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Why German Entrepreneurs Seek Equity via Crowdfunding?

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ABSTRACT

Equity crowdfunding, financing a project or venture through many small investments of a large group of investors, has received growing attention from the media and scholars. This study focuses on what motivates entrepreneurs to crowdfund in Germany. The study researched the motivation of 11 entrepreneurs to use German equity crowdfunding platforms. This study uses a research approach novel in the field of venture financing, the means-end approach. One of the findings is that entrepreneurs use equity crowdfunding to successfully collect funds from rather emotionally investing crowdinvestors to finance their ventures' future growth and to signal investment viability to follow-up investors. Crowdfunding also allows entrepreneurs to keep decision-making power over the venture better than by using traditional sources of funding. The findings indicate that crowdfunding attracts entrepreneurs who could not secure funding from other sources of capital as well as entrepreneurs who see the additional benefits it can provide over other sources.

Keywords:

Crowdfunding, start-up, entrepreneur, motivation, funding.

INTRODUCTION

Crowdfunding is a way for individuals with ideas to collect capital from a large number of people, typically online (Belleflamme et al., 2014), which experiences growth rates of over 80% per year since 2012 (Massolution, 2013). People who give money either receive an equity stake, interest for a loan or a reward, e.g. a consumer product, in return or they simply donate the money without a material return. Thus, crowdfunding is typically segmented into four different types: equity, lending, reward, and donation based crowdfunding (Massolution, 2012).

This study focuses on why entrepreneurs are motivated to use equity crowdfunding to finance their ventures in Germany. The country is probably the most developed market in the world in this early stage financing modality making possible to drawn interesting lessons for developing countries such as Brasil. We concentrate on equity crowdfunding conducted via crowdfunding platforms and neglects individual, platform-independent crowdfunding, due to several, growing advantages of this form of crowdfunding.

This study takes an inductive approach, exploring the motivation of entrepreneurs qualitatively in open ended interviews with the aim of building theory. This serves to fill the existing research gap, where there is no specific research on what motivates for-profit entrepreneurs to use platform-based equity crowdfunding. So far and very little research on what motivates project initiators (i.e. people creating a crowdfunding campaign, not necessarily entrepreneurs) in general to use crowdfunding.

The study is structured in four parts: 1. Literature review 2. Describing crowdfunding and the relevant actors in general 3. The different forms of crowdfunding that exist next to equity, 4. Crowdfunding in more detail. Furthermore, as the entrepreneurs' decision to use equity crowdfunding cannot be analysed independently of the decision alternatives available to them, the other traditional funding options are explained. Then, the potential overlap of equity crowdfunding with the traditional sources of funding available in the respective funding phases is shown.

Research Methodology explains the data collection and data analysis procedures. First, the case selection, i.e. the case sampling and case design, is described. Then, the choice of the research method in the context of entrepreneurial financing-- the means-end approach-- is further justified and its underlying psychological theory explained. After describing the interview context and the concrete application of the means-end approach in the actual interviews, the process of transcription of the interviews is briefly stated. Finally, the procedures of the two-step data analysis process are illustrated, i.e. the coding of the raw interview data followed by further aggregation and analysis using operations specific to the means-end approach. The study's results are discussed and triangulated with proposed motivating factors from the literature and then conclusions are discussed.

LITERATURE REVIEW

By one of the most popular definitions of Belleflamme, Lambert, and Schwienbacher (2014) crowdfunding is an open call for funding, usually via the Internet, which is provided for by many investors in the form of rather small investments.

This open call is made by a project initiator, also referred to as project owner or creator by Zhang (2012) or Gerber and Hui (2013), who raises capital for his project via crowdfunding (Ordanini et al., 2011). Project initiators could for example be artists or charitable projects (Hemer et al., 2011), yet, in the focus of this study project initiators are entrepreneurs who crowdfund their ventures (Belleflamme et al., 2014; Collins & Pierrakis, 2012).

The funding for projects is provided by the crowd, which consists mostly of private individuals but can also include organizations or investment funds (Hemer et al., 2011). The project initiators approach the crowd for funds on a website, often operated by a third party forming a crowdfunding platform-- a virtual hub bringing together the entrepreneurs and individual investors (Ordanini et al., 2011).

