

## **Perspectives of Norwegian Crowd Investors**

*The aim of this thesis is to identify how crowd investors reason before investing in an equity crowdfunding campaign, and which criteria they use to invest.*

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## **Abstract**

This thesis studies the reasoning of crowd investors when they invest in equity crowdfunding campaigns. The focus is placed on the Norwegian crowd investors who invest through a Norwegian equity crowdfunding platform, FolkeInvest. The research starts by understanding the crowdfunding market, the types of crowd investors, and criteria of investment presented by literature of crowd investors and business angels. The literature presents a lack in crowd investors' perspective on their investment criteria, which this thesis can reveal.

The equity crowdfunding platform, FolkeInvest, is chosen as a basis to gather in-depth interviews with 5 crowd investors across Norway. The findings show how the crowd investors reason and use criteria during their investment processes. All but one investor has a background in economics and business administration. They are all men and highly educated. There are two investors who have invested for several decades (investor-2 and 3), and therefore have a lot of experience. They also place more importance on their own assessment and gut feeling. The other crowd investors have either joined angel investor programs or relied on their network to make better investments. The interviewed investors are "knowledge-seekers" and risk-averse. They use simple heuristics to screen an investment proposal instead of extensive due diligence which often is not necessary at this growth stage of the startup company. The investors find a lot of excitement to invest in equity crowdfunding campaigns and likes the idea of contributing and helping a startup to grow. They also like the idea of being part of a journey with the startup. The risk is high in equity crowdfunding campaigns, but so is the potential return, which is why the investors call it a "gamble". There were not a lot of local investments, only one had invested in a campaign where he knew the people behind it. The investors like to contribute to the equity crowdfunding market, because they feel as if they are changing the financial market. There are several characteristics of the product which has an impact on the crowd investors, including the demand of the product, market potential, media attention, acquired customers, and if the product is environmentally friendly or technology-based. In the campaign, the crowd investors look at the presentation of the campaign, the popularity it has received, financial information which is presented on the campaign. The characteristics which are essential in the startup team are their professionalism and trustworthiness. The investors also favor a startup which has invested in the campaign themselves. In addition, it is favorable if the investors know the people behind the campaign personally. One investor also mentions

the platform as important, especially that a professional brokerage is in the background of the site.

Moreover, I find how different crowd investors are from both crowd funders and business angels, as they create their own category as part of a new financial market. Lastly, the investors favor any insurance they can have over their investments, which visualizes into what exit strategies the campaign has planned, and the tax relief schemes which they can receive through their investment. The investors will not invest in a campaign without either an exit strategy or access to a tax relief scheme.

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# 1 Introduction

A novel form of financing, called crowdfunding, has emerged over the last decade and is growing rapidly. Crowdfunding is viewed as an alternative to traditional sources of financing by financial institutions, such as venture capitalists (VCs), and business angels (BAs) (Flåten et al., 2020, p. 45). The global crowdfunding market is expected to reach \$130 billion by 2021 (Technavio, 2021), and can potentially grow by \$196.36 billion from 2021 to 2025 (ibid.). There are both similarities and differences between online crowdfunding markets and traditional funding markets. A significant difference is the dramatical reduction of transactional costs and investment thresholds for participation in crowdfunding, which enable smaller, non-accredited individual investors to participate in these markets (Agrawal et al. 2014; Ahlers et al. 2015; Kim and Viswanathan, 2014).

The Oxford Learner's Dictionaries (2020) describes the phenomenon of crowdfunding as “*the practice of funding a project or activity by raising many small amounts of money from a large number of people, usually using the internet*”. In other words, it is the act of drawing funds from large groups of people online.

## 1.1 The triangular system

Online crowdfunding consists of three segments: The platform, the campaigners, or entrepreneurs, and the crowdfunders. In the crowdfunding market, an entrepreneur or startup will publish a campaign about their idea or business on a digital crowdfunding platform which is made available to potential crowdfunders. The crowdfunders choose which campaign they would like to support amongst the different campaigns available on the platform.

Although this triangular system is the foundation of the crowdfunding market, there are certain different approaches a crowdfunder may take depending on his/hers motivation to support new businesses. The four different main approaches are donation, reward, debt and equity crowdfunding.

Donation-based crowdfunding is typically used to collect charitable funding to support causes and projects (Lukkarinen et al. 2019, p. 1). Reward-based crowdfunding, on the other hand, is when the funders receive non-monetary rewards in exchange for their contributions. These rewards can range from such as concert tickets, an innovative product, or a product labeled with a brand name.

Debt based, also called lending-based crowdfunding, is when the crowdfunders, or so-called crowd investors, give small loans to campaigns in exchange for monetary reward. It is known as “P2P lending”, which means that individuals or companies receive a small loan from several individual lenders (Harris, Lam, & Zhao, 2019, p. 5).

Equity crowdfunding is fundamentally different from traditional capital raising. The entrepreneurs make an open call for funding on a crowdfunding platform, where investors make their decisions based on the information provided (Lukkarinen et al., 2016, p. 1). Thus, the investors invest in the kind of businesses they want to see thrive in the future. The revenue which the campaigners receive can fill the funding gap, thus gaining enough investments to further their ideas and companies.

Equity crowdfunding offers an equity stake in the target company to the investors. It enables non-experienced investors to fund entrepreneurs and early-growth companies that may not be within their investment reach (Lukkarinen et al. 2019, p. 1). Supporters of equity crowdfunding believes it can “democratize finance, by providing investment opportunities to innovative start-ups that, so far, have been restricted to institutional and accredited investors” (Hervé et al. 2016, p. 763).

A critical point in a business lifecycle has always been to attain adequate capital and keep fixed costs low. Typically, there is a relationship between the growth stage of the business and the access to a certain type of capital (Lukkarinen et al., 2016, p. 2). At the earliest stage, the new business gain capital mostly from founders’ money, friends, and family. Thereafter, the company may look further into donation- and reward-based crowdfunding or public support schemes. However, there is a gap between donation-based crowdfunding and mainstream forms of financing. This funding gap which entrepreneurs and new businesses may come across is what equity and debt-based crowdfunding are beginning to fill (ibid., 2016, p. 2).

## 1.2 Equity crowdfunding market

In Europe, the total amount raised through equity crowdfunding grew from 23 million Euros in 2012 to 194 million Euros in 2014 (Lukkarinen et al., 2016, p. 1). The leading European equity-based platform called Invesdor has a success rate of 30 % within the time frame in which the campaigns were available. This success rate is comparable other crowdfunding platforms.

### 1.2.1 Regulations in the crowdfunding market

In 2018, the European Commission proposed a new regulation for crowdfunding service providers offering debt or equity crowdfunding (European Commission, 2018). The new regulation is supposed to offer better protection and a higher level of guarantees toward investors. Moreover, in the United States, title III of the Jumpstart Our Start-ups (JOBS) Act was put in motion in 2016 for entailing the legalization of equity-based crowdfunding for unaccredited investors (Lukkarinen et al. 2019, p. 2).

### 1.3 Norwegian Crowdfunding

In Norway, the Norwegian Crowdfunding Union (NCF) was established in 2017 and aims to educate on crowdfunding in Norway, including to sustain self-regulation of the crowdfunding industry, as well as influencing the government to provide better conditions in the crowdfunding market (NCF, 2020).

### 1.4 Problem formulation

The purpose of this thesis is to investigate and identify what criteria crowdfunding investors apply when they decide to invest in start-ups. My research question is as follows:

*How do crowdfunding investors reason when investing in a venture through an equity crowdfunding campaign, and which investment criteria do they apply?*

### 1.5 Thesis content

This thesis is organized into seven chapters. Chapter 1 presents the background and the research question being investigated. Chapter 2 introduces the case FolkeInvest which is being researched in this thesis. Chapter 3 discusses the central theories relating to investor types and what criteria investors use when investing. Chapter 4 shows the research findings from five different interviews with crowdfunding investors. Chapter 5 debates the results from chapter 4 against current theories about crowdfunding investors. Chapter 6 present the conclusions of this thesis, and points at important aspects for further research within equity crowdfunding.

## 2 The Case: FolkeInvest

I have chosen to focus on the FolkeInvest platform, where all my informants are drawn from, because of its size and recognition in the Norwegian equity crowdfunding market.

The platform FolkeInvest was founded in 2015 and was granted a license as an investment firm in 2019 (FolkeInvest, 2021a). It is the Finanstilsynet which sets requirements for the competence, experience and quality of how the work is carried out at FolkeInvest AS (Fries, 2021a).

FolkeInvest AS facilitates capital raising without providing guarantee for the amount. The company focuses its services on companies seeking amounts below NOK 20 million (FolkeInvest, 2021a). If the value of the company is more than NOK 50 million, the company is asked to present an external and objective valuation in order to be published. The companies who wish to publicize a campaign on FolkeInvest will first receive a check-up from FolkeInvest to reveal errors or deficiencies with the investment offer before it is approved to be published (Fries, 2021b). The person who is legally responsible for the company receives a declaration of completeness to sign that all information provided is correct. Thereafter, it is the investors who themselves must assess the company and information provided, as well as follow up and request the information they need to decide about the investment proposal. Both private individuals and companies with a Norwegian BankID can invest through the platform (Fries, 2021c).

There are 3 different ways for an investor to access a campaign on FolkeInvest. Firstly, there is the protective campaign, where an investor gain access only by password (FolkeInvest, 2021b). The campaign is shared through email and invites existing users of FolkeInvest. The second method is the closed campaign, where the campaign is shared through email and any other communication channel of choice (FolkeInvest, 2021b). It also invites only existing users of FolkeInvest. The third method is an open campaign, where the campaign is shared through email and all communication channels of choice (FolkeInvest, 2021b). It invites existing users as FolkeInvest, as well as being visible “officially” on the FolkeInvest platform.

The platform issues an establishment fee of NOK 30,000 to anyone who wants access to all modules of the platform, which is necessary to publish a campaign (Holt, 2021a). In the case of a successful campaign, the company pays an additional fee of 6 % of the amount collected to FolkeInvest AS if the campaign is open, and 2 % of the amount collected if the campaign is closed. This sum has a downward limitation to NOK 50,000 (Holt, 2021a).

The platform provides investors an overview of companies that actively invite investments (Fries, 2021d). Each campaign has several tabs which makes it possible to easily navigate between different information related to the investment opportunity as well as a separate discussion forum to share knowledge and questions for increased understanding of the company and the campaign. Additionally, the investors also have an overview of everyone who invest in each campaign (FolkeInvest, 2021c).

The process of subscribing shares continues until the open window period closes (Fries, 2021e). The investor may withdraw their investment up to 48 hours before the open window period expires.

Every campaign has an information package which includes the company's economic forecast (Fries, 2021f). This forecast or financial report should include when the company expect earnings and plans for future growth.

## 2.1 Regulations of FolkeInvest

FolkeInvest operates under a “all-or-nothing”-model, which indicates that the campaigners set an aim for minimum target funding and receives the invested money only if the goal is achieved (Fries, 2021g). Thus, as Lukkarinen et al. (2016, p. 3) describes it “the lower threshold of the target range is critical, as any campaign falling short of it fails”. In other words, she states that “the entrepreneur has to find a balance between seeking sufficient funds and aiming to ensure that the minimum threshold is reached”. In the case of a campaign not reaching its minimum amount of funding, the issue will be canceled, and the investor will not receive any request for payment (Fries, 2021g). Another reason the investor may not receive equity is if the company cancel the person who have subscribed as a shareholder. If such a case should happen, there is no lawful requirement of the company to give the investor any form of a justification (Fries, 2021g).

FolkeInvest AS is obliged to prevent the possibility of money laundering using their services (Fries, 2021h). Therefore, they have programmed measures that check users of the service in accordance with the Money Laundering Act. Before an investor makes his/hers first investment on the FolkeInvest platform, the investors are met with a suitability test from FolkeInvest (Holt, 2021b). The purpose of the test is for the investor to receive a recommendation from FolkeInvest, whether their knowledge of investments is sufficient. It is only meant as a suggestion and investors may still invest in campaigns despite dissuasion from this test (Holt, 2021b).

The Norwegian authorities wants people to invest in the development of new businesses and thus provide incentives for crowd investors (Fries, 2021i). One of these incentives are Kapitalfunn, which states that individual taxpayers may receive a deduction in ordinary income tax in exchange for investments in start-up companies. However, the invested amount must be minimum NOK 30 000 (Fries, 2021i).

A company can annually receive a maximum of NOK 5 million in deposits that entitle to a deduction (Fries, 2021i). The investor may receive a deduction of 22 % of the investment in their ordinary income by up to NOK 1,000,000 per year, thus the total tax burden for the income can be reduces by up to NOK 220,000.

Another incentive on FolkeInvest, is that the investor may receive a tax deduction of 22 % of the amount invested if the investor is losing money on the investments (Fries, 2021j). Thus, it lessens the burdens further of investing in a high-risk investment.

The timing of the investor's purchase may be decisive for the possibility of tax deduction for investments (Fries, 2021k). The company who issues equity has control over who subscribed for what and at what time, and if the Kapitalfunn pot they are allowed to distribute has been used up before the investor subscribes, the Kapitalfunn may not be available anymore.

### 3 Theory

Theory is a systematic reflection of social conditions (Grønmo, 2016, p. 52). In general terms, theory is based on a system of concepts and relations which are in a mutual relationship with each other, and collectively gathers and arranges assumptions, prerequisites and comprehension about society (ibid., 2016, p. 52). Theory encompasses relationships on several levels. Firstly, the features of certain societal phenomena are summarized by each individual concept (Grønmo, 2016, p. 48). Secondly, the relationships between the different concepts are an expression of what one presumes, suspects, or knows about connections between different social phenomena. Thirdly, the overall system of relationships in a theory becomes a more holistic representation of a larger set of phenomena in society (ibid., 2016, p. 48).

The systematic and theoretical reflection on social conditions can be empirically rooted (Grønmo, 2016, p. 48). Theory can include both reflections on actual conditions in society based on empirical studies, and reflections on substantiated assumptions about social conditions that can be examined empirically. In addition, the reflections may be based on assumptions about social conditions that cannot be investigated empirically.

Thus, theory should be based on all relevant facts established through previous research. It should be tested, further developed and possibly revised through empirical investigations of the assumptions it contains or implies (Grønmo, 2016, p. 49).

The aim of this theory chapter is to present the characteristics of different crowd investors and the criteria investors use before they decide to invest, including criteria used by business angels since they are comparable with crowd investors.

#### 3.1 Crowd investors

Equity crowdfunding is growing as a complement to early-stage funding to new firms. Shafi (2019, p. 1) defines crowd investors as “the “crowd” of non-professional individuals who can invest in entrepreneurial ventures through equity crowdfunding platforms”.

However, other researchers disagree with the crowd investors being a homogeneous “crowd”. In a paper by Boh et al. (2014), the crowd investors are identified into four distinguished archetypes called the active backers, trend followers, the altruistic, and the crowd. The characteristics of each group are based on their differences in strategies and motivations which influence their choice of investment.

