encourage crowdfunding intermediary registration. This means, that if the issued rules in the USA and the EU are not flexible and cost effective, the development of crowdfunding might be slower and of a smaller scope than expected.

The risky nature of small businesses might also be considered as a threat towards crowdfunding. Sigar (2012) states that startup companies are traditionally riskier and have a higher rate of failure in comparison with other businesses. Uncertainty about the development of unproven products and services arises. Sullivan and Ma (2012) also express the fear that many crowdfunding investors will be sadly disappointed when business they invest in fails, since many do in the first 5 years. This may cause not only disappointment, but lawsuits might be started as well. Moreover, Gobble (2012) draws attention to the fact, that getting financing through crowdfunding is easier, in comparison to venture capital. Entrepreneurs might misjudge by choosing an easier way, despite venture capitalists offer help - mentorship, advice, useful contacts - in addition to money. Sometimes such help can be crucial for a small company to succeed.

The identified strengths, weaknesses, opportunities and threats of crowdfunding are summarized in the Table 2.

4. Discussion and further research directions

The SWOT analysis is not only a powerful and flexible tool, but it also requires insight – some questions of significant importance need to be answered.

Do identified strengths allow using favorable opportunities? The existence of information society and social networks can be fully exploited and benefit crowdfunding. As presenting an idea or business model for public is an important feature of crowdfunding, social networks can maximize the number of people it is presented to. Also, a possibility to couple crowdfunding with crowdsourcing looks promising. The identified strengths not only allow using favorable opportunities, but if the opportunity of exploiting information society is used, it can even help to maintain and build strengths: if crowdfunding is successfully paired with crowdsourcing, not only the decisions regarding company stay in the entrepreneurs’ hands, but they also get valuable advice from “the crowd”. Also, marketability would not only be tested, but it can also be improved. Moreover, if social networks would be properly exploited, the accessibility of capital might be increased.

The strengths of crowdfunding, especially accessibility of capital and benefits for communities, ground the positive effects crowdfunding is expected to have on economy. It allows governments and supporters to use “the card” of positive effects on economy as leverage, in order to justify the importance of crowdfunding and fasten the ongoing legislative changes.

Do strengths allow avoiding threats? The identified strengths of crowdfunding reveal that it is useful for all – entrepreneurs, investors, intermediaries and governments. This means that legal restrictions are likely to be changed in favor of crowdfunding. The risky nature of small businesses is hard to avoid, but the marketability of a product or idea is already tested and approved by “the crowd” if it is crowdfunded. Moreover, some investors, who seek to help their community, might not even prioritize high profits – they may be satisfied with the possibility to keep talented people in their community and monitor their plans coming true. And finally, the mechanism of crowdfunding is based of pooling small investments, and losing a small investment is by all means not as painful
as losing a big one.

**Won’t weaknesses interfere with using favorable opportunities?** The fact, that crowdfunding is only internet based, and so investors would question it, might minimize the positive effects crowdfunding is expected to have on economy. Such idea is denied by Sigar (2012). Nowadays people do not need to depend only on brokers or dealers to obtain information about a company, now they are able to do it themselves using internet. Public access to information, according to Sigar (2012), reduces the problem of information asymmetry. The amounts of information in the internet are huge; also, not all the information is trustful and not all users know how to use it in decision making. Due to those issues, various online solutions are offered - websites, software and online tools are designed to help investors. The crowdfunding platforms should also foster it.

The weakness of weaker investor protection and possibility for fraud might also interfere with the scope of positive effects crowdfunding is expected to have on economy. According to Gobble (2012), the very nature of crowdfunding makes fraud schemes unlikely to succeed – crowdfunding begins with entrepreneur’s personal social networks, what means that potential fraudsters would have to begin with their friends and family. Also, the investor education requirements are being established by law.

The possibility to use social networks for promotion and possibility to couple with crowdsourcing might also be limited due to the fear that ideas and business models presented publicly can easily be stolen. This addresses the issue of entrepreneurs’ intellectual property, and ways to protect ideas and business plans need to be proposed.

**Won’t weaknesses disturb avoiding threats?** The threat arising from the risky nature of small businesses might be magnified by the fact, that crowdfunding is an only internet-based approach; there is nobody to give advice for investors. Shapiro might have found a way to deal with this problem, she offered “to better protect crowdfunding investors by providing oversight of the industry professionals that intermediate and facilitate these offerings“(Hamilton, 2012). If implemented, such oversights would produce an advice for investors in addition to online tools.

As current legal restrictions are not suitable for equity crowdfunding, they need to be changed and are being changed in the USA and the EU. The changes need to reflect not only the possibility to crowdfund, but the ways to protect both, entrepreneurs and investors. As entrepreneurs fear their ideas and business models might easily be stolen, investors fear fraud. To ensure that both sides are safe, strict rules need to be set. Moreover, though the USA is a bit ahead with allowing crowdfunding for equity in comparison with the EU, it is new for both. This means, they can apply each other’s findings and ideas.

The findings from the SWOT analysis reveal that as crowdfunding is a novelty, uncertainty and various publicly expressed fears enhance the weaknesses and threats of the method. Despite that, in the nowadays’ global, rapidly changing and network-based economy, crowdfunding can serve as a valuable and useful tool. The publicly expressed fears and doubts about crowdfunding should be exploited and lead to better and more thoughtful decisions regarding it. Various tools to make crowdfunding as safe and attractive as possible can be employed: online solutions are designed to help investors, the awareness about the problem of intellectual property rights already exists, investor education requirements are being established, the need for oversight of industry professionals is expressed. Also, as in the USA legal acts regarding crowdfunding are already signed, only rules need to be set, and in the EU the European 2020 strategy is oriented towards fostering entrepreneurship, it seems that crowdfunding is going to evolve. So the perspectives of crowdfunding are very good, assuming that fair legal acts and rules are set, and the above mentioned helpful tools are offered.

While analysing the scientific literature in the field of crowdfunding and conducting the SWOT analysis, various aspects that need further research can be noticed:

- The ways to protect investors as well as the ideas and business models need to be identified, thoroughly examined and afterwards included in the rules regarding crowdfunding.
- Various useful tools might be designed. The successful composition of crowdfunding, crowdsourcing and the comments of industry professionals might be powerful.
- The extent to which crowdfunding might have an effect on economy should be better explored.
• The uncertainty regarding the moment of crowdfunding. The impact and risks of crowdfunding early phase startups in comparison e.g. crowdfunding companies seeking development opportunities should be questioned.
• The choice of funding method. The pros and cons of choosing crowdfunding should be clarified for entrepreneurs seeking to raise capital. The comparison to other fundraising methods might be useful.

References