A crowdfunding platform connects investors and entrepreneurs as an intermediary (Powers, 2012) and matches the initiators' ideas with the crowd's funds with the help of social media. Thus, a large crowd can be reached rather easily online communicating one-to-many via the interactive Web 2.0 through channels like Facebook and Twitter. Multi-sided platforms, such as crowdfunding platforms, facilitate such network effects in general (Osterwalder & Pigneur, 2010)

The term equity crowdfunding encompasses equity-like investments, such as certain types of mezzanine capital, which offer similar payoffs as equity but also share characteristics with debt (De Buysere et al., 2012). Hence, the differentiation between lending and equity crowdfunding is not completely mutually exclusive. Furthermore, many platforms allow for multiple types of crowdfunding to be used simultaneously (Blohm et al., 2013).

Segmenting crowdfunding based on the parameter of the type of funding employed is not entirely precise. Blohm et al. (2013) analysed various data points using several different clustering algorithms and proposed to cluster crowdfunding into the three types "hedonism", "altruism" and "return oriented" crowdfunding. In the "hedonism" cluster, the crowd invests into mostly consumer-taste related innovative and creative projects. Investment sums are small (the majority is below €1.000) and mostly without direct financial rewards. Investors are remunerated via for example cheaper final products. In the "altruism" cluster mosty donations are collected for social or sustainability projects giving investors social recognition rather than financial rewards as a return.

"Return oriented" crowdfunding is a cluster that is very similar to the equity type of crowdfunding. The projects in this cluster are funded via equity (9%) and mezzanine capital (66%) (Blohm et al., 2013). Only 25% of the projects in this cluster are funded with debt and would thus fall under lending crowdfunding following Massolution's definition. "Return oriented" crowdfunding usually yields a financial return for investors and the investments are generally bigger than in the other two clusters. Furthermore, in addition to the mostly private investors targeted in the other two clusters, institutional investors are targeted. Even so, the investors usually have no management influence. Half of the crowdfunding projects in this cluster are for for-profit start-ups, the focus of this study (Blohm et al., 2013).

The German equity crowdfunding platform market is already rather consolidated. Out of 24 active platforms on the German equity crowdfunding market in late 2011, only 13 are still operating today (Hölzner et al., 2014). In the first quarter of 2014 Seedmatch and Companisto dominated the market with a share of 45,4% and 43,6% respectively, followed by Innovestment with 7,4%, and small platforms comprising the remaining 3,6% (Hölzner et al., 2014). Consistently, according to Für-Gründer.de (Crowdfinanzierung in Deutschland, 2014), Seedmatch and Companisto had a market share of 87% in the first three quarters of 2014, with Seedmatch alone holding 59% of the market.

At Seedmatch and Companisto, investors invest via a participation loan according to German civil law (paragraph 488 of the Bürgerliches Gesetztbuch), qualifying it as equity crowdfunding according to Massolution's definition (2013). This has several advantages for the entrepreneurs seeking capita: there is no obligation to publish an otherwise costly investment prospectus, funding sums are unlimited, investors have no decision-making rights but only information rights to quarterly and annual reports, and stock will be diluted in eventual consecutive rounds pending legal changes in the future.

After a pre-selection by the platforms according to the platform's investment focus fit and some formal criteria, Seedmatch establishes a valuation together with the venture, Companisto values the ventures themselves. A funding threshold, a minimum required sum, has to be reached in order for a campaign to be successful and money being paid out to the entrepreneur. Seedmatch charges 5-10% of the collected sum (plus transaction costs) for the payment provider, Companisto charges a 10% flat commission. Additional costs are incurred through content production, especially of an investor pitch video. Investors receive 1% interest per annum. They also receive additional benefits. In the case of an exit, their share of the exit value. In the case of early cancellation (investors can cancel earliest after 5 years on Seedmatch and 8 years on Companisto, ventures can cancel earliest after 8 years on both platforms), the investors receives a multiple on the current revenue or earnings before interest and tax, short EBIT, on Seedmatch and Companisto, or have the additional option of receiving a share of the current value of the venture, only on Companisto. Thus, crowdinvestors can be divested after a certain time frame, either by the venture or by follow-up investors buying back the crowd's shares.

CHALLENGES OF FINANCING NEW VENTURES

Securing financing for their venture is one of the most serious problems entrepreneurs have to face, according to many scholars (Denis, 2004). Despite bootstrapping, entrepreneurs are likely to need external capital sooner or later (Lahm & Little, 2005). This capital often comes from family, friends, and so called "fools" high-- risk taking investors with no personal relationship to the entrepreneurs Taken together these categories are abbreviated "FFF" by Cumming (2006) (Parhankangas, 2007; Barringer & Ireland, 2010; Volkmann & Tokarski, 2006).