The active backers are recognized by their search for high quality projects, placing high value on the social and reputation benefits.

The trend followers tend to be more risk adverse and target popular projects.

The altruistic cluster are more inclined to invest out of altruistic reasons than for rewards and want to support a particular case.

The crowd as a final group do not have a very noticeable specific strategy as they represent crowd investors who are still exploring the platform.

Lukkarinen et al. (2019, p. 1) supports the idea that equity crowdfunding investors are a diverse crowd and categorizes the investors into three different groups called donation-oriented supporters, return-oriented supporters, and pure investors. Each group represented a different approach of motivation to invest.

Donation-oriented supporters are being motivated intrinsically through their willingness to help and be part of the phenomenon, while pure investors are extrinsically motivated by their wish to earn financial returns (Lukkarinen et al., 2019, p. 30).

The return-oriented supporters are a middle cluster with a mixture of intrinsic and extrinsic motivations, though intrinsic ones were stronger.

Lukkarinen et al. (2019, p. 30) found it interesting that even pure investors want to be part of the phenomenon and help the target company. However, they did not find the equivalent contrary with donation-oriented supporters, who tend to pledge without any monetary interests.

### 3.2 Norwegian crowd investors

Due to a lack of literature on Norwegian crowd investors, this thesis draws on research by Landstrøm and Sørheim (2001) who studied informal investors in Norway. Their research includes informal investors who invest in start-up companies and entrepreneurial ventures, and categorizes the investors into four types, lotto investors, traders, analytical investors, and business angels (Landstrøm & Sørheim, 2001, p. 361).

The lotto investors are depicted as individuals with low incomes and low net worth compared to the other investor groups (Sørheim and Landstrøm, 2001, p. 364). Among the lotto investors only 1/5 have any form of entrepreneurial experience. They rely on media as an important source of

information and rarely use businesslike networks, which may indicate a lack of such networks. The lotto investors invest rarely in co-operation with other investors and have a low level of involvement with the firms they invest in (ibid., 2001, p. 364).

The traders, as well as lotto investors, rely on media as an information source. These individuals have a high activity level, although they do not possess much management or entrepreneurial experience (Sørheim and Landstrøm, 2001, p. 364). Their income level and net worth are relatively high; thus, they also place a more considerable share of their net worth in unlisted stocks. The traders have a limited involvement in the firms they invest in, and most have an investment horizon under 3 years, suggesting that they view their investments as merely private placements (ibid., 2001, p. 364).

The analytical investors often co-invest with other informal investors, although lotto investors and traders do not fall far behind (Sørheim and Landstrøm, 2001, p. 362). They are described as individuals with high level of competence in management and entrepreneurial experience, but with a low level of investment activity. They only place a small share of their net worth in unlisted firms (ibid., 2001, p. 364). The analytical investors consider their friends and acquaintances as important sources of information.

The business angels are characterized by their high incomes and high net worth, as well as a high level of activity (Sørheim and Landstrøm, 2001, p. 364). According to Sørheim and Landstrøm, business angles are more experienced investors, and quite a few of them have experiences as entrepreneurs. A large portion of them also co-operate with other informal investors in investment prospects (ibid., 2001, p. 364). The business angels take advantage of acquaintances and business associates as information sources, which may be one of the reasons for receiving the most investment proposals of the four groups. In other words, the business angels act as leading investors and often invest based on the initiative from another leading investor (Sørheim and Landstrøm, 2001, p. 362). Overall, they have longer investment horizons for their investments and participate more actively such as being on the board of representatives or involved as consultants.

### 3.3 Investment Criteria

Estimating the worth of an equity crowdfunding campaign can be difficult, particularly since such a worth cannot be observed directly. However, as stated by Stuart, Hoang and Hybels (1999, p. 317) “evaluators must appraise the company based on the observable attributes that are thought to co-vary with its underlying but unknown quality. Resource holders therefore assess value by

estimating the conditional probability that a firm will succeed, given a set of observable characteristics of the organization”. The investment criteria are defined as parameters to evaluate the value of an investment (Smit, 2018, p. 4). It is the features of investment opportunities which are considered by prospective investors in their investment decision-process (Lukkarinen et al., 2019, p. 10).

### 3.3.1 Financial information (Characteristics of the campaign)

The financial report is merely to showcase the financial metrics the company has set up to realize its campaign. In most recent research, studies have shown this to play a significant less role in a crowd investor’s decision-making process. According to Shafi (2019, p. 18), crowd investors find the financial information offered by the campaigns difficult to evaluate. Crowd investors may lack experience and resources “to perform extensive due diligence on young firms that are often characterized by high uncertainty and information asymmetries” (ibid., 2019, p. 18). However, Shafi (2019, p. 18) also states that “when financial stakes in the form of equity offered in the campaign are high, crowd investors incur the costs of assessing complex financial information”. In other words, a crowd investor will spend more time understanding a campaign if the investment is of a greater scale.

Crowd investors, according to Shafi (2019, p. 1), lack experience and training when it comes to assessing complex and technical investment information. It may potentially cause them to focus more on factors which appear easier to evaluate and less on factors which are more difficult to evaluate.

Shafi (2019, p. 18) argues that “decision-makers not necessarily seek to maximize decision accuracy but balance accuracy with the goal to limit the costs of accessing and processing information”. Instead, Shafi suggests that “crowd investors may prefer simpler heuristics that allow for fast decision-making at relatively low cost”.

Another point of view comes from Ahlers et al. (2015, p. 31), who pinpoint that the criteria of crowdfunding investors consist strongly of the level of uncertainty and the governance material which firms provide on their campaigns. These investors valued credible signs of the venture’s quality.

In the study by Lukkarinen et al. (2016, p. 10), the availability of financials has a slightly positive association with the number of investors, though not significantly to the amount raised. It is

explained as “reporting some income statement data and forecasts may be considered a sign of credibility and capability. Conversely, the absence of financials may be considered dubious or unprofessional by investors”. Moreover, she compares the availability of financials with the quality of financials, concluding that although providing financials in the campaign may be useful. However, she adds that: “the attractiveness of these financials may not be as relevant in attracting investors”.

### 3.3.2 Understandability of the campaign/Transparency of the campaign

It is only natural to assume that the entrepreneurs of a venture will be more knowledgeable about the venture’s true value than a potential investor (Ahlers et. al., 2015, p. 7). In an equity crowdfunding context, the problem of adverse selection may be more prominent as crowd investors are likely to have less experience in evaluating investment opportunities, as well as investing in smaller quantity. Ahlers et al. (2015, p. 9) refer to Leland and Pyle (1977, p. 371), who state that “where substantial information asymmetries exist and where the supply of poor projects is large relative to the supply of good projects, venture capital markets may fail to exist”. Ahlers et. al. (2015, p. 7) build on this statement by pointing out that on equity crowdfunding platforms should collect information, watch progress, and provide input particularly for early-stage investors. The challenge with these activities is that the costs involved is sensitive to distance.

Lukkarinen et al. (2016, p. 10) found that there is a positive relationship between the business-to-consumer (B2C) orientation of a start-up and campaign success. She argues that companies who offer consumer products are preferred because they are easier to understand and have a broader base of existing customers and followers, giving a potential for gaining a larger number of crowd investors. As for the preference of tangible outcomes, Lukkarinen et al. (2016, p. 5) state the reason might be that “they convey a stronger perception of certainty about quality than do intangible services”.

### 3.3.3 Popularity of the campaign

The digital visibility of granular information is heightened in the crowdfunding markets, according to Kim and Viswanathan (2019, p. 4), making the actions or inactions of investors visible to other participants within the market.

Colombo et al. (2013) find that early participation by crowdfunders encourage additional participation by others. Kuppuswamy and Bayus (2013) find that subsequent crowdfunders are

less likely to participate when there already is significant support from existing crowdfunders. The key factor contributing to such inconsistency is the heterogeneity of the crowdfunders.

### 3.3.4 The impact of a hidden phase

Lukkarinen et al. (2016, p. 10), concludes in her research that the scale of investments raised during the hidden phase of a campaign is strongly positively associated with the amount of investment that campaign receives, as well as the number of investors. Lukkarinen et al. (2016, p. 10) explain the cause being that it may convey credibility and confidence to prospect investors. Especially with investors who do not have the skills or resources to perform a thorough due diligence, may be inclined to assume other investors have done so. Also, the campaigns were only successful, and the funds only distributed, if 100 % of the minimum target was reached, thus investors may be more willing to invest in campaigns with a higher chance of success.

### 3.3.5 The Start-up Team

Many researchers have implied that the entrepreneur is the most important evaluation criteria (Sudek, 2007, MacMillan, Siegel, & SubbaNarasimha, 1985, MacMillan, Zemann, & SubbaNarasimha, 1987; Van Osnabrugge & Robinson, 2000). In an article by Sudek (2007, p. 91), he states that according to Timmons and Spinelli (2004) “the management team can make the difference in venture success”. Thus, great importance is placed on the quality of the start-up team. The experience and skills of the team are likely to make them better equipped to build a company, pursue opportunities and develop required capabilities for implementation.

The characteristics of the management team has shown to have an impact on crowd investors’ decision-making process. As explained by Shafi (2018, p. 18), there are certain characteristics which are of higher significance than others. In his study results he argues that motivational aspects such as founders’ commitment to the project have a higher significance than experience and skills.

In one study, there were several factors of internal governance such as a proper board structure and highly qualified board members, which showed to increase the speed of capital-raising as well as attracting investors (Ahlers et al., 2015, p. 31).

The quality of a management team can be understood by their appealing characteristics. In a study of European start-up investments, Van Osnabrugge and Robinson (2000, p. 137) found that

enthusiasm and trustworthiness are ranked first and second out of twenty-seven investment criteria.

### 3.3.6 Exit strategies

In most cases, it takes 4-6 years until startup companies receive an answer as to whether they receive enough earnings for dividends, if they manage to avoid bankruptcy. Young companies will normally prioritize those profits to further develop the business rather than paying dividends. Investors may also get a return on the shares if the company is acquired or listed on the stock market, which is called an exit.

In 2018, the Oslo Stock Exchange opened a new marketplace for the purchase and sale of shares in startup companies called "Family and Friends". Companies can register on this list to make it easier for investors to sell their shares (Fries, 2021f).

However, the ideal way to dispose of shares is with an exit opportunity in the form of the company being acquired or listed on the stock exchange. As the shares of crowdfunding campaigns are unlisted it is more difficult to trade since they are not linked to a marketplace. Instead, the seller must on their own find a buyer who can either be an existing shareholder or another buyer. Particularly, it tends to be well facilitated for buying and selling between the existing shareholders in the company (Fries, 2021f).

### 3.3.7 Other criteria

The investment evaluation criteria can influence an investor's decision-making but that does not mean they are always used or applicable in each prospect. Some theorists argue that although investment proposals often are rejected, if they do not meet the required decision criteria, there also exists some flexibility "if other factors than the actual criteria are relevant" (Lukkarinen et al., 2019, p. 10). These factors may include impression management such as organizational promotion and the importance of the entrepreneur's expressiveness and persuasiveness.

## 3.4 Investment criteria of Business Angels

The closest analogous to crowd investors besides crowdfunders are business angels (BAs). Since research about crowd investors is still narrow, the extensive research on BAs provides an equivalent basis to explain the criteria which crowd investors may use. Additionally, BAs are the first investors besides friends and family which a startup will encounter. Therefore, their way of evaluating a company is included, as crowd investors potentially come one step ahead of them.

### 3.4.1 Business Angel Network

The BAs' evaluation process may be seen as unformal compared to the VC community. Thus, Haar et al. (1988, p. 14) states that "investors preferred to share their investments with other individuals". BAs use their informal network to get sufficient funds to support ventures. It might even be suggested that investment prospects where other BAs were not convinced to join, could be a good investment decision heuristic to follow. It does not only serve as an indication for a suspect venture, but the risk will also be shared. The referral network is a valuable strategy to BAs to ensure the required capital is met. In this network, often a professional referee is invited, which can screen the proposals and thus the investment gain more support. Haar et al. (1988, p. 28) supports this by stating that the probability for venture success will increase when following such a strategy.

### 3.4.2 Understandability of the product or service

There will always be a degree of uncertainty associated with making investments. According to Haar et al. (1988, p. 12), "the angels do not need entrepreneurs to gamble with their money". They make it clear that informal angels or BAs rely on the venture team's ability to manage risk and pay due diligence by attention to detail.

### 3.4.3 Scalability of the product (Market potential)

Another criterion which is shown to have importance in a BA's decision-making is the need for the product or service. As Haar et al. (1988, p. 12) says there must be "a demonstrated need for the product/service, preferably in a potentially large market". The market demand is what will generate sales.

### 3.4.4 Exit opportunities

The primary goal of investments for BAs is to receive a profit. The lifetime of an angel investment usually has a 4–6-year horizon (Sudek, R. 2007; Mason & Harrison, 2002), where return is only attained through an exit or liquidity phase. Thus, even the best business plan or idea might not be perceived as the best investment. In the case of having no thoughts about a viable exit plan, BAs may neither be interested in the investment prospect at all. Though, it is essential to mention that there is little literature comparing different BAs from different countries. In other words, BAs may act differently based on where they are situated geographically. Sudek (2007, p. 100) barely touched upon this subject as he viewed the exit path to be more important for US BAs, ranking at

fourth place, while another study (Van Osnabrugge, 1998, p. 121) of BAs in UK rated exit routes at twenty-fourth.

## 4 Research Methodology

The purpose of this chapter is to describe the research method process applied in this thesis starting with the research question, choice of research method, research design, data collection method, data analysis, and quality and limitations in the chosen research approach.

### 4.1 From research question to research method

A research question is asked for a specific purpose and in a specific way, to give insight using scientific methods (Christoffersen et. al., 2014, p. 63). It is the research question that decides the appropriate method and theory. In this thesis, the research question is as follows:

*How do crowdfunding investors reason when investing in a venture through an equity crowdfunding campaign, and which criteria influence their investment decisions?*

The research question addresses the need to understand how crowdfunding investors make their investment decisions based on certain criteria. Each crowd investor has individual opinions and views influencing how they invest. Nevertheless, certain factors are present which crowd investors use to select a campaign in favor of others.

According to Christoffersen & al. (2014, p. 33), the research method is a way to prove reality with empirical or theoretical methods. The research method of this thesis takes an empirical approach by conducting interviews with crowd investors. The data of an empirical approach is a representation of reality. However, the most accurate observation and duplication of reality through research will still not catch the authentic state of reality but serve as a fragment of what it intends to study (Christoffersen et. al., 2014, p. 40).

In this research, I have chosen a qualitative method to collect data to answer my research question. The purpose of qualitative research is not to make statistical generalizations, but to gain broader knowledge about a phenomenon (Christoffersen et. al., 2014, p. 110). Thus, the qualitative research method works well with my thesis question of understanding how crowd investors make their investments.

There is a broad spectrum of research questions regarding crowd investors which could also fit for a quantitative research method. However, a quantitative study would be less focused on the personal experiences of investors, including the meaning crowdfunding investments have for investors and how they reason before investing. Additionally, there is little known about the

criteria which are used by Norwegian crowd investors. Since my thesis is explorative and inductive, a more natural choice is to do qualitative research (Bolderson, 2012, p. 67).

## 4.2 The research design and strategy

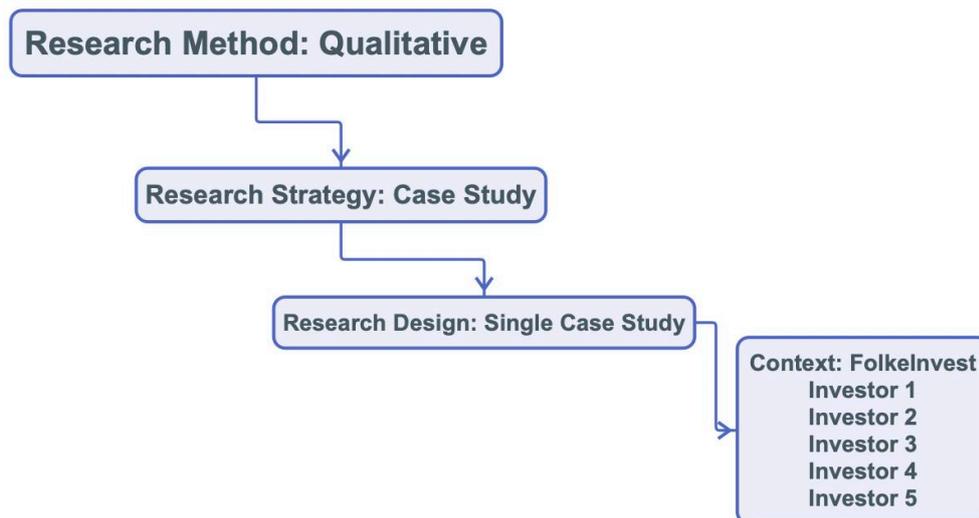
The research is designed with regards to the research question. How the research question is formulated impacts on what kind of research design is appropriate to apply (Yin, 1994, p. 7). Since my thesis has an explorative approach, any type of strategy could potentially fit, however with the use of a “how” question it is more favorable to use case studies, experiments, or histories (ibid., 1994, p. 7).

The research design used in this thesis is a case study. A case study can both be an object of study or a research design, as in this case (Christoffersen et. al., 2014, p. 89). The case study is characterized by the bounded system of which it collects detailed and comprehensive data from multiple sources of information (Creswell, 1998, p. 61). The bounded system is the frame of time and place where the case is being studied. In other words, the case is studied within a setting which can be economic, historical, social, or physical in nature.

As Yin (1994, p. 8) states, the unique strength of a case study is its ability to manage a broad variety of data, such as documents, artifacts, interviews, and observations, beyond what may be available in a conventional historical study. The concern about case studies, however, is the lack of scientific generalization. The question asked is often how to generalize based on a single case. Yin answers this by comparing with experiments, which rarely are based on single experiments. In fact, they usually derive from several experiments, where the same phenomenon has been replicated under different conditions. Thus, Yin (1994, p. 10) explains how case studies are “generalizable to theoretical propositions and not to populations or universes”.

The case design should indicate what data to be collected, through the research question, its propositions, and units of analysis, and what to be done after it has been collected, as indicated by the logic of linking the data to the propositions and the criteria for interpreting the findings (Yin, 1994, p. 26).

The case study in this thesis is formed as a one-case study with one analyzed unit since it focuses on a single equity crowdfunding platform with a specific group in mind, the crowd investors.



### 4.3 The Data Collection Method

The characteristic of a qualitative research interview is a structured conversation with a purpose (Christoffersen et. al., 2014, p. 143). In most cases, the purpose is to understand or describe something, thus it fits well with my research question. In interviews, the informants are allowed to express themselves more freely. A lot of knowledge is situational, and an interview is a social interaction that can easily be tailor-made for each interview. It is also more likely to reveal nuances and complexities through interviews, especially with open-ended questions. In this thesis, I use semi-structured interviews by following an interview guide as a direction while the order and themes may differ to suit each crowd investor.

### 4.4 Sample Selection

In the literature of methodical research, selecting informants for qualitative research is called a purposeful sampling or a strategic selection of informants (Christoffersen et. al., 2014, p. 110). Qualitative research has a clear goal when choosing informants, which makes the random selection method less favorable. The goal of my thesis is to understand crowd investors from their perspectives, which makes it less suitable to select other people than those who have invested in equity crowdfunding. In other words, my sample is not representative, but purposeful (ibid, p. 110).

#### 4.4.1 The size of the sample

The size of the sample is difficult to determine, especially when using qualitative research methods. Thus, qualitative research often relies on the point of saturation to indicate an acceptable

volume of informants (Christoffersen et. al., 2014, p. 108). The saturation point is when no more individual can lead to an answer which has not already been brought up. Although the saturation point serves as a measure of the sample size, other limitations can lessen its significance, such as time and finance. I have limited the number of informants to 5 interviewees, which is likely to be lower than the saturation point. Moreover, the data was collected over one month. However, it is not necessarily better with more informants, as it creates a larger portion of interviews to transcribes and must be practical to conduct. For my thesis it is also a question of how many interviews it is possible to handle within a limited timeframe.

#### 4.4.2 Selection strategies

The informants were selected through a criteria-based selection. Criteria-based selection is when the informants are chosen based on certain specific criteria (Christoffersen et. al., 2014, p. 113). As I focus my research on one of the known equity crowdfunding platforms in Norway, called FolkeInvest, the informants had to be users of this platform. Moreover, the platform itself had criteria which the users had to fulfill to make investments, such as being over 18, having a bank ID, and register their names, address, email, and phone numbers on the platform.

### 4.5 Interview

#### 4.5.1 Recruiting interviewees

Although there are several ways of recruiting interviewees, I chose to recruit through the platform FolkeInvest. Since equity crowdfunding investors are mostly non-accredited investors, it is more challenging to contact them. At the FolkeInvest website, their names were the only information available for other investors and campaigners on the forum pages of each campaign. However, I retrieved the necessary contact information from online telephone books, 1881.no and Gulesider. Thus, I came in direct contact with the investors who were active on these forums. The restriction to my interviewees was that they all were investing at the FolkeInvest platform and were active on the forum pages of the campaigns.

#### 4.5.2 The interview roles and rights

Investors are exposed to different discourses, powers, ideologies, and perceptions. All of this exposure influences their choices to invest, and how they talk about their investment criteria and decisions. In a research interview, knowledge is constructed through a co-play between the interviewed and the interviewer within the context the interview takes place (Kvale & Brinkmann, 2018, p. 51). Consequently, the interview creates conditions for roles, positions, relations, and

forms of actions often taken for granted. Moreover, doing an interview embraces rights, duties, and a certain repertoire of actions. In my interviews, all these aspects come into play.

All the interviews took place through online video conference using Teams and Zoom. The interviewees were all given a consent agreement to sign before the interview. In this document, they were able to get an in-depth understanding of the purpose of the thesis, as well as their knowledge about rights of privacy, anonymity, and voluntary participation. The document also included contact information to Agder University, the privacy adviser, the supervisor and to me as a student writing this thesis.

All interviews lasted for approximately one hour. The participants were given information beforehand about the master thesis and what it was about. However, they were not given anything to prepare or had any access to the interview guide. Thus, the answers given at the time of the interview would be more genuine and authentic.

#### 4.5.3 The interview data

The researcher Riessman (1993, p.25) puts a strong emphasis on how talk transforms into a written text when analyzing the transcriptions of interviews. Riessman requires researchers to focus stronger on what aspects of an interview constitute the basis for interpretation, and who determines what the empirical data mean, and if alternative readings are possible. According to Riessman, one should not stretch interviews too far, but pay attention to meaning and form to emphasize the story told and the role of the storyteller.

In the interview, the investors are asked to explain how they invest in equity crowdfunding and therefore must recall how they invested. The investors' description gives an idea of how they grasp crowdfunding investments but also how they interpret their investment styles. Riessman (1993, p. 8) claims "we cannot give voice since we do not have direct access to another's experience. We deal with ambiguous representations of it - talk, text, interaction, and interpretation". Thus, interviews are interpretations of how the investors act and unavoidable in a study (Holloway and Jefferson, 2000, p. 3).

#### 4.5.4 Interview Guide

Qualitative studies using a semi-structured and structured interview guide, allow answers to be found by doing purposely research on a well-formulated problem. However, interview guiding instructions focus on how to handle the interviews before and after the analysis and pay little

attention to the models needed to analyze and interpret the data (Hamersley and Atkinson, 1987: Yin; 1994).

In this thesis, interviews open-ended questions are used, thus the investors will have a space to elaborate on what factors are important in their decision-making process regarding investments in equity crowdfunding. There are several steps investors go through before finalizing an investment decision. Each step is influenced by what appeals to investors. If there exists no research on how these are interpreted by investors, it is unknown what is working. Thus, getting to know the investors' thoughts and views of which factors are important, is a potentially big step for how crowdfunding campaigners and platforms can improve.

#### 4.5.5 Challenges when doing interviews

Both Riessman (1993) and Kvale & Brinkmann (2018) claim that the quality of a research interview is dependent on the interviewer's skills and personal judgment. Conducting a research interview can therefore not be reduced to a simple rule-based method. The researcher needs to practice interviewing over time to become competent in doing interviews. As a novice interviewer, I encountered challenges when interviewing the investors, both because of my skills as an interviewer and not being an investor myself. Lack of knowledge about investment decisions can be an advantage allowing more fundamental questions to be asked, and a disadvantage since less knowledge about the crowdfunding field may cause details to be overlooked.

Using interviews as a research method inhabits some challenges that do not occur when using other data collection methods such as questionnaires. An eminent challenge associated with conducting interviews is the lack of preparation before the interviews. Without proper preparation, I will not know what kind of questions to ask or what kind of answers I hope for. Lack of preparation complicates making informed and fair conclusions in my research. Insufficient preparation will cause interviews to fail in achieving their purpose, to gain knowledge about investors' decision-making processes and criteria for investing in crowdfunding campaigns (Kvale & Brinkmann, 2018, p.83-84).

A particular problem for a novice interviewer is to be able to ask the right questions. Without asking the right questions my interview will be unproductive. Questions should be relevant and at an appropriate level for that specific interviewee. Asking difficult or trick questions will make the interviewee feel uncomfortable, awkward, and will stop them from answering the questions truthfully. When formulating questions, I need to ensure that these are fair and whether I think the

interviewee knows the answer to them. Furthermore, I expected my interviewees to be prepared for the interview and have a good idea of standard interview questions and how they are going to answer them. If I ask predictable questions, I will get predictable answers, therefore a good approach is to mix my questions and not only stick to clichés but include challenging questions (Kvale & Brinkmann, 2018, p.165-169).

Another problem is the lack of follow up questions, causing the loss of vital information. A strategy to avoid this can be to focus on getting clear answers. Whenever an answer from an interviewee is unclear this should be followed up with clarifying questions to avoid unambiguous answers (Kvale & Brinkmann, 2018, p.165-169).

Interview bias may result from finding common interests with the interviewee, making me favorable towards the interviewee and the answers provided. Interview bias can influence both the transcription of the interview as well as the interpretation of the answers given. Contrary, negative bias can influence the whole interview because I look for negatives that can back up my original impression of the interviewee. A research interview may therefore be saturated with ethical problems (Kvale & Brinkmann, 2018, p.35).

When doing interviews, interview fatigue may occur. Interview fatigue may occur after a long day with many interviews, causing a lack of attention and follow-up towards the last interviewees that day. Interview fatigue is also associated with large questionnaires where researchers experience “respondent fatigue” (Stephane et.al., 2011, p. 687).

Furthermore, it is important not to let any interview inconsistencies filter into the interview process. Such inconsistencies could be me as an interviewer having a bad day, due to a personal issue or a headache. Both interview fatigue and inconsistencies could be avoided by taking time between interviews, limiting the number of interviews per day, or even cancel interviews to avoid any inconsistencies filter into the process.

A challenge when analyzing interview data is to jump to judgments or conclusions too early in the process. Jumping to conclusions early in the process may cause vital data to be ignored or left out because they do not fit with current judgments. To avoid premature judgments a thorough reading of the interviews is necessary, before making any conclusions on the interview material.

Moreover, cross-examination using research papers from similar research with the answers provided by my interviewees contributes to further assure the quality of the answers.

## 4.6 Data analysis

In short, qualitative methods are used to collect and register data in the shape of text, sound, and picture (Christoffersen et. al., 2014, p. 103).

My investigation of the empirical data appears as descriptions of investors' decisions due to how the investors perceive and talk about their crowdfunding investment process. Participating in the crowdfunding investment process influences investors' behavior, and how they build knowledge about crowdfunding. As I see it, investors' experiences are recollections of their remembered decisions, which are difficult to observe. The investors' experiences are historically accumulated comprehensions resulting from decisions made over the period they have invested. Riessman (1993, p. 8) claims, "we cannot give voice since we do not have direct access to another's experience".

In qualitative research, the observational and interviewing data mostly materialize through text. In my research, the analysis of the data will present itself by analysis of audio recording through video sessions online. My options are to use tools such as Skype, Zoom, or Teams, whichever is more convenient for my interviewees, to have an interview. My reason to use online interview is first that crowdfunding investors are spread throughout the country and secondly that the data is collected consistently. Thirdly, while doing my thesis, there is a pandemic virus circulating in Norway, thus for the safety of myself as well as my interviewees, online interviews were the most considerate choice. Lastly, there is limited time and finance at disposal, which have an impact on how I collect my data as well.

Research often differentiate analysis into explanatory or interpretive. An explanatory analysis is used to uncover the causes of a social phenomenon, while interpretive analysis explores the meanings within a context. The interpretive analysis seeks to find the meaning behind the actions of individuals as well as the social norms which regulate these actions. Therefore, answers to interview questions are "a construction-reconstruction-of reality" (Charmaz, 2006, p.27)

## 4.7 Research Quality

Several ethical issues with potential legal implications need to be considered when doing qualitative research. Foremost it is the ethical obligations towards the interviewee. Then it is the moral and ethical obligations with regards to how the results from the interviews are reported and presented. In the assessment of whether the ethical and legal considerations have been adequately

considered, transparency is required so that outsiders can make a qualified assessment of how my investigation has been conducted (Kvale & Brinkmann, 2018, p.35).

#### 4.7.1 Evaluating qualitative research

In quantitative research, the criteria for good quality are reliability and different types of validity, which according to Yin (2008, p. 33) also can be used for validating qualitative data. However, other researchers suggest using other ways of validating the research, such as reliability, credibility, transferability, and verifiability (Christoffersen et. al., 2014, p. 243).