This "FFF" funding can take the form of equity or debt (Fueglistaller et al., 2012), but also the form of gifts, free rent, sweat-equity, or delayed compensation. Entrepreneurs usually keep decision-making control, but may small additional benefits like management or legal support from family, friends, and fools (Brettel et al., 2000). "FFF" capital is relatively easy to access, as information asymmetries between the investors and the entrepreneurs are low in the case of family and friends (Brettel et al., 2000). Still, the investment volume is limited and strongly dependent on the affluence of the social network of the entrepreneurs, just as the funds from the entrepreneurs themselves are limited by the entrepreneurs'' personal wealth (Fueglistaller et al., 2012).

In this early phase debt is usually limited to over drafting personal credit cards or financing operations through trade credit (Leach & Melicher, 2011). Another source of funding in the seed phase are initial grants such as government and research grants, which are typically awarded to technology ventures (Barringer & Ireland, 2010). Grants can function as a positive signal to follow-up investors (Gompers & Lerner, 2004). Nevertheless, access to public funds is generally scarce, according to Nathusius (2003).

Business angels are another important contributors of capital in the seed and start-up stages (Ruhnka & Young, 1987; Mason & Harrison, 2002; Maula, Autio & Arenius, 2005). Together with the entrepreneurs' funds and family, friends, and fools, business angels provide the largest share of capital of a typical start-up. Business angels typically have a high net worth, which they typically invest in only a few start-ups (Denis, 2004). Often business angels succeeded as entrepreneurs themselves and are well educated (Barringer & Ireland, 2010). Moreover, they often have experience in the industry of the start-up they invest in, due to their own entrepreneurial or industrial backgrounds, and they actively apply this knowledge in the venture (Mason & Harrison, 1994; Kelly, 2007).

Equity crowdfunding might attract new capital from people who previously have never invested in new ventures thus adding investors to the previously discussed traditional sources of funding, mostly by family, friends, and fools. Consequently, equity crowdfunding is a possible alternative source of funding for entrepreneurs or at least an alternative way of approaching family, friends, and fools, business angels and venture capitalists.

In contrast to entrepreneurs being motivated to use equity crowdfunding possibly out of necessity, because they are pushed to approach the crowd for funding when alternative sources are not available, they might also be motivated to use equity crowdfunding despite alternative sources being available. They could be motivated to do so because equity crowdfunding might offer some additional benefits such as signalling, risk diversification, full management control, market data and product feedback, or marketing effects.

In addition to receiving immediate funding with crowdfunding, the fact of having successfully completed such a campaign could also help entrepreneurs to secure funding from the other sources in the future. More specifically, business angels and venture capitalists, who were not willing to invest before the successful completion of the first crowdfunding round might be more willing to invest after the 'wise' crowd has indicated the market potential through by funding the venture. According to De Buysere et al. (2012), Blohm et al. (2013), and Bradford (2012), the successful completion of a crowdfunding campaign resulting in the actual investment of capital by the crowd can indeed serve as a signal, attracting follow-up investors and increasing a venture's reputation.

Ventures frequently use signalling to attract investors, i.e. by providing patents for technology (Guggemoos, 2012) or showcasing a track record of the entrepreneurial team and their successful projects (Baum & Silvermann, 2004). New ventures and their entrepreneurs often do not possess these typical attributes needed for signalling, like patents or track records in earlier stages. Hence, the investment of the crowd can substitute as a signal to investors.

Furthermore, not only other sources of funding, but also the crowd might be more willing to invest after a first successful crowdfunding campaign (De Buysere et al., 2012). Entrepreneurs might be motivated to use equity crowdfunding to create a signal to follow up investors, that the venture is a viable investment opportunity, inducing investment by them.

The impatience of traditional sources of funding, such as business angels and venture capitalists, and their high return requirements, which can lead to the aforementioned capital shortages, are of great concern to entrepreneurs (Denis, 2004). In order to reduce their dependence on such "impatient" sources of funding and to make sure that they receive the required capital, entrepreneurs could be inclined to choose or add sources of funding such as equity crowdfunding (Belleflamme et al., 2010).

Furthermore, entrepreneurs might be motivated to use equity crowdfunding, because they might not have to concede management control to crowdinvestors. Usually, when giving out equity, entrepreneurs have to give away a part of the ownership and decision-making control (Barringer & Ireland, 2010). Consequently, the entrepreneurs lose entrepreneurial decision-making power and autonomy (Sapienza et al., 2003). Venture capitalists often even demand specific contractual clauses that award them certain control rights over the venture (Kaplan & Stromberg, 2001).

Concluding, the many individuals who publicize the venture's brand or single products and services might be able to create a hype around it (Belleflamme et al., 2014). Thus, a crowdfunding campaign can act as an early publicity campaign (Agrawal et al, 2013; Hornuf & Schwienbacher, 2014).

RESEARCH METHODOLOGY

This study considers the motivation of entrepreneurs who have already used or are currently using platform based (non independent) equity crowdfunding. Consequently, all interviewed entrepreneurs were sampled from the pool of entrepreneurs who used or use platform based equity crowdfunding.

Furthermore, this study focuses on platform based equity crowdfunding in Germany. Hence, the entrepreneurs to be interviewed, i.e. the cases studied, were selected from German equity crowdfunding platforms. This study in fact chose entrepreneurs from only two German equity crowdfunding platforms, namely Seedmatch and Companisto, as they constitute up to 90% of the German equity crowdfunding market.

The design for this study is done in the way that multiple, holistic cases were chosen from the pool of entrepreneurs active on the two platforms Seedmatch and Companisto (103 until the reference date 11^{th} of September 2014).

Starting in June 2014, the first potential case interview partners were contacted via e-mail, using investor relations contact information publicised on the respective crowdfunding campaign websites hosted by Seedmatch and Companisto. Overall, 37 potential cases were contacted. Out of the 71 campaigns listed on Seedmatch at the time (reference date is the 11^{th} of September), 28 entrepreneurial teams were contacted (about 40% of all campaigns), and out of the 32 campaigns listed on Companisto, 9 were contacted (about 30% of all campaigns). Thus, an almost equal proportion of all campaigns listed on each respective platform were contacted. Out of these randomly approached 37 entrepreneurial teams, actual interviews were conducted with 11.

The collection of primary data was ended in the beginning of September as the findings tended to converge. Thus, as investigating more cases led to an ever smaller marginal improvement to the emergent theory, saturation had occurred and ending data collection was justified (Glaser & Strauss, 1967). Table 1 shows the profile of interviewed companies (entrepreneurs).

Table 1: Profile of companies and interviewed entrepreneurs

Case	Type of Business	Customer Focus	Participant's Position in Venture	Date of Interview
1	Computer Hardware	B2B	Head of Business Development	13.06.14
2	Software Security	B2B	Project Manager	06.08.14
3	Sports Events	B2C	Founder	06.08.14
4	Online Lottery	B2C	Founder	15.08.14
5	Mobile Payment	B2C	Founder	18.08.14
6	Social Payment	B2C	Founder	19.08.14
7	Search Engine	B2B	Founder	10.08.14
8	Staffing Software	B2B	Founder	22.08.14
9	Contraceptive Product	B2C	Founder	22.08.14
10	Ice cream products	B2C	Founder	03.09.14
11	Search Engine	B2B	Founder	03.09.14

Source: Research data

To elicit what motivates entrepreneurs concretely to use equity crowdfunding, this study uses a research approach novel to the field of entrepreneurial finance, namely the means-end approach. This approach was chosen as other typically used research approaches have some shortcomings, which will be explained briefly below.

The means-end approach (or means-end-chain theory) is based on the psychological theory of (1955). According to the personal construct theory created by Kelly (1955), people, rather than behaving in a stimulus response schema, perceive the world through a system of personal constructs, such as the personal belief that crowdinvestors are very emotionally involved. People constantly generate, test, and adapt these constructs through life experiences to be able to more accurately anticipate future events (Kelly, 1955).

Furthermore, constructs are connected to other constructs hierarchically in an individual's mind, meaning that subordinate constructs may lead to superordinate constructs (Kelly, 1955). For example, the subordinate construct "crowdinvestors are very emotionally involved" may lead to the superordinate construct "crowdinvestors will advertise my venture", as entrepreneurs anticipate that emotional and dedicated investors might be willing to actively advertise the venture they invested in. Striving towards the fulfilment of superordinate constructs, a system of constructs can develop a motivational force (Kelly, 1955).

In the means-end approach, the different subordinate and superordinate constructs that were elicited through laddering are categorised in three hierarchical levels, ranging from concrete to more abstract constructs:

1. The most concrete constructs at the lowest hierarchical level are rather objective attributes of a respective product or service, e.g. "crowdinvestors do not have voting rights".

2. When using the product or service, an attribute may have one or more positive or negative consequences for the user. These consequences are more abstract constructs in the middle of the hierarchy, e.g. "entrepreneurs keep full decision power over the venture".

3. Some consequences may in turn lead to the fulfilment of personal values, which are at the highest, most abstract level of the hierarchy. Values could be belonging, happiness, enjoyment, or security, or in the context of this study e.g. "entrepreneurs are independent from others". Values are relatively stable over time and can have a strong emotional and motivational impact.