The challenge of using reliability as a measure for qualitative research methods, is that the conversation controls the data collection, in contrast to data collection when using quantitative research methods. Secondly, the observations are value-charged and dependent on context. Thus, duplicating qualitative research is not possible. Thirdly, the researcher is an instrument in the research. The interpretation of the data will depend on the researcher's experiences. However, the reliability can be strengthened by describing the context in-depth and to have an open and detailed presentation of the procedure during the whole research process (Kvale & Brinkmann, 2018, p.195-196).

Another way to strengthen the reliability of qualitative data is to use appropriate criteria to evaluate the data, which can be done through validation. Validity in qualitative research is the extent to which the researcher's methods and findings correctly reflect the purpose of the study and represent reality (Christoffersen et. al., 2014, p. 244). Thus, validity is accounted for when the qualitative research methods are thoroughly explained, and each decision is clarified. There are certain weaknesses and biases which can be addressed to strengthen the validity of the data. In the interview with the informants, biases can occur in the relation between the informant and the interviewer. The informant's statement can be untrue or distorted to give a better impression of the informant. Moreover, the informants themselves can be reliable or unreliable witnesses. The aim is not to eliminate biases because both the setting and researcher will undoubtedly influence the informant, which is called the interview effect (Christoffersen et. al., 2014, p. 424). The interview effect is when the interviewer unknowingly or knowingly affects the informant and their answer through body language, apparel, voice, and attitudes. These subtle hints reveal to the informant which answers that are expected. Moreover, all the information from the informant is filtered through the researcher thus it will to a greater or lesser degree be subjective information (Kvale & Brinkmann, 2018, p.195-196; Caldas, 2017, p.1-2).

Certain biases which I will need to consider in my research is publication bias, sample bias, classification bias, interview bias or the interview effect, memory bias, dropout bias, and cognitive bias (Christoffersen et. al., 2014, p. 245).

Research papers with a positive result have a higher value than research papers with a negative or controversial result. Thus, research papers with positive results have a higher chance of being published which can make the researcher inclined to only present positive findings from a study which is a form of selective reporting. It is possible to be unconscious or conscious of the fact that less interest is shown to results that are negative or controversial. It requires more effort to discuss and reflect on results that are controversial than if the results are compatible with an established theory. It is also easier to approve results from a researcher who follows this mainstream theory than a research producing controversial results (Christoffersen et. al., 2014, p. 246).

Another bias I might come across is sample bias. In my sample, certain people might be systematically underrepresented or not a part of the sample at all (Christoffersen et. al., 2014, p. 245).

The classification bias happens when informants in a sample are not suitable to answer the research question. A randomly selected sample is more prone to classification bias. Therefore, a strategic selection is more appropriate in qualitative research, which is why I also have avoided the random selection method (Christoffersen et. al., 2014, p. 245).

The interview effect has been described before as the influence which happens in the interview setting between the interviewer and interviewee. The most important way to counter this effect is to be aware of each decision made when registering the data, how the statements are said, where the interview is held, and how the data is emphasized, judged, and interpreted. Riessman advocates awareness when doing qualitative analysis since “traditional approaches to qualitative analysis often fracture these texts in the service of interpretation and generalization by taking bits and pieces, snippets of a response edited out of context they eliminate the sequential and structural features” (Riessman, 1993, p.3).

A person’s memory is the ability to store and retrieve prior experiences. However, memory is never completely accurate and can be exposed to influence. My informants will need to retrieve memories of how they invest in equity crowdfunding campaigns, which can be different for each person. Moreover, what they experience compared to what they remember and how they evaluate their investments can also vary.

Drop-out bias is a consequence of informants who were recruited for the research but choose to leave the study. The informants have the right to withdraw their participation at any time during the study as it is volunteering participation (Christoffersen et. al., 2014, p. 246).

The last type of bias with validity is a cognitive bias (Christoffersen et. al., 2014, p. 246). These biases are not possible to eliminate but should be kept in mind to limit their impact on the research thesis. Firstly, it is the habit of searching and interpreting information in a way to support the perspectives and established opinions. This is a harmful way of thinking which leads to no new knowledge. Secondly, there is a tendency to avoid information and interpretations which contradict existing notions. It is also possible to fall for the bias of overestimating how much others agree or disagree with oneself. Another cognitive bias is the habit of speaking about your positive traits and exaggerating these (Christoffersen et. al., 2014, p. 246-247).

People sometimes tend to do or believe in things because others do, which is called “group thinking” (Christoffersen et. al., 2014, p. 246). It is one of the reasons I avoid doing group interviews since I want to know the individual’s approach to equity crowdfunding investments.

Furthermore, I must be aware of the cognitive bias to see myself in a less prejudiced way than others. I also need to be concerned about the tendency of responding in a socially acceptable way and not in a way the informant feels or wants, also called the social desirability bias (Christoffersen et. al., 2014, p. 246).

Another tendency to look out for is to overrate the probability of future actions. In most cases people predict wrong about their future thought-out actions (Christoffersen et. al., 2014, p. 247).

Lastly, there is also a cognitive bias about interpreting or judging phenomenon based on the researcher’s own, cultural references, also called cultural bias (Christoffersen et. al., 2014, p. 246). Hislop (2009) emphasis that knowledge is never neutral and unbiased, and to some extent inseparable from the values of those who produce it.

Although there are a lot of biases and scrutiny to look out for in a qualitative research method, there are a few techniques available that can lessen their impact on the research material. One method is continuous observation (Christoffersen et. al., 2014, p. 122-123). It is used by investing enough time to know the field in-depth and be able to separate relevant and irrelevant information as well as building trust. It is hard to understand a phenomenon without its context. In my theory, I

try to thoroughly explain the equity crowdfunding market as well as how equity crowdfunding investors have invested in crowdfunding before my research.

Another method is triangulation, which uses different methods of data collection. In my case, I use interviews and prior research articles to understand how investors do equity crowdfunding investments from different perspectives, both from different researchers and different stakeholders.

#### 4.7.2 Extern validity or transferability

Research is not limited to collecting data. The data needs to be systematized and analyzed. The analysis consists of retrieving coded information from the entity and build new research constructed knowledge about a phenomenon. In short, to create an image of the authentic reality using theory, concepts, and interpretations. All research draw conclusions from the immediate data collected. In qualitative research, it is not generalizations that are important, but the transfer of knowledge called generality. The generality within social science research has been replaced by the opportunity to transfer knowledge from one situation to another focusing on contextuality and heterogeneity (Kvale & Brinkmann, 2018, p.200). The generality of research is to the extent a researcher excels to establish descriptions, concepts, interpretations, and explanations that are useful in other fields than the one studied.

The results of research should be of the research's findings and not of the researcher's subjective attitudes. Researchers are expected to bring a unique perspective in the studies they conduct. However, there needs to exist a degree of verifiability or objectivity to avoid the researcher's subjective attitudes. It is important to emphasize all the decisions made during the research process and be self-critical of how the research was conducted. The objectivity can be strengthened by commenting on prior experiences, biases and flaws, prejudices, and opinions which may influence the interpretation of the research. Additionally, the interpretations can be assessed through other literature and possibly also by the informants for support. According to Kvale & Brinkmann (2018, p.199) objectivity, when conducting interviews, need to be discussed specifically for each of the manifold of meanings of objectivity in relation to what is relevant for the given qualitative interview investigation.

My thesis focuses on connecting with investors directly through interviews, which naturally is prone to ethical concerns. According to Nerdrum (1998), three types of concerns must be applied in a research paper, including the informant's right to self-determination and autonomy, the

researcher's duty of respecting the informant's private life, and the researcher's responsibility to avoid harm (Christoffersen et. al., 2014, p. 95). These three concerns have been taken into consideration in my thesis.

This thesis can influence the perception of crowdfunding investors, both the beliefs they have of themselves, and the beliefs others make of them. Thus, I use transparency toward my interviewees, letting them see my interpretations before publishing the thesis. At any point, both before, during, and after an interview, the interviewees are allowed to withdraw their participation if they wish.

A prominent ethical issue relates to how to preserve interviewees' confidentiality and ensure that what they say in their interviews do not compromise them in any way. When interviewees are compromised it can potentially harm them both personally and professionally. I use informed consent in my interviews to clarify before interviewing, how the interviews are going to be used and published to avoid compromising interviewees.

There is no report or license duty on the data from the interviewees, as the individuals cannot be identified, and the data is not sensitive (Christoffersen et. al., 2014, p. 100).

## 5 Findings

This chapter presents the data collected from interviews with five different investors. The first section contains personas of each interviewed investor, and the second section presents the findings from the interviews.

The interview data is sorted into investment criteria based on the investor's reflections, considerations, and principles behind their investment decisions.

### 5.1 Investors' background (Personas)

#### **Investor-1 (male 35)**

Investor-1 is a computer engineer within cybernetics. Additionally, he has taken a few courses in marine subjects. He is currently working as a technical consultant. Investor-1 has invested in startups through the FolkeInvest platform. In addition, he has participated in an investor program called Angel Challenge.

#### **Investor-2 (male 56)**

Investor-2 has studied one year of environmental sciences and has a bachelor's degree in business administration. He is currently working as a senior consultant in the Norwegian Tax Administration. He has additional work experiences from a bank and a technical agency in a municipality.

He started investing around 20 years ago, in both listed and unlisted shares. His first investment was in bank shares of the bank he worked. He has invested in equity crowdfunding for 2 years through FolkeInvest, Dealflow and Around. He has also invested in other crowdfunding platforms such as Kameo, a Scandinavian lending-based platform.

#### **Investor-3 (male 47)**

Investor-3 is an economist, with a master's-degree in business administration. He has studied abroad and worked with personal administration, before switching to sales which is his current profession. For the last 5-6 years, investor-3 has been self-employed and runs his own consultancy company. His company helps start-up businesses. Investor-3 invests in funds and listed shares on the stock exchange market. In 2015, he started investing in startup companies and mainly in product-based crowdfunding, but in 2018 he also started investing in equity crowdfunding.

He was introduced to equity crowdfunding through the internet and an angel program called Nordic Angel Program (NAP). The angel program was introduced to him by an acquaintance he had worked with before in voluntary organizations. He has invested in startups through friends and equity crowdfunding platforms. The platforms he has invested in includes Monner, a lending-based platform, DealFlow, FunderBeam and FolkeInvest. Gradually, he received offers to join more concepts and provide capital fundings for startups he had previously invested in. He uses Crowdworks to gain information about companies which he finds interesting. Overall, he has invested in 15 unlisted startups, where 6 of them have received several fundings.

#### **Investor-4 (male 33)**

Investor-4 has worked as a market analytics and consultant for 10 years. He has a bachelor's degree in international marketing. His work ranges from technical reports in all kinds of digital tools to working on bigger research projects about consumer insight, branding, brand development, and advertising.

He has invested in listed shares since he was 18-19 years old, with a keen interest in unlisted shares and startups. He has an investment firm with a friend, who shares the same enthusiasm. Their company is shared 50-50. Investor-4 has also invested in funds over the last couple of years. He was introduced to equity crowdfunding through an article he read about FolkeInvest and started investing at one of the first campaigns FolkeInvest launched. He has invested in 3 campaigns through his investment firm.

#### **Investor-5 (male 32)**

Investor-5 is a certified accountant with a master's-degree in accounting and audit. He works as an accountant manager.

Investor-5 discovered equity crowdfunding together with a colleague. He has invested through lending-based platforms such as Monner and Fundingpartner, and through equity platforms like Dealflow and FolkeInvest. He also invests in listed shares at the stock exchange and looks at equity crowdfunding as a side activity. However, his investments in equity crowdfunding have grown to 15 % of his portfolio.

#### **Summary**

All the investors above are highly educated. They are all men, as men continues to dominate the stock market, which is also true in the equity crowdfunding market. Investor-2, 3, 4 and 5 all have

education within economics and business administration. Investor-1 has a different education, being a computer scientist.

## 5.2 Investment Criteria

The criteria mentioned below are criteria which the interviewed investors emphasize in their investment decision process. The findings are presented chronologically. Each criterion contains sub-criteria underpinning the importance and breadth each interviewed investor places on their criteria.

The findings are presented in sections of the following investment criteria:

**EXCITEMENT:** The Journey of the Startup, The Novelty of the Equity Crowdfunding Market, The Investors Contribution and Help, High risk and High Return, Changing the Financial Market, Contribute to Local Investments (support the Norwegian market).

**CHARACTERISTICS OF THE PRODUCT:** Product Demand, Market Potential, Marketing of the Product (Media Attention), Acquired Customers, Environmentally Friendly Product, Technological Innovation, Other Fields of Interest.

**CHARACTERISTICS OF THE CAMPAIGN:** Presentation of the Campaign, Popularity of the Campaign, Financial Information Presented on the Campaign, Work Outside the Campaign.

**CHARACTERISTICS OF THE START-UP TEAM:** Relations to the Startup team, Startup Team as Investors, Personal Relations with the Startup Team, The Startup Team Invests Themselves

**CHARACTERISTICS OF THE EQUITY CROWDFUNDING PLATFORM:** Trusting the Platform, Helping the Platform and the Crowdfunding Community.

**INSURANCE OF THE INVESTMENT:** Tax Reliefs, Exit Strategies, Expertise and Experience, Investor Network.

### 5.2.1 Excitement

All interviewed investors are excited about investing in equity crowdfunding, because of its novelty, the possibility to follow the journey of a startup and the potential profit even for high-risk investments. This excitement also results from finding interesting campaigns and rewarding

opportunities. Moreover, the excitement comes from being able to follow their investments in a company and see whether the company succeed or not.

### **The journey of a startup**

Investor-1 views his investments in equity crowdfunding as exciting because of the investment journey. He finds it exciting to follow the company and be updated on their status and what they have done. Through equity crowdfunding, he chooses to be a more active shareholder in contrast to how he reasons when investing in funds. As a crowd investor he feels more involved in the company's journey as a contributor and a helper for the startup company.

“It is exciting though (..) you can just follow them on status of ...what they have done the last quarter and possibly contribute if they need help ... and you also feel that you are more involved in their journey too, than to just put money in a fund or (at least) be a little more active.” – Investor-1

Moreover, investor-1 feels his investment in the crowdfunding campaign makes him part of an adventure. He becomes a supporter of the progress the startup makes, no matter the size of the invested amounts.

“(..) it provided more of an impact to feel that you were part of the adventure or that you were part of the progress ...and had been involved in support so they recovered a little bit.” – Investor-1

Investor-2 finds it interesting to follow companies' progress from their initial stage and onward.

“Yes, I think it's interesting, very interesting to follow companies from the start...preferably right ... from the time they first start up and then... to the development, that is very interesting.” – Investor-2

For investor-4, criteria such as curiosity and the fun of being part of a small company's journey, influences his decision to invest.