The causal sequence of attributes leading to consequences, which lead to values, forms a ladder. Using laddering, this study aims at uncovering the relationships between motives and to produce a holistic description of the motivation of entrepreneurs to use equity crowdfunding. Furthermore, the MEC theory has developed the laddering technique in the sense, that researchers use it to aggregate findings from many individuals into statements about a group of people (Reynolds & Gutman, 1988). Here, qualitative data is treated so that it can be analysed quantitatively. The identified commonalities among the thought processes of all interviewed participants result in a hierarchical value map (short HVM). In this map ladders that were mentioned by several different participants, called chains, are graphically represented.

The interviews were conducted from the 13th of June to the 3rd of September 2014. They lasted between 30 and 60 minutes, and were audio recorded. Using the audio records of the interviews, they were transcribed immediately, mostly on the same day. Following Dittmar (2004), a simple transcription, i.e. transcribing the interview without marking pauses or filler words, was conducted.

The interview data stored in the field notes, the audio records, and the transcripts was analysed in two steps, following the means-end approach. First, broadly following the standard approach to coding interview data in the Eisenhardt (1989) method, the raw interview data were coded and categorised. In a second step, the data was further aggregated in order to achieve greater generalizability, using operations specific to the MEC approach.

This exploratory study employed an iterative and inductive coding process to systematically describe the raw interview data, looking "beyond initial impressions and see[ing] evidence through multiple lenses" (Eisenhardt, 1989, p. 533). More concretely, the interview data was coded in three steps, following Corbin and Strauss (2008), namely open coding, axial coding, and selective coding.

1. In the first step, open coding, the individual case interviews were scanned for instances where the participants mentioned motives or deterrents to use equity crowdfunding. By picking out these statements, the interview data were broken down into interpretable first-order concepts, which were named using descriptive or in-vivo codes, i.e. using the exact words of the participant. (Corbin & Strauss, 2008)

2. In the following second step, the identified concepts were compared and unified between different cases employing axial coding (Corbin & Strauss, 2008). The resulting second-order concepts are described using pattern codes, which constitute the first categories (or themes) (Corbin & Strauss, 2008).

3. In the third step, selective coding, third-order concepts were created by aggregating the categories into fewer core categories (or theoretical themes) in order to facilitate conceptual development (Corbin & Strauss, 2008).

The statements of the participants, which were recorded in German, were translated using English descriptive codes. After all case interviews had been conducted, the raw interview data of all cases was coded again. Then, codes and categories of the two runs were compared and modified wherever there was insufficient evidence to support inferences made during the first coding. Finally, the resulting findings were checked for outliers, cross checking identified codes and looking for contradictions.

To arrive at the HVM, three interim steps were needed:

1. First, the resulting 46 core categories from the first step, representing the various constructs in the thought processes of the entrepreneurs, were subsequently identified as either a concrete attribute, a consequence, or an abstract value, according to their position in the respective ladders. These attributes, consequences and values were then assigned numbers, starting with the attributes from 1 to 14, over the consequences from 15 to 31, and ending on the values from 32 to 46 to facilitate data processing in subsequent steps.

2. In the second interim step, based on the relationships between constructs identified in the first step, the ladders elicited in each of the 11 interviews were numerically represented. Between 8 and 20 distinct ladders were elicited per case, totalling 150 ladders with at least two elements. The longest ladders spanned five constructs from attributes to values.

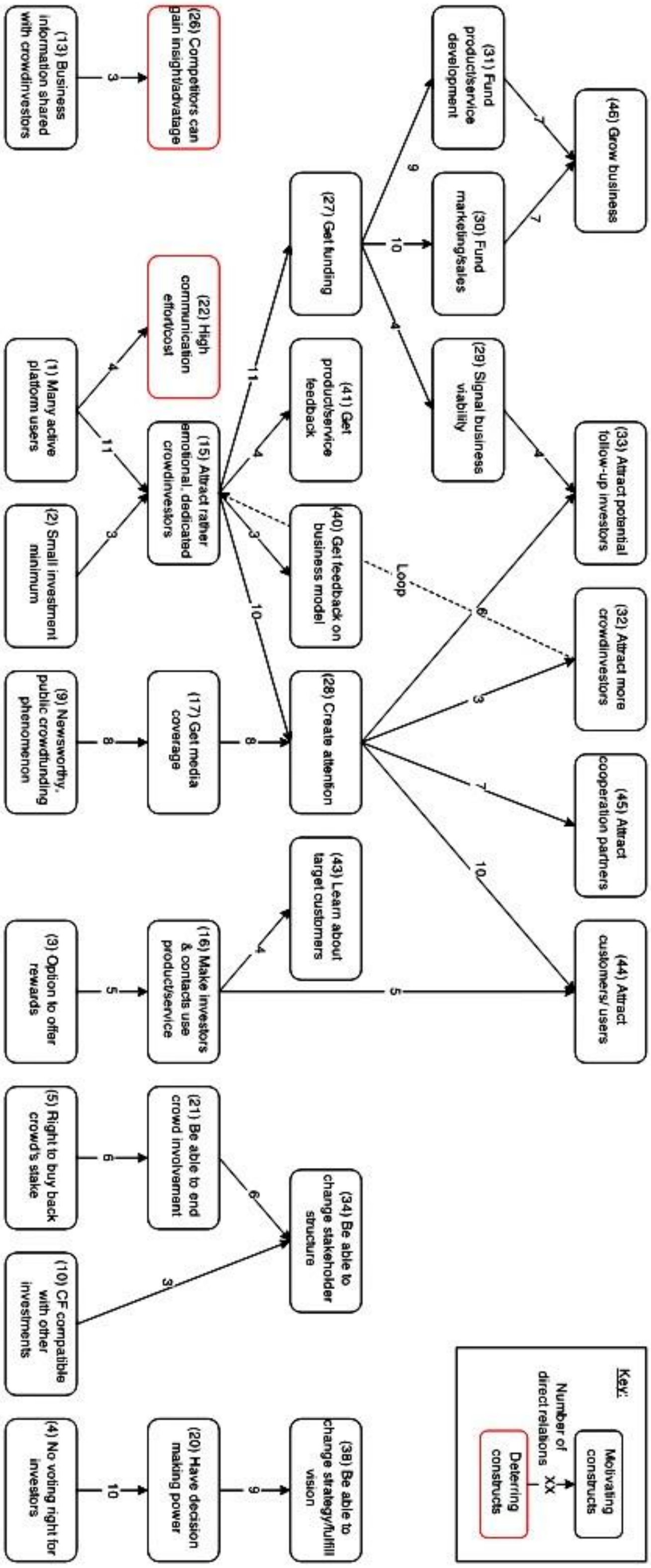
3. In order to merge these ladders into a theoretical model of what governs the motivation of entrepreneurs in general, the relationships between the 46 constructs in these 150 ladders were translated into an implication matrix in a third interim step.

Based on the data in this implication matrix, the HVM was constructed. In order for a construct to be included in the HVM, the number of relationships of a construct to at least one other construct had to exceed a certain cut-off value. Reynolds and Gutman (1988) propose a cut-off value between 3 and 5. In proportion to the relatively few cases studied, a cut-off value of 3 was chosen.

Thus, by connecting constructs to one another, the means-end chains as the summaries of the many originally elicited ladders emerged. The resulting network of interconnected chains in turn formed the HVM, representing the aggregated thought processes of the entrepreneurs leading to the motivation to use equity crowdfunding.

The final HVM consists of 30 out of the 46 identified constructs. These 30 constructs form 29 distinct chains (counting every possible path from an attribute to a value connected with it)

Table 2 – Hierarchical value map on entrepreneur´s decision to seek equity on Crowdfundings in Germany



Source: research data and author's elaboration

DISCUSSION OF THE RESULTS

The entrepreneurs in the studied cases can be roughly segmented into three groups of almost similar size, according to their main motive to use equity crowdfunding:

1. In four of the 11 cases, the entrepreneurs were mainly motivated to use equity crowdfunding to collect capital, as alternative sources of funding were not available to them.

2. In another three cases, the entrepreneurs stated that marketing effects from equity crowdfunding were the main reason for them to engage in it.

3. In the remaining four cases, entrepreneurs were motivated by a combination of reasons, such as both of the two aforementioned, or because they wanted to combine crowdfunding with other sources of funding to reduce the dependency on one particular source, or because they wanted to keep decision power.

The importance of the two main motives, "get funding" (construct 28,) and "create attention" (construct 27), is also illustrated as central in the thought process of entrepreneurs in the hierarchical value map (HVM), with both being referred to and leading to many other constructs.

All 11 participants stated that receiving funding was a motive for them to use equity crowdfunding, thus making this construct the most frequently mentioned of all constructs. Furthermore, as mentioned above, four ventures had no other choice but to use equity crowdfunding. Following the categorisation into push and pull factors, they were driven towards equity crowdfunding mainly by the push factor of needing capital.

Several other entrepreneurial teams had already received capital from business angels, venture capitalists, or banks, or had secured a government grant before approaching the crowd for funds. Yet still, the entrepreneurs of another four ventures reported having difficulties collecting capital from other sources of funding, but did not report using equity crowdfunding because they had no alternative funding sources .