“(..) it was a bit out of curiosity too, that it's a bit fun to be part of... the journey of a small company (..)” – Investor-4

Investor-5 finds it positive to invest in FolkeInvest, because it enables him to be part of long-term investments. In comparison, shares on the stock exchange are easily exposed to changing strategies and hasty decisions.

“(..) I'm probably a bit happy to go into FolkeInvest now because it entails in a way that you become somewhat long-term in the investment, (..) if something were to happen (to the investment) then it is easier to change strategy on the stock exchange and that might then be the result of hasty decisions.” – Investor 5

### **The novelty of the equity crowdfunding market**

The novelty of the equity crowdfunding market makes it exciting for investors to invest in it. When questioning why investor-4 invests in equity crowdfunding, he says it is fun to read the prospects of the entrepreneurs. Initially, he found it mostly thrilling because the equity crowdfunding market was new, and he had no prior experience. In other words, it was the novelty of this new market which spiked his interest to try it out.

“(..) it was a little fun to sit and read the prospects that the entrepreneurs had made themselves and ... to be honest, I think it was mostly fun right there and then, it was something new.” – Investor-4

Investor-5 invests in the new equity crowdfunding platform because he finds it exciting. In the beginning, he had low expectations to the platform due to the few campaigns which offered him limited investment options.

“(..) exciting with a new platform really, that was really what was the main argument at the time. Then there were very few things that were possible to invest in, it was probably just that one (campaign), but when you discover it, there are not so many expectations ahead either.” – Investor-5

### **The investors contribution and help**

The investors are excited about contributing and helping the startup companies. Through their investments, they support new ideas, and create employment opportunities and provide tax revenues to the society. The interviewed investors contribute directly with their investments, but

also indirectly by participating in the campaign forums. Overall, they feel like contributors to a growing market.

According to investor-1, capital should be available to grow new exciting companies in Norway. He places importance on the growth of the Norwegian entrepreneurial landscape which he feels is not the most fantastic landscape in Norway.

“(..) It is also important that there is capital available to grow new exciting companies in Norway, and we are not exactly known for the most fantastic entrepreneurial landscape” – Investor-1

Investor-2 expresses that it is nice to keep businesses going by offering funds, particularly as he thereby contributes towards employment and tax revenues for the Norwegian society.

“It is also very nice to also be able to contribute... with funds to ...keep businesses going. Also...you are part of creating employment, you are part of ... (making sure) that society gets tax revenues for example (..)” – Investor-2

Investor-3 finds it satisfying to find a clear meaning or purpose with his investments. He finds it satisfying to help people in the process, people who have good ideas and dare to try new ideas or improve existing solutions. In his point of view, it is nice to be part of many small owners in a campaign.

“So, to have, a clearer meaning with the things you go into, and also to be able to help people who have very good ideas and dare to try something new, and fix things that today do not work, I think is very satisfactory, and to be many, small owners in that context (of contributing to good ideas), I think, I think is just a very nice thought.” – Investor-3

Investor-4 describes investing in equity crowdfunding as more fun than buying shares at Oslo Stock Exchange, since the risk is higher and it is more about “faith, hope and love” toward the startups. Investor-4 feels he contributes more when investing in startups, than if he invested in shares listed on the stock exchange market.

“(..) it's more fun to invest in equity crowdfunding than it is on the Oslo Stock Exchange (..) there is a little higher risk and then... there is a little more faith, hope and love. And then you feel like you are, at least I feel that I, contribute more than if I invest in something listed (on the stock exchange market).” – Investor-4

### **High risk and high return**

The interviewed investors also feel an excitement toward equity crowdfunding campaigns, because of the high risk and high return being present in each investment.

Investor-2 is straightforward about the chance that you may lose money by investing in equity crowdfunding. However, he states that it is part of the “game” of investing.

“(..) there are chances that you can lose too. Lose money, but it's... a part of the game (..)”  
– Investor-2

Investor-2 describes how he invests in company on an equity crowdfunding platform due to the product and possibilities of product success. At one point, he was skeptical to a campaign, but invested anyway because he had surplus money, and he believes taking a risk to get a reward.

“(..) for example a company I invested in (on an equity crowdfunding platform), my focus was on the product and how I viewed the possibilities that they might succeed with that product. I was a bit skeptical though, but I invested anyway. I had some money (to spare) then (..) you have to bet a little to get a reward.” – Investor-2

Investor-4 believes the potential of a successful campaign could be huge, but at the same time there is also a great risk of going bankrupt.

“(..) there is the potential (of a successful campaign), the potential can be great, but the risk of going bankrupt can also be great.” – Investor-4

Investor-4 states that he can invest in a campaign just for fun. It might not be something he puts all his money into, but by investing he gets a return on his investment if the company succeeds. However, he adds that he is aware that the company can go bankrupt.

“(..) like with that liqueur (campaign about a liquor) it is just for fun, and it is not something you put all of your savings into, it is kind of like, if they succeed it is fun and then you get something in return (on your investment), but we are very aware that it can go bankrupt as well» - Investor-4

### **Changing the financial market**

Investor-3 likes the idea that ordinary people should own a company, and not having all shares owned by a few investors. He likes the idea that shares are spread on a population with a closer relationship to their investments. Hence, he likes equity crowdfunding because it is not just a financial asset that investors have no clue about or funds that others will manage for them.

“(..) I like the idea that we should own things, that all, all shares should (not) only sit with a few. I like that it can be spread on the population that has a slightly closer relationship to the investments you make, rather than just something of paper value (financial asset) that they (investors) do not have any clue about or have to buy some fund that others will manage.” – Investor-3

Investor-4 is interested in investments and has been that since he was around 18-19 years old. For the most part he only invests in listed shares. However, he finds non-listed shares exciting, but investing in unlisted shares requires an expensive entrance ticket. Therefore, he finds that equity crowdfunding creates an opportunity for him to invest by providing an arena for people to invest without a lot of money.

“(..) I have always been quite interested in investments ...I have been doing it since I was maybe 18-19 but then only in listed shares, but (..) what is not listed, I have always thought was a bit exciting, but... it is a pretty expensive entrance ticket to... unlisted companies, but crowdfunding makes it so that most people have the opportunity to invest even if you do not have a lot of money (..)” – Investor-4

As investor-4 sees it, a startup investor with only 100,000 NOK to invest will not be invited to participate in buying shares, because others have much larger sums. In other words, it is not easy to join with small amounts, as it is not interesting for startups who wish to scale up. However, with equity crowdfunding, investor-4 gets access to investments and the possibility to become a startup investor.

“(..) you do not become a startup investor by having 100,000 to invest with. No one bothers ... to invite you in. You do not get to participate, because there are so many others who have much larger sums (..) it is not easy to join with small amounts, it is not interesting for those companies (startups who wish to scale up). Except for those who have equity crowdfunding then (..) it is simply the access to investments, or the access to prospects (which has been difficult). There is much greater access now with equity crowdfunding.” – Investor-4

Investor-5 states that he has always been interested in investing in startups, but no investments have been accessible, until the equity crowdfunding platforms were launched. Investor-5 describes the situation before as you had only two options; either invest in listed shares or start your own startup company. However, now he finds it easier to find companies to invest in since they are listed on the equity crowdfunding platform. He defines it as an “opening” or closing a gap for what had been a non-existing market.

“I have always been interested in investment, but there has never been any really accessible (investments for startups) and with these platforms, it has made it more accessible (...) before you could invest in listed shares and that I really it, unless you start your own (company) and build it from scratch, but now ... you have a website you can access to invest in things that are not listed. It has become an opening (in the startup funding market) for what has not existed before”- Investor-5.

### **Contribute to local investments (support Norwegian market)**

Investor-1 joins the funding of the special campaign mostly because it is a local affiliation.

“(..) it was mostly because it was a local involvement in the Kvidul campaign, that I joined (the funding).” – Investor-1

Investor-2 finds it rewarding to invest in Norwegian companies as they feel familiar, and an investor get a return on both the investments and taxes which the start-ups pay. Moreover, the investor contributes to employment in the startup, and overall support the society of Norway.

“(..) I think it's nicest to invest in Norwegian companies it's a little more familiar... (you) get some return (on investment) back, the companies they pay taxes, and they employ people, and yes they contribute to society in Norway.” – Investor-2

## 5.2.2 Characteristics of the product

The following presents certain characteristics of the product which the interviewed investors deem as important to invest in a campaign.

### **Product Demand**

In the investment decision process, investor-3 states that he makes a careful assessment of the product in the campaign. He focuses on whether he would buy the product himself, given that he was in the target group. Moreover, he assesses whether the product is interesting, if it is nice to have, a need or a demand for the product.

“(..) I make a good assessment whether this is something I would like to buy myself, is this something that I actually think I may need given that I am in the target group, is it interesting, is it nice to have, a need to have, like where is the demand for this (..)” – Investor-3

Investor-3 he sees it as a clear warning sign if he does not understand the use or need for a service or product, especially on a large scale.

“(..) if it is a service which I simply do not understand any use for, that is, who in the world should need this and on such a large scale, it is a clear "warning sign" (..)” – Investor-3

Investor-3 continuously states how important it is for him to understand the need for the product, both what usage it has and what it can trigger in terms of values that either saves him time or solve a problem. He also adds the importance of showing how to upscale the product in the business model.

“I definitely must understand the need for the solution, both what it will be used for, what it can trigger in terms of values, that either saves me time or something else, and how one can relatively easily envisage a scalability in the business model (..)” – Investor-3

Investor-5 says it is a must for him to understand what the startup delivers whether it is a product or service and how they intended to earn money on it in the future.

“I must understand in a way what they are delivering and what they intend to make money on in the future (..)” – Investor-5

Investor-5 uses personal preferences as an investment indicator for whether there was a need for the product or not, by asking himself if he would want to use the product. If the answer is positive, he concludes that there probably were more people like him who would use it. However, he states that many are not aware of the product because the brand is not big enough yet. Nevertheless, this gives him an indication that there is a market for the product.

“If I wanted to use the product, then there are most likely many like me who would use it, but who may not be aware of it yet because the brand is not big enough so then it can indicate that there is a market for it (the product) at least.” – Investor-5

### **Market Potential**

According to Investor-1, the campaign for a startup company needs a plan identifying the market for their product and how they plan to enter their target market.

“There has to be a plan to go to the market that covers realistically and there must be a market there for what they are doing (..)” – Investor-1

Investor-2 finds it exciting to follow the companies to see if they grow and reach their market potential with their products.

“(..) to follow the companies, see if they can succeed with ... their product. And get it on the market and get it sold and get an increase...it's exciting.” – Investor-2

Investor-3 emphasizes how essential it is for the startup company to demonstrate how they plan to scale up their production of the product. It is important for the investor to know that upscaling could be done easily. Moreover, he evaluates whether the startup company is internationally oriented and aware of the competitive situation for their product. He also looks at the technical part of how the startup team envisages how they will build their company.

“(..) (if) there is one thing I look for, it is how easy it is to scale the product and then I look at the technical part, and how they envisage building it up, because I have been involved in such processes myself, so I know a little bit about what that entails, how easy it is to scale, how interesting it is to think internationally and to look at the competitive situation there (..)” – Investor-3

Investor-3 lists some of his criteria for engaging in a campaign, such as the need for the product in the market, preferably what kind of “road-map” the startup company has, if there is a pure Norwegian, Nordic or semi/global need for the product and the startup team’s thoughts about this. For investor-3 it is important to see how the start-up team plans to enter a market before he makes investments, thus an important criterion for him is that there exists a need for the product or service in the Norwegian market.

“(..) there must be a need for this (product or service) in the market, and preferably what «road-map» they (the startup team) have, should it be a pure Norwegian service, a Nordic or semi / global need for this (product) and what their thoughts are (..) so I need to see that they are able to get into one market before they continue, so definitely ...a desire for this in the Norwegian market tends to be a very important criterion (to me).” – Investor-3

### **Marketing of the product (Media Attention)**

Investor-1 says he values it favorable for investment if the campaigners or startup team has created “buzz” through different types of media.

“So, if ... they are good at creating buzz about themselves ...it is absolutely positive.” – Investor-1

According to investor 3, it counts when campaigners are good at getting editorial reviews as part of their capital raising. If they manage to get attention, except paid advertising, it is a good thing to investor 3. He sees it as a sign that there would be a greater chance for them to receive other supporters too.

“(..) there are some of them who are good at getting editorial reviews etc. as part of raising capital and it counts for me very highly, that they also manage to get that kind of attention,

not paid advertising... I think it is a good thing. I know that there is a greater chance that they will get other supporters too (..)" – Investor-3

Investor-3 considers it positively when campaigners appear in media.

"(..) it counts very positive that they appear in the media." – Investor-3

Investor-5 states it would help to build the brand if the startup company appears in public newspapers.

"(..) sort of publicized in E24 or the financial newspaper or something like that... really anything about the company as long as it is positive...it helps to build the brand, in a way that is never wrong." – Investor-5

Investor-5 investigates whether startups has received media attention before the campaign is announced. For him it is easier to invest in a startup company that has received media attention, because he is more familiar with brand, knows more about the company and has gained increased trust in the campaign.

"(..) (if) they received a lot of media attention and you have seen the brand elsewhere even before you see that they will have a campaign then it makes it easier (to trust the investment) and then you know in a way a little more about what is the basis and, I take it at least more seriously then." – Investor-5

### **Acquired Customers**

Investor-3 sees it as proof of the concept when a campaign already has acquired customers. In other words, acquiring customers creates trust in the product and demonstrates a need for the product.

"(..) it is also reassuring if they have already acquired some customers, and got proven of the concept (..)" – Investor-3

Investor-5 says a campaign gaining many users is a sign of trust in the campaign and the campaign is more likely to receive investments.

“(..) (I) often go back to Horde (the campaign he invested in) ...when they have 140,000 users on the app and, I use it regularly myself...it gives me an evidence of trust.” – Investor-5

### **Environmentally friendly product**

Other criteria important for equity crowdfunding investors is whether the product is environmentally friendly, or not.

Investor-1 looks at campaigns where a recurring theme is that the products are sustainable or the startup has made of a technology which is better for the environment. He adds that generally investors may prefer products who give some positive effects and not just financial benefits.

“(..) because that (sustainability) too is a recurring theme in some or most of the investments... that it is sustainable and that it is some kind of technology that will make it better for the environment...people (investors) may prefer to have some positive ripple effects and not just financial” – Investor-1

Investor-1 explains that a product which is technology-based or marine-based is an excellent investment opportunity for him as it also relates to his background. All investor-1 investments are in sustainable products which he believes has a potential in the market. He values such investments the most.

“(..) if it is technology or marine, it is excellent of course, but I have joined on other things too, but it has mainly consisted of the potential in the market and at the same time has some environmental positive aspects or that it is sustainable. Then it has a lot of value (to me).” – investor-1

Investor-1 he invested in a campaign, with a startup company called Wavefoil, where he understood the concept since it was based on marine subjects he had taken at the University. In the case of Wavefoil he knew how economically good and environmentally friendly the campaign was, and this appealed to him.

“(..) I had taken the marine class myself and so Wavefoil was cheaper to install or pays itself in a couple of years, and after that it’s just about paying fuel. Hence, it was the environment and the economy which appealed (to me).” – Investor-1

Investor-2 replies that he is concerned about the environment, thus tries to find companies that solve environmental problems or at least companies who are not harmful to the environment. He adds that most activities are harmful to the environment to some extent, but he searches for startups who are least harmful.

“I am a bit concerned about the environment so I try to find companies that can help solve environmental problems or at least (are) not harmful to the environment ...all such activity (building startups) is harmful to the environment in some extent, (there is) little activity which is not in any way harmful to the environment (...)” – Investor-2

Investor-2 emphasizes that both financial gains and environmental effects are important factors to consider before investing. An excellent campaign can show good economic results and contribute positively to the environment.

“(..) But of course, it's both financially counting and environmental (which are important). So, it's a nice combination. If they (startup team) can show good results to the economy while simultaneously do something positive for the environment, it is excellent.” – Investor-2

Investor-3 values higher campaigns who are affiliated with environmental, sustainable or services related ideas such as helping people to control their private economy. These fields are what investor-3 looks for in an equity crowdfunding campaign.

“(..) things that have to do with the environment and sustainability are important to me...there is quite a buzz with personal finance, services related to how people can get an overview of their private economy etc. It's interesting...those two things are what I have primarily looked for (in a campaign).” – Investor-3

## **Technological Innovation**

Investor-3 talks about how his interests in software and technology products influence whether he invest in a campaign. In addition, a campaign interests him when there is good scalability and a product that hits a trend, such as an environmental perspective. He is not necessarily interested in B2C markets or products sold to individuals, but if the product is connected to a scalable business model and technology, he can make an exception.

“(..) I am interested if there is something software-based. There should be some technology involved (in the product) with good scalability and preferably something that hits a trend...like some type of environmental perspective... I am not so interested in B2C or things to be sold to individuals necessarily if it is not also connected to a scalable business model and technology.” – Investor-3

Investor-5 feels he often searches after technology companies, because just as in the stock exchange market, technology and banking are the sectors he sees as most reliable. He explains that banks have security which makes these investments safer. However, he realizes that technology is a category which either could go terribly bad or terribly well. Thus, he gambles on high return for some of his investments.

“It is often technology companies that ... I feel I go after. Because it's really the same thing on the stock exchange as well, that it is, technology and banking that are the sectors I mostly go into. (..) banks because it is in a way a little safer, that there are some values at the bottom which won't disappear completely and...technology is (different), it can go terribly bad, but it can also go terribly well.” – Investor-5

Investor-5 checks out technology-based products first by investigating if he would use the product or testing the product to see how it works if it is an app. He feels that trends are often short-term and equity crowdfunding is often long-term, so he feels no connection between trends and equity crowdfunding. In other words, he will not search for trends in the equity crowdfunding market, as that will not lead to a satisfactory match with him.

“(..) if it is a sort of technology then...would I use this product? If there is an app or something like that, then you often download it first and see, what is this really about... trends I often feel are short-term and equity crowdfunding is often long-term so then there

really should not be much connection there (between trends and equity crowdfunding).” –  
Investor-5

### **Other fields of interest**

Investor-4 talks about the first time he invested in equity crowdfunding was due to the crowdfunding wave in the market, and he probably had more faith in the category he picked rather than the company itself.

“(..) there was a certain crowdfunding wave in the whole market at that time (..) so I probably actually had more faith in the category than the company he pitched.”  
– Investor-4

### 5.2.3 Characteristics of the campaign

#### **Presentation of the campaign**

Investor-1 explains that the minimum requirement to the campaign’s layout is to present what the startup team is doing in a decent way. He describes it as being reckless of the startup team, if the campaign looks bad.

“The minimum requirement is to at least present what they are doing in a decent way then”  
– Investor-1

“It looks a little reckless to the people behind (the campaign) if they, if it looks really bad.”  
– Investor 1

According to investor-2 the presentation of the startup company needs to catch investors’ attention and interest at first glance.

“(..) it does count a bit as well, if it seems interesting in the first place, they (the startup team) tend to post...a good while in advance, a little ... presentation in advance, it's good that it looks interesting and that it catches attention.” – Investor-2

Investor-3 says he probably cares about the presentation of the campaign indirectly. What weighs heavily to him is how they manage to communicate their message using good visual aids and convey a clear nice message describing the campaign.

“I’m probably doing it indirectly (thinking about the presentation of the campaign) but (..) then it’s more, like how they (startup team), how they manage to communicate their message through the use of good visual aids and having a clear, nice text that describes things, it weighs heavily.” – Investor 3

Investor-5 looks out for typos and such, which he regards as a warning sign. When a campaign has a lot of errors, he questions whether the campaigners only care about making the campaign quickly to get money. He believes it is due to negligence to leave typos. In his opinion, the overall impression of the campaign is important.

“If I see typos and such, several typos in the campaign then it is mostly... a warning signal, because are you (the campaigners) just making it quickly to get money, you would had discovered it (the typos) yourself if you had looked through it once (..) It's important that it looks good, that's the overall impression.” – Investor-5

### **Popularity of the campaign**

Investor-1 sees it as a negative sign when a campaign has received little interest from people, and there are few shares drawn, even though the campaign has been available for a long time on the platform.

“(..) if it has very little interest from people, and there are few drawings on it, even though it has been available for a long time, then it is a bad sign.” – Investor 1

Investor-1 talks about a campaign which was fully subscribed in 4-5 hours. He invested this because of a hard-working startup team doing a good PR job, and thus he believed the company would be a good case to invest in.

“(..) Wavefoil was fully subscribed in 4-5 hours or something like that, so it says a little bit about both the PR job they have done in advance and that it is a good case (..)” – Investor 1

Investor-2 emphasizes that although much interest in a campaign can be seen as favorable and a good indicator of the campaign's value, also to other investors, his own assessment will always have a higher status in terms of investing.

“It is sort of an assurance because if there are companies that many find interesting and the issue amount is likely low, then it may well be that the campaign is fully subscribed very quickly.” – Investor-2

“(..) if I see that there is a lot of interest in the campaign, and that was an indication in addition to the assessments I make myself that it was a good case, clearly. If there are many who are interested and join (the campaign), then it can be an indication that others too have considered this to be an interesting investment, so obviously if there are many who joins and draws themselves, then they have also made an opinion on this case and studied it and made themselves well acquainted with it. It's an indication, but I trust myself too, so I'm probably the type who does not always listen so much to what others think, I tend to trust myself, but of course I join in on a couple (of investments) ...” – Investor-2

Investor- 5 is not concerned about the timeframe which the campaign is available, however the interest of the campaign among other investors does have an impact. Investor-5 feels it is safer and an evidence of trust when a campaign is fully subscribed quickly. It shows there is great interest among crowd investors and thus more reassuring than seeing a campaign lying still for a long time with no or only a few investments.

“It does not really have much to say, though it is a very evidence of trust and feels safer when it is fully subscribed quickly. When you see that there is great interest among everyone ... who want to invest in this, it is more reassuring than to see a campaign lying still for a long time.” – Investor-5

### **Financial information presented on the campaign**

Investor-3 says that the final factor he looks for in a campaign is the economy in it. He evaluates whether the startup company has taken an Excel sheet and adjusted the figures upward. He needs to know if they have made any sober attempts to understand what building a start-up will cost and how they envision making money on their startup company. Overall, investor-3 uses this information as a type of litmus test on the startup team's own self-insight.

“The last thing I look at is of course the economy in it, if they have taken an excel sheet and just dragged the amounts up... if they have at all had some sober attempts to what this should costs to start up and when they envision making money on it. It is also an important factor (the financials) of course as a type of litmus test on their (the startup team’s) own self-insight so to speak.” – Investor-3

However, when asking investor-3 directly if the financial information has any significance in his evaluation, he answers it doesn’t, since the startup company rarely has much financial information to show for.

“It has no significance; it is not always they have that (financial report) at that point in time anyway” – Investor-3.

Investor-5 emphasis how important it is that new startups have a budget and not only consider how they are going to solve a problem technically. In his perspective, they need an actual plan.

“(.) if it is a relatively new start-up, then they must have some budgets that actually at least have a larger basis than; we think it can be like this.” – Investor-5

### **Work Outside the Campaign**

Investor-3 views startup teams who obtains funds using support schemes as safer investment options. It shows that the startup team understands how to move in the target market.

«(..) (when campaigns are) good at obtaining funds via public funding or support schemes, they understand a little about how they can move (in the market), but without it being all they do, and it may be the safety I look for initially (..)” – Investor 3

According to investor-3 campaigners or startup teams managing to raise money before the campaign starts, can more easily defend the value development of their company and are more interesting as investment objects. Moreover, since they already gained some funding, they might already have customers who may validate their service or product.

“(..) the fact that they (the campaigners) have managed to raise money before so they can defend a value development on paper is mostly interesting, because then they have come a little further to maybe get some customers and validated the service (..) – Investor-3

#### 5.2.4 Characteristics of the start-up team

##### **The startup team’s professionalism and trustworthiness**

Investor-1 describes how he investigates the team behind the campaign and values the team positively if they seem like good knowledgeable people with a drive. In addition, he researches the ownership structure to decide if he wants to invest. He identifies if there are people with a bad character or misdemeanor on the ownership side. He also tries to find out if they have large loans or if their financials are unstable.

“(..) if it is possible to find out something about the team behind (the campaign) like, (I can) notice when it seems like good people who have both great drive and... knowledge and... that is very positive... and of course the ownership structure ...and that there are no lugubrious people on the ownership side so that it, can have some negative consequences, or that they have large loans and that the financials is completely shaky-run (..)” – Investor-1

Investor-2 investigates the campaigners, particularly their background, what they have been doing before the startup campaign and whether it is relevant to their current startup company. He examines both the board members of the startup and partially the daily management.

“Yes, so I look for...what kind of background they (the campaigners) have, what they have been doing before and if it is relevant to this company, including both board members and in part the daily management (..).” – Investor-2

Investor-3 explains that the final thing he looks for in a campaign before investing, is the startup team. He tries to familiarize himself with the startup team and find answers to who they are, what kind of history the startup team has, what supporters they have, and who else has been interested in the startup.

“(..) and the last thing is to look at the team and try to familiarize myself with who is behind this, what kind of history do they have, what supporters do they have, who else has been interested (..)” – Investor-3

Investor-3 mentions that a big warning sign for him is a campaign with a very small and inexperienced team and few supporters. He has experience with how difficult it is to start a company with a new concept. He knows how dependent the start-up team is on the ecosystem around them and on good supporters. He emphasizes that a start-up team with no supporters, or any similar experiences is a warning sign against investing.

“(..) a very small and inexperienced team that does not look like they have very many supporters either is a big warning for me, as I know how difficult it is to start such companies with new concepts. They are completely dependent on the ecosystem around them and good supporters. So, if they do not have it and have not done much (work) like this before then I think...the risk here is too big, it's definitely a warning sign in my opinion.” – Investor-3

Investor-3 feels assured about investing in a campaign that has people with stamina, who manage to attract other good supporters. Investor-3 knows that regardless of concept or the competition, the team is the most important part of a startup.

“(..) you need someone who seems to have stamina and manages to attract other good supporters, that is very assuring, I know that it is more important than anything else are the people who will actually do this job regardless of concept etc., the competition situation and everything else, then it is the team that is the most important (..)” – Investor-3

Investor-3 adds that the campaigners should have a background in the industry or some personal experience. The startup team needs to understand the industry and what they are aiming for. He explains that an important part of a startup is the breadth of their knowledge. That someone in the startup team have knowledge in a certain area and others have knowledge in another area. Optionally, he values a campaign where the startup team is aware of their lack of competence but knows how to acquire it.

“(..) they (the campaigners) should have a background in the industry or have some personal (experience)...you can feel free to build a service on a personal experience you have (..) if you are going to understand the industry, understand what you are going to do, then it is usually the breadth (which is important), if there is someone who has knowledge on this (area) then the other should have knowledge on that (area)...optionally, that they themselves see their lack of competence and where they can get it, is an important, important part of it.” – Investor-3

Investor-4 explains that he looks at the start-up team’s earlier track record and experiences in accordance with the campaign. However, he adds that some qualities he cannot quite put into words, and in the end, he relies on his intuition.

“if they have a track record from earlier, and people who have experience from earlier (..) there are qualities that I cannot quite put into words but... I don’t know, some people you just trust and some you see right through, without knowing exactly why, but you have a good feeling or bad feeling with people.” – Investor-4

Investor-4 understands that the campaigners are trying to sell their product, and sometimes he believes the startup team have too high goals. This makes it difficult to trust the startup team, and thus an investor is unwilling to invest in them.

“(..) they (the startup team) are selling their company, I understand that, but there are some who have way too high goals and thus I struggle a bit to trust in them” – Investor-4

Investor-4 expresses that the start-up team does not need exhaustive experience, but he expects them to have done something which is relevant.

“Not that they necessarily must have experience from absolutely all companies in the world, but I want to see that they have done something before. That they have done anything before or that they have experience from what they do now or some sort of not necessarily experience of that particular product (category) but something relevant.” – Investor-4

Investor-5 says that before investing in an equity crowdfunding campaign, he wants to check who are the various shareholders and the CV of the people behind the campaign. If it is an old company, he also looks at the price model to see if there are any payment remarks. He checks all this information if he feels uncertain about investing.

“(..) (I) check ... who are the shareholders, even though it often says on the campaign as well and... who is behind the various shareholders and management cv and such to the leading people. And if it's an old company, you can also look at the price model to see if there are any payment remarks or something like that. It happens if you are unsure. ” – Investor-5

### **Personal relations with the start-up team**

Investor-1 describes his relationship with one of the individuals behind one campaign which he invested in. He shared an office with the person, and they took the same subjects at the university, and he understood that he was competent.

“(..) I had shared an office with him that spring and summer and... we took some common subjects and I understood he was very good (..)” – Investor-1

Investor-1 says it is rather difficult to pick companies or campaigns when he does not have any knowledge of the people behind the campaign.

“(..) so when I did not have any knowledge of the people who were there (behind the campaign) then it was suddenly very difficult to pick out...companies to go into (..)” – Investor-1

Investor-1 was introduced to the equity crowdfunding market through an acquaintance in a startup company. He had faith in the startup team, which influenced his decision to invest.

“(..) I knew he was very good and had faith in the team that followed so it was the first foot inside (the equity crowdfunding market) back then.” – Investor-1

### **The startup team invests themselves**

Investor-5 sees it as an advantage if the startup team also contribute as shareholders in the campaign. He favors investing in such campaigns because, it shows that the startup team wants the company to prosper.