The entrepreneurs of these eight ventures offered several reasons for being turned down by traditional sources of funding. Business angels and venture capitalists had turned two of these entrepreneurs down, as they were not considered investment ready yet, according to the participants. For example, they did not have a market ready product or mass production capability yet, thus they could not show proof of a viable business concept or revenues.

Other ventures were unable to secure funding from other sources because their business models were considered unfit. In one case, the entrepreneurs were purposely moving against the current large IT-trend of cloud computing and were thus turned down by traditional sources. In another case, the entrepreneurs described their product as too visionary for some traditional sources of funding to understand. Furthermore, one venture that enables people to play lottery online was turned down by venture capitalists due to moral concerns regarding the gambling industry in general.

Some ventures described having difficulties to secure funding from other players due to their investment size and expected returns. One venture developed a software product for a niche market, which was considered as a too small to eventually yield the returns the venture capitalists desired. Another venture developed a payment platform, which was considered as aiming at a too contested and large a market and thus as too risky for venture capitalists, according to the participant. Furthermore, in one case a venture needed an investment deemed too big for a business angel, while in another the venture involved an investment too small to appeal to venture capitalists.

Yet, what was the entrepreneurs' reasoning as to why equity crowdfunding could potentially provide capital, even in the cases where other sources were not willing to provide it? Almost all entrepreneurs, 10 out of 11, perceived crowdinvestors to be not solely rationally, but also partly emotionally motivated to invest (construct 15). Based on this perception, they expected to be able to successfully collect funding from the crowd (construct 28), which contributed to their overall motivation to use equity crowdfunding. All entrepreneurs suggested that the large number of active crowdfunding platform users (construct 1) enabled them to find investors.

Even though the 10 entrepreneurs perceived that crowdinvestors invest partly for emotional reasons , it is important to point out that to invest "emotionally" can mean investing passionately based on emotions or investing irrationally not based on reason.

The entrepreneurs reasoned that the crowdinvestors would be investing in this more risk taking manner and thus were anticipating to successfully collect the needed capital and (in part) motivated to use equity crowdfunding. These entrepreneurs expected investment behavior also described as the peanut effect by Chapman and Weber (2006), where investors take higher risks than usual simply due to the fact that the potential losses are small in absolute terms .

Furthermore, on the value level, entrepreneurs wanted to collect funds to invest in product or service development (construct 31) or to increase marketing and sales activities (construct 30). Most entrepreneurs reasoned that by doing this, they can achieve growth of their venture (construct 46).

In addition to immediately collecting funding with the equity crowdfunding campaign, some entrepreneurs were motivated to use equity crowdfunding, as they reasoned that a successful equity crowdfunding campaign could serve as an investment signal (construct 29) and attract follow-up investors (construct 33).

Thus, given that many entrepreneurs in the sample had difficulties collecting capital from traditional sources of funding prior to their equity crowdfunding campaign, some entrepreneurs perceived crowdfunding as a chance to improve their reputation with investors who previously turned them down. The perception of the sampled entrepreneurs is consistent with statements by De Buysere et al. (2012), Blohm et al. (2013), and Bradford (2012), who proposed that the successful completion of a crowdfunding campaign can serve as an investment signal and lead to follow-up investments.

Eight participants were in part motivated to use crowdfunding, as they hoped for press coverage of their fundraising campaign (construct 17), to increase marketing effects, thus attracting more crowdinvestors and follow-up investors, but also customers and cooperation partners. These entrepreneurs reasoned that the novelty of crowdfunding (construct 9) would entice members of the press to report on this newsworthy phenomenon. Furthermore, many entrepreneurs also concluded that they could interest the press because their investment story could provide other newsworthy aspects in addition to the newsworthiness of crowdfunding in general.

Almost all entrepreneurs, ten out of eleven, aimed at winning customers or users of their products or services (Construct 44) (Two ventures wanted to attract users for their respective online platforms, not paying customers per se.) as a result of these marketing effects and out of the group of crowdinvestors.

Some entrepreneurs were partly motivated to use equity crowdfunding to receive feedback regardig the business idea as a whole (construct 40), or more tacit feedback on their products or services (construct 41) from the emotional and financially involved and thus dedicated investors (construct 15). Specifically, four entrepreneurs hoped for consistent and valuable critiques to improve their products or services. Thus, entrepreneurs also perceived equity crowdfunding to possibly lead to product feedback, consistent with Bradford (2012), Schwienbacher and Larralde (2010), Agrawal et al. (2013), and Hornuf and Schwienbacher (2014).