“(..) I also see an advantage in that they are shareholders, not only, come for the salary and growth there, that they in a way, (it’s an) advantage that they are also shareholders to want the company to prosper well, not just at present today.” – Investor-5

Investor-5 insists that although campaigners have the idea and maybe a good future, they must be willing to invest themselves.

“(..) they (the campaigners) are the ones who have the idea and such behind it (the campaign), maybe they have a good future but, they must in a way be willing to invest themselves too.” – Investor-5

### **5.2.5 Characteristics of the equity crowdfunding platform**

#### **Trusting the Platform**

Investor-5 describes when he first invested in equity crowdfunding platforms, there was a tiny threshold of whether one could trust the platform or not. Investor-5 feels safer to invest in campaigns on a platform when a professional brokerage is in the background of the site.

“(..) there is that tiny threshold in the beginning at least when you start on these platforms, if you trust the platforms, if it is laid out well. At least I thought when I started at Dealflow (a platform) that it felt safe when they had Norne's safety in the background like an owner or whatever it was...you feel safer when you have a professional brokerage in the background." – Investor 5

Investor-4 specifies that he prefers equity crowdfunding platforms with campaigns who require a higher investment than just the minimum investment amount. He also admits that higher amounts make FolkeInvest appear more serious and trustworthy.

“(..) some of which require slightly higher investments. At least several of them do that, it's not like you cannot buy shares for 100 kroner, I feel like it is somewhat more serious because there have been a lot of weird things on FolkeInvest.” – Investor-4

### **Helping the platform and crowd investor community**

Investor-1 likes to help the crowd investor community. He always pays attention to the platforms and participates in discussions, to help both other investors and the FolkeInvest platform.

“(..) I will always pay attention and try to participate in discussions just to help the platform itself and illuminate aspects which people do not easily see.” – Investor-1

### 5.2.6 Insurance of the investment

#### **Tax Reliefs**

Investor-1 argues that one of the aspects which makes it attractive for him to invest in startup companies, is the tax incentive scheme. He explains that through this scheme you get 22 % tax relief right away as an independent investor, and simultaneously 30 % if the start-up goes bankrupt. Thus, the state takes 50 % of the risk, and the limit of these tax incentive rules usually goes to 1.5 million of the start-ups, meaning you must sign up for the campaign before it has been drawn for 1.5 million. Thus investor-1 considers it nice to get pre-drawn to investments as it secures the incentive scheme.

“(..) one of the things that makes it attractive for me at least, investing in start-up companies, is that you have the tax incentive scheme, so that you actually get 22 % right away independently, and you get at the same time 30 % (of the invested amount) if it goes bankrupt. Thus the state takes 50 % of the risk for you, and it is within those tax incentive rules that there is a certain pot, which goes within that scheme, and usually they have a 1.5 million (limit) so then you have to sign up for the campaign before it has been drawn for 1.5 million, so it is very, very nice to get in on pre-drawing (investments) so you can secure the incentive scheme then.” – Investor-1

Investor-1 explains that he at least tries to make sure that the startup companies he invests in satisfies the tax incentive schemes, to reduce his risk.

“So, it's at least (I) always tried to make sure that the companies I invest in satisfy that scheme then, at least so it, it reduces the risk.” – investor-1

Investor-1 also explains that the tax incentive scheme recently increased to 5 million. Only a few of the startups he invested in managed to gain such amount of money. However, in one campaign he invested in, the amount was already achieved before the campaign opened on the web.

“(..) now that they have increased the limit to 5 million, there are few of the startup companies, at least of those that I have been with who ... manage to collect so much money so then it is not as careful, but at least on Kvidul...it fully subscribed before it was opened up to the general audience, so...that pot was used up” – Investor-1

Investor-5 emphasizes the benefits of investing with the capital discovery rules. The risk is reduced when there is a guarantee to get half of the invested amount back.

“Me and my colleague have talked about that, if we invest with the capital discovery rules and if things go really badly, then you are guaranteed (to) get back half of the investments... So that, it reduces the risk when you are guaranteed to get half back.” – Investor-5

### **Exit strategies**

Investor-3 tries to get answers to questions he might have in the forum of the campaign. His questions are typically about exit strategies and when to get return on his invested capital, but also if the startup company intends to apply for the tax incentive scheme. These questions are usually answered within a couple of weeks and then he decides whether he will invest or not.

“(..) some questions that I wonder a little about, typically if they (the startup team) have any thoughts about exit strategies and when to get back for the invested capital and if they intend to apply for this tax-incentive scheme and questions like that, I usually try to get answered in a couple of weeks and then decide (on the investment).” – Investor-3

Investor-3 values highly whether the startup team have thoughts about what the investors will receive for their investments. Investor-3 will not invest if the startup company has no idea about

an exit strategy, such as listing the shares on the stock market, a sellout, or give out dividend stocks.

“(..) And lastly if they (campaigners) have no idea how those who are willing to take the risk will initially get back for the invested capital, that is, if...the thought of an exit is not something they have done at all... is it listing, is it to sell out, should one become a dividend stocks, that is, (if the startup team does not) have any sort of thought about what we who are willing to join now will get a return on that capital, then it is also a turn-off...it is not for me.” – Investor-3

Investor-5 values what the campaigners reflect about exit opportunities forward in time. It does not matter to him which exit possibility they choose whether it will be dividends 3 years in the future or another possibility. However, investor-5 insists that the campaigners need a clear idea about exit strategies or if an acquisition candidate could be interested. The exit strategy needs to be reachable within a timeframe of 5 to 10 years.

“(..) what they think about exit opportunities, forward in time. Whether there is an exit possibility or whether it is, that you envisage dividends in 3 years it will be much of the same, but they must have a clear idea about it, or if it is a real acquisition candidate, one must see that it is possible to realize within a 5 to 10 years at least.” – Investor-5

### **Expertise and experience**

Investor-1 talks about his above-average interest in investing in start-ups and how he early discovered that he lacked tools to invest.

Investor-1 was part of a program called For Angel-Challenge at a start-up lab in Oslo. Here 16 startups pitched their ideas and improved their cases through due diligence until only three companies were left. These were the finalists that the investors who attended the program, could invest in. Through this program, investor-1 felt he gained some experiences and knowledge about how to invest in startups as well as access to a valuable network.

“... (I have) been a little or above-average interested in investing in start-ups, and I quickly discovered that I did not really have any tools to find out what I should invest in (..)” – Investor-1

“I thought that if I’m going to do this, I have to get some tools to not just go blind, it’s usually a bad, bad plan.” – Investor-1

Investor-1 adds that he learned how to write accounts in a more serious or professional way which was something new to him.

“(.) I have never kept accounts myself, like that, so seriously at least...it was something new.” – Investor-1

In addition to what investor-1 learned through the Angel-Challenge program, he has knowledge and expertise from his professional and educational background. This knowledge helps his investment decisions if the campaigns he finds are centered around these industrial fields.

“(.) if it is in any field that I have extra knowledge about and I think that this has the potential then it does help (.)” – Investor-1

Investor-2 invests in the stock market, both listed and unlisted shares. He has been doing such investments for almost two decades. He considers himself to have extensive investment experiences also from working in a bank. Since his investment experience is vast, he does not find any difficulties with investing in equity crowdfunding. He finds the platforms to be understandable and effective.

“Because I worked in a bank that was listed on the stock exchange, and there I bought shares among other things, and then there were some local banks here in Stavanger and new banks that I invested in too.” – Investor-2

“(.) They have a pretty good computer system (at FolkeInvest). It's so easy to sign up, both to read up on cases and the technicality to sign up for shares, it's quite simple, so it's good.” – Investor-2

Investor-3 gained his investment knowledge and experience from his educational background and from working as a consultant. He also joined an investor program called Nordic Business Angel. However, it did not give him much more knowledge.

“I have a certain professional starting point in being an MBA graduate, but it is very broad education, so you have some understanding of course, but (I have) experience (investing) over a number of years so I'm probably an angel investor with a certain advantage then, one might say, but something more than that I won't claim that I have.” – Investor-3

“(.) I took part of an angel-investor environments, where we then looked at lots of different concepts that one should jointly go in and invest in, it that a selection process and then parallelly we also looked at how we should structure the joint investment, and which channels we should use to ensure the flow of information etc.... I got a little deeper insight into the channels as well and what the different ones can offer.” – Investor 3

“(.) It was first and foremost people who had jobs elsewhere, who had some surplus liquidity that they would use for this (investor program), while for me it was, call it a semi-professional part (.)” – Investor-3

“(.) I got into it (equity crowdfunding) a bit too because I worked in startup companies where I got paid as a consultant and then we converted part of it to shares as part of that package (.)” – Investor-3

Investor-4 claims to be above average knowledgeable in equity crowdfunding investments. He only invests in what he claims he has a qualified opinion about, which is highly connected to his work, including brand development and advertising projects. His motto is to only invest in what he knows something about.

“(.) now that I am a little older, I only invest in what I have a qualified opinion to invest in (.)” – Investor-4

“(.) I won't say that I have any vast knowledge, more than the average, but not very outstanding.” – Investor-4

“(.) I do have a sort of motto to only invest in what you know something about (.) But advertising, marketing, and that kind of companies, I'm more comfortable investing in. But if I had a lot of knowledge about investments in general, I would probably have been able to invest in much more, but yes, not so fiercely competent.” – Investor-4

Investor-5 gained knowledge about investments through his education and experiences. Moreover, he claims his background as an accountant has influenced and helped him with investing in equity crowdfunding. Predominantly, investor-5 categorizes equity crowdfunding as complimentary to his other investments, but it has now grown to roughly 15 % of his investments.

“(..) There are not very many years I've been (investing) my own money (..) but having both the theoretical and practical experience from it now, I feel at least (knowledgeable)” – Investor-5

“Yes, I would probably think that I am probably more concerned with the accounting technicalities in the prospects and the things that underline them than the average investor is, but that is, I feel that the understanding of accounting and the pitfalls there is very important. ” – Investor-5 (financials?)

“(..) The main emphasis is really the fact that equity crowdfunding is sort of complimentary. But as it is now (it has) grown to be about 15 % or something like that of the portfolio.” – investor 5

“(..) I thought that equity crowdfunding should just be a small side activity, so it is probably, it's probably already a bigger part of the portfolio than I envisioned, but it continues to grow so I wonder what's really coming, if there is a lot of exciting (projects coming) that can go well, then it is probably worth it.” – Investor 5

“(..) it may be based on my work situation again, that I am a bit preoccupied with seeing some accounts, accounting there and then, the actual opening balance of a company it gives me nothing (..).” – Investor 5

### **Investor Network**

Investor-1 has a good network of people who are more experienced, through the Angel-Challenge program, where they actively meet and team up. Moreover, he is part of a forum called Tech-Investor where he asks about equity crowdfunding campaigns, such as the industry behind a campaign and collect thoughts and tips. Investor-1 believes it is a good indicator if he sees skilled people joining a campaign. His network also expands to people behind the startup, as is the case with the Kvidul campaign, as well as those who run the FolkeInvest platform.

“(..) I got a good network with people who are more experienced and actively have meetings with those (in the angel program) ... I get to be in a team with people who have proper knowledge and just try it out myself and it is very valuable, I think.” – Investor-1

“(..) I am part of one (forum) called Tech Investor that...it is the most serious I think, (..)” – Investor-1

“I try in the investor forum...to make a thread and ask if there are more (people) there who either know the industry or have any thoughts about it, just to get some tips.” – investor-1

“(..) if I see skilled people who have joined (the campaign), then it is a good indicator (..)” – Investor-1

“(..) because in that Kvidul campaign there were a lot of people up from the village (I am from) who have invested in it but... I knew those who were in the team behind Wavefoil and now I know someone who works in FolkeInvest (..)” – Investor-1

Investor-2 relies on himself and does not go out of his way to seek others' expertise.

“I trust myself best and my own assessments of the case.” – Investor-2

Investor-3 is part of an investor program called Bærum Business Angels, which he found through an acquaintance. Although he has access to professionals through his networks, he does not use it, but trusts in his own evaluations. However, he is open to the idea of advice through people he trusts if it is an objective evaluation where no ulterior motives are present.

“(..) Bærum Business Angels I think was started by a guy I have worked with a bit in voluntary organizations before who started it. They also invest in Nordic (startups), but this (program) had a Norwegian focus.” – Investor-3

“(..) the moment I would receive a personal recommendation for example if there was someone who had no sort of incentive to persuade me to do so, who was objective in his

assessment but saw a good opportunity that I trust, then it would weigh very heavily, it could make me ignore a bunch of criteria and just say yes.” – Investor 3

Investor-4 makes his equity crowdfunding investments with a friend. They own an investment company together and make their investments in crowdfunding through this company. However, besides his friend, he has no other affiliation with crowd investors, other than rumors of people who has joined the equity crowdfunding market.

“(..) a friend of mine has a small investment company where we have probably invested in two or three such equity crowdfunding companies (..) we own (the company) 50-50, so that's what we invest through.” – Investor-4

"(..) we had bigger plans in mind than what came to be, than what was realized, because we both have been interested in investing for the same length of time, I think since we were maybe 17-19 ...so I sat one night and thought it might be interesting to invest in startups but then we had to have more money. And then it's better, since we can put our money together.” – Investor-4

“Yes, I've heard of someone who has invested in something (on crowdfunding) but it's starting to be a couple of years ago.” – Investor-4

Investor-5 has inspired friends to invest in crowdfunding platforms. In his opinion, more people will invest on crowdfunding platforms if there are exciting investment opportunities.

"it's me and a colleague (who) have been in there (on the crowdfunding platforms) some and ... I also got another friend of mine to join an investment yesterday so, there are often more people who want to get into a prospect if there are any exciting things (appearing).” – Investor-5

## 6 Discussion

The aim of the discussion chapter is to find resonance between my findings and the theory of investors' crowdfunding criteria. The chapter is divided into segments for each finding, including characteristics of the investors and their investment criteria.

### 6.1 General characteristics of investors

According to Safi (2019, p.1) crowdfunding investors are “non-professional individuals who invest in entrepreneurial ventures – a crowd”. The interviewed investors cannot be considered professional investors because their lack of resources and experience to perform extensive due diligence. It is only investor-3 who himself claims to have a “semi-professional” manner to his investments, by spending adequate time and resources to invest. Subsequently, crowdfunding investors are mostly non-professional individuals, and not part of a homogenous crowd.

My research agrees with Boh et.al. (2014), which insists that crowd investors are diverse. According to the archetypes defined by Boh et.al. (2014), the interviewed investors can be distributed on his three archetypes: “active backers”, “trend follower” and “altruistic cluster”. As “active backers” investor 1 and 3 place importance on tax revenues and job creation. Investors 2 and 4 can be categorized as “trend followers” since they emphasize who and how many, have signed up as investors for a particular company. Investor 5 can be included in the archetype “altruistic cluster” placing emphasis on the importance of stimulating entrepreneurial thinking or investing in companies with sustainability projects. Consequently, the interviewed investors are not one unified crowd, but a collection of different investor types.