The equity crowdfunding contracts in the form of participation loans on Seedmatch and Companisto can be terminated actively by the entrepreneurs after 5 or 8 years respectively (construct 5). Entrepreneurs perceive this right as an option to end the relationship with the crowd (construct 21). This option gives them the flexibility to potentially change the ownership structure in the future (construct 34) to either reclaim more ownership rights over their venture or to resell the crowd's share to other investors. Consequently, entrepreneurs are in part motivated to use equity crowdfunding via participation loan contracts that allow for a buy back of the crowd's shares in the future. This means-end chain is obviously dependent on the legal form of the equity crowdfunding contract and might thus be specific to the German equity crowdfunding context.

To avoid losing decision-making power is another factor partly motivating entrepreneurs to use equity crowdfunding that is also based on the crowdfunding investment contract on Seedmatch and Companisto, namely the participation loans. Many entrepreneurs were motivated to use equity crowdfunding via participation loans, because employing this legal construct does not involve any decision making rights(construct 4).

Consequently, entrepreneurs anticipate that with equity crowdfunding they keep decision-making power to themselves (construct 20), despite giving up some ownership. They are free to decide and to change matters of strategy and can do so without having to consult the large number of crowdinvestors, as many emphasised. Thus, entrepreneurs remain able to adapt their ventures quickly to new circumstances.

CONCLUSION

This study employed a research method novel to the field of entrepreneurial finance, the means-end approach (Gutman, 1982; Reynolds & Gutman, 1984 and 1988), which proved to be very useful . The means-end approach allowed for eliciting not only generic motives, but also the entire reasoning behind the entrepreneurs' motivation to use equity crowdfunding. Consequently, the study identified several causal chains of in the thinking of the entrepreneurs studied which will be summarised below.

The two dominant motives for using equity crowdfunding mentioned most frequently by the entrepreneurs were collecting capital and achieving marketing effects, in both cases benefiting from the large crowd of users that are active on the respective crowdfunding platforms.

That collecting funding on a platform designed for this specific reason is a motive for entrepreneurs to use it is rather obvious (all entrepreneurs in the study shared this motive). Yet, using the means-end approach, the study also revealed that entrepreneurs perceived some crowdinvestors to invest rather emotionally or even irrationally. Furthermore, some entrepreneurs even aimed at actively inciting emotional or irrational investment behaviour of the potential crowdinvestors. Based on this perception of the crowdinvestors, the entrepreneurs anticipated that they could be successful at collecting the desired capital from the crowd and invest it in their venture's growth, which all together served to motivate them in part to use equity crowdfunding.

Nevertheless, equity crowdfunding is more than just a means to collect funding. As mentioned above, most entrepreneurs (in 10 of 11 studied cases) were also motivated to use equity crowdfunding to achieve marketing effects, attracting customers (interestingly even a motive for B2B ventures), cooperation partners, or potential follow-up investors after the crowdfunding round.

Some entrepreneurs also aimed at receiving feedback on their products or services, or on their business models in general from the dedicated crowdinvestors, which partly motivated them to use equity crowdfunding.

Furthermore, entrepreneurs were also motivated to use equity crowdfunding by reasons unrelated to benefiting from the crowdinvestors in some form, as in the instances described above. They were also motivated to use equity crowdfunding, because the crowd investment contracts used on the two studied German crowdfunding platforms, so called participation loans, have certain clauses that they consider beneficial. Ten of eleven entrepreneurs were in part motivated to use equity crowdfunding, because crowdinvestors do not gain voting rights. Consequently, the entrepreneurs keep decision-making power and are able to freely change their strategy and form their venture according to their vision.

In addition, some entrepreneurs perceived equity crowdfunding to be compatible with eventual follow-up investments, either because the crowdfunding contracts allowed them to buy back the stakes from the crowd and end the crowd's involvement altogether, or because other non-crowd investors perceived the crowd investment contracts to be compatible with their investment, e.g. due to contractual clauses allowing for watering of the crowd's share.

Because it is also possible to combine equity crowdfunding with giving out rewards on the two investigated crowdfunding platforms, i.e. to combine equity based crowdfunding with reward based crowdfunding, this study also suggested that giving out rewards to convince people to become customers, was a motive of entrepreneurs to crowdfund.

As limitations, the article discusses motivations of German entrepreneurs to engage in equity crowdfunding in certain platforms in 2014. Being qualitative, our research results cannot be generalized although they are valid given the context of the study. Future research could explore not only entrepreneur's motivations but also investors motivations in other countries with less developed equity crowdfunding markets such as Brazil.

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