Lukkarinen et. al. (2019, p. 1), defines investors according to what decisions they make before investing. Lukkarinen et.al. (2019, p. 30) talks about “donation-oriented” investors who are being motivated intrinsically by their willingness to help and be part of crowdfunding. Investor-1, 2, 3, 4 and 5 emphasis the importance of being able to help the companies seeking crowdfunding, and they find it exciting to follow the development of the companies. This identifies the interviewees as “donation-oriented” investor. But being a “donation-oriented” investor is the same as being an “altruistic” investor (Boh et.al. 2014). Hence, Lukkarinen (2019) and Boh et.al. (2014) talk about the same types of investors who make investments bases on a philanthropical and unselfish approach. All the interviewed investors want to get a return on their investments. Hence, the interviewees can be defined as “return-oriented” investors, because without any returns on their investments it is questionable if they would invest at all (Lukkarinen, et.al. (2019, p. 30).

Therefore, both intrinsic and extrinsic motivational factors influence the investors' motivation. Moreover, it is not possible to identify if either intrinsic or extrinsic motivational factors have precedence over the other. Furthermore, being part of the "game" is according to the interviewed investors what makes it fun to invest. When participating in a game the investors know that the result can go both ways, either they lose, or they win. Lukkarinen et.al (2019, p. 30) identifies a "pure investor" category characterized by wanting to be part of the crowdfunding phenomenon and help the target company. Since pure investors have some elements in common with "return-oriented" and "donate oriented" investors it is difficult to identify the main difference between "return-oriented" and "pure-investors".

### 6.1.1 Characteristics of Norwegian investors

Sørheim & Landstrøm (2001, p. 361), split informal investors into four types which are lotto investors, traders, analytical investors, and business angles.

None of the interviewed investors are comparable to the lotto investors and the trader type. The interviewees all have higher education, and thus do not belong to low-income groups. Furthermore, the investors use business-like networks. They have access to professional networks and co-operate with other investors using their networks and different online forums to discuss what crowdfunding company to support. In terms of the trader type, the interviewed investors point out that their investment in crowdfunding companies is a more long-term investment. The investors follow the company from start until the company is established. A more long-term investment horizon results from investors emphasizing the uncertainty of their investment and seeing their investment as lost. In this sense, the interviewed investors have a time horizon longer than 3 years, although they consider exit opportunities before investing.

The interviewed investors are more aligned with analytical investors. Because they are part of a larger crowd of investors, use their acquaintances to get information about potential investments, and have both managerial and entrepreneurial experience. On the other hand, they are mainly investing in unlisted companies and not so much in listed companies. The interviewed investors do not have a perfect match with the analytical types of investors.

The investors cooperate with other business associates' and acquaintances to identify investments objects. In this sense, the interviewed investors can be seen as leading investors (Sørheim & Landstrøm, 2001, p. 362).

The business angles are characterized by high income, high net worth, and high level of activity. Investor-2 and 3 show lot of experience by investing for years and could potentially fit this category. Investor-3 also claims to be semi-professional, as he receives offers to invest.

### 6.1.2 Characteristics of the investors (According to findings)

#### **Expertise**

The interviewed crowd investors are divided, as Investor-2, 3 and 4 have some knowledge of both the investment process and the crowdfunding market, while investor-1 must seek knowledge on his own.

Investors with no prior knowledge about investments in start-ups, must acquire the knowledge to invest. The knowledge can be acquired through investor programs, where an investor can acquire both tools to invest and a network.

Investors with knowledge has acquired this through investing in the stock market, both listed and unlisted shares, for years. Another way to acquire knowledge and experience is through work, such as a bank. It is also possible to gain knowledge through education, such as accounting.

Investor-4 invested only in campaigns which he had a qualified opinion to know anything about. If he had competence about the product or industry, he would feel more comfortable to invest in the campaign.

Over time the investors build a portfolio of their investments which make them more knowledgeable in terms of their present and future investments, as well as distributing risk.

A few theorists explain that the crowd investors lack experience and training, but I would disagree on this statement to some extent (Shafi (2019, p. 18). Investors-1 and 3 who were not trained by their professions or educational background, joined investor programs or investor forums to gain the necessary knowledge and experience. Thus, they are not completely inexperienced, but are “knowledge-seekers” since they will seek out the knowledge they do not have originally and do not invest without a foundation. Investors-4 and 5 invest together with a friend or colleague to gain another perspective they had not thought of themselves or to make investments together and share the risk.

## **Network of the investor**

The network of the interviewed investors varies both in size, quality, and usage. Investors-2 and 3 trust their own assessments and gut-feeling rather than exploiting their network. Others are more inclined to use their network actively in their investment decision process.

The network may consist of skilled crowd investors, professional investors, start-ups team, personal acquaintances, colleagues, and friends. Investor-1 use his investment forum to ask for tips and help regarding his investments on FolkeInvest. However, investor-5 would not sway to others opinion unless it is an unbiased perspective with good argumentations. Investors-1, 3, 4 and 5 have a network which they can discuss their investments with before their final decision.

In this sense, the interviewed investors draw similarities to BA's approach to invest. As Haar et. al. (1988, p.14) mentions "investors preferred to share their investments with other individuals". Investors-1, 4 and 5 like to share their approach with other investors and receive their feedback. Although they might be persistent to follow their own assessment, they are not against considering others' opinions and tips. However, the difference between BAs and crowd investors is that crowd investors do not use their informal network to assemble sufficient funds (Haar et. al. (1988, p.14). This split may be as a result of the equity crowdfunding market requesting smaller amount of liquidity and is not as dependent on other investors' approval.

## **6.2 Investment Criteria**

### **6.2.1 Motivations to invest (Excitement)**

#### **Journey of the startup**

The interviewed investors experience that they are part of a long-term investment. They find it exciting to be part of a journey through the startup company as shareholders. Investor-1 is a more active shareholder in equity crowdfunding investments. He follows the status and what the startup has accomplished with more interest, as well as contributing to several rounds of funding. The investors find it appealing to follow startups from scratch, not only for monetary reasons, but to help grow the entrepreneurial landscape of Norway.

The crowdfunding market has indeed grown significantly although it has existed for only a short amount of time. The high growth shows how popular the new market has become for the players involved. Lukkarinen et al (2016, p.2) explains that between mainstream forms of finance and donation-based crowdfunding, there has been a funding gap which is beginning to be filled by

debt-and equity crowdfunding. Certainly, crowd investors are seeing the potential of helping startups to grow while also receiving a return on their investment.

### **High risk/High return**

The interviewees can experience high risk and possibly high return on their investments through equity crowdfunding, which is part of the attractiveness and excitement to it. They see the risk it entails to invest in unlisted shares and still find reasons to invest. Investor 2 shared his skepticism to invest in certain campaigns but invested anyway since he had money to spare and believed in the product and possibilities of the startup. The common denominator among the interviewed investors is their belief in the potential of a successful campaign despite facing high risk on the investment.

### **Local investments**

Local investments did not have a significant part in the crowd investors decision-making process. Investor 1 is the only interviewed investor who have invested in a campaign with clear connection to the place it was established. The rest of the interview investors focus on Norwegian-based startup rather than on local familiar places.

### **Investors' contributions**

A main motivation for investing through equity crowdfunding, according to the interviewed investors, is to contribute and help startups to grow.

The primary goal of BAs is to receive a profit. Crowd investors are not only looking for return on investment but want to have a deeper meaning behind the campaigns which they support. Thus, they differ from professional investors by taking on a greater responsibility to invest in campaigns which reflect an improvement or new solution to today's issues.

### **Changing the game**

The interviewed investors talk about redefining the financial market of investing. Particularly, investor-3, 4, and 5 state that they have not been given access to investing in startup companies before now. Investor-4 feels discouraged, since the entrance ticket is too expensive, and not even 100,000 NOK is enough to become a startup investor. Investor 3 mentions that he likes the idea of ordinary people owning a company. He wants shares to be accessible and spread on the population instead of being kept to those who can afford it.

Hervé et. al (2016, p. 763) explains how equity crowdfunding is viewed to democratize finance and create investment opportunities which have been restricted to institutional and accredited investors. Several researchers claim the crowdfunding market has enabled smaller, non-accredited investors to participate because of the reduced transactional costs and reduced investment thresholds (Agrawal et al. 2014; Ahlers et al. 2015; Kim and Viswanathan, 2014). Moreover, Lukkarinen et. al. (2016, p.2) finds a relationship between the growth stage of the business and the access to a certain type of capital. The interviewed investors support this belief and find the equity crowdfunding market opening an arena for participation with smaller amounts of capital.

## 6.2.2 The Campaign

### **Layout of the campaign**

The layout of the campaign needs to look presentable. The investors have a minimum requirement of how the campaign should look, and if this level is not met, the interest to investment is lost. The layout of the campaign is what the investors first see, thus it needs to be of somewhat presentable manner to catch their attention. The investors especially notice how the startup company communicate their message through good visual aids and clear, nice text. A badly presented campaign is characterized by typos which are seen as a warning sign to the investors. Moreover, if it seems as though the campaign was written in a hurry without rereading through it, it makes the investors question their intentions of making a campaign in the first place. Some investors state it gives the impression of only wanting the investors' money, thus reducing the trust it could have received by the investors.

### **Popularity of the campaign**

The results of my interviews do show that the popularity of the campaign has an impact on the crowd investors. A popular campaign is much more attractive to the crowd investors, than a campaign who has been available for a long time and has few investments. The time-length which a campaign is available was not of immediate importance, but how much interest it had accumulated did create safety and trust in the campaign.

A popular campaign is often characterized by being fully subscribed within a short timeframe of approximately 4-5 hours. Investors-1, 2 and 5 see this as a sign that other investors value the startup company highly. However, investor-2, 3 and 4 value their own assessments higher.

It corresponds with the research by Kim and Viswanathan (2019, p. 4), stating the visibility of granular information is heightened in the crowdfunding markets, and thus serves to influence the decision-making of crowd investors.

The quality of the campaign can be heightened by the popularity it receives, when many investors have given the campaign a high value and chosen to invest in it. The investors perceive this as a reassurance of their own assessment.

### **Financial information**

According to Stuart, Hoang and Hybels (1999, p. 317), where a probability for success based on observable values is a criterion for investment, this is also true for one of the interviewed investors. Investor-1 claims that he makes a probability calculation as one step in his decision-making process of investments.

The financial information provided to the interviewed crowd investors on the platform can be a bit chaotic and difficult to navigate, but not “difficult to evaluate” (Shafi, 2019, p. 8). For the interviewed investors, it is not a question of being able to evaluate the information, but rather to get a hold of the information. Besides, investors-2, 3 and 5 have a formal background within business administration and accounting, making them skilled at understanding financial information.

Investor-1 wishes for a due diligence report that would make it easier to evaluate the financial information about the crowdfunding companies. Even though the interviewed investors admit that there is confusion with respect to the information presented on the platform, they do evaluate the information available and coordinate with other investors to make sure that they interpreted the information correctly. The interviewed investors confess that they use their network and invest more time to understand the company situation, when they plan to invest larger sums. This is in accordance with Shafi (2019, p. 18).

According to Shafi (2019, p.18) crowd investors find it difficult to evaluate campaigns based on the financial information. The lack of experience and resources to perform extensive due diligence on startups may cause the crowd investors to focus on factors which are easier to evaluate.

The investors look for a realistic budget of the start-up. The most severe consequence of lacking a realistic budget may be to lose potential investors. Other consequences can be that they might not

be able to post a campaign because of strict regulations on the platforms, such as terms and rights to ensure the information in the investment offer is correct in regard to the crowd investors.

It is not enough to showcase budgets and other financials; the information must also be credible. The numbers and figures presented by the startup must be trustworthy, and not the result of dragging the numbers upward without any clear attempts to identify the actual costs. However, the financials are only one of many criteria which are of importance to the investors. This is also in alignment with Lukkarinen et. al. (2016, p.10), claiming that financial information is not an isolated criterion to attract investors.

Although the investors do favor other criteria to evaluate their campaign of interest, that is not to say they cannot understand the financial information. As investor 3 states, it is not significant because most start-ups do not have a lot of financials available. Thus, the investors may demand more financials from an established company, while choosing other criterion to focus on to better evaluate a startup company with few to no years in operations.

Investors-2, 3 and 5 are predisposed to understand the financials information, presented on a campaign, through their educational background and investment experience. However, investor-1 admit he lacks tools to understand and interpret the information, thus participate in investor programs and forums to grow their knowledge to make good investments.

The financial information presented on these campaigns can be difficult to evaluate, because of its chaotic presentation and structure rather than the information. This is in accordance with Shafi (2019, p. 1-18), who characterizes the firms presented on these platforms with high uncertainty and information asymmetry, and the investors being inexperienced and lacking training.

Moreover, Lukkarinen et. al. (2016, p.10) support the claim that the absence of financials is considered unprofessional by investors. Investor 5 is positive to startup companies showing their budgets on their campaigns, as it is one of the features he is naturally drawn to as an accountant.

### 6.2.3 The Platform

All interviewed investors consider the layout of the platform as either trustworthy or untrustworthy. The investors consider FolkeInvest as a safer investment arena when there, in the perception of the investors, a professional brokerage is in the background.

The professionalism of the platform has evolved through the years of being in service. Since the platform has more professionalism today, the trustworthiness in the platform has increased among investors.

#### 6.2.4 The Start-Up Team

##### **Professionalism and trust in the startup team**

The startup team is one of the most important criteria according to the interviewed investors.

In a startup team, the interviewed investors look for people with drive, knowledge, and good intentions. They will research the background of the startup team and how relevant it seems to their current work and campaign.

A warning sign against investing would be a small, inexperienced team with few supporters. Investor-3 is particularly fixated with what supporters a startup team has. He will choose not to invest in the startup team, if they were not part of a bigger ecosystem of supporters.

The investors struggle to trust a start-up team if they present too high goals.

The investors focus on the team's stamina and their ability to attract competent supporters.

There are some qualities in a start-up team which are indescribable to the investors. It is the intuitive perception of the start-up team as good people, based on the feeling they get from the evaluation of the team.

##### **Personal relations to the start-up team**

The trust in the start-up team increases when the investor has a relation to someone in the start-up team. However, when there are no relations between the investor and the start-up team, it becomes more difficult to choose a campaign.

##### **The start-up team invests themselves**

The investor sees it as an advantage when a start-up team chooses to invest in their own campaign, especially in the case of several rounds of financing of a campaign. It increases the credibility of the campaign. It serves as a positive sign that the startup team also wants the company to prosper, not just there and then but also in the future.

### **Work outside the campaign**

It is assuring for an investor if a start-up team can receive funds outside the campaign. It shows that they understand how to operate in the market and can defend the value development of their startup company.

However, if a start-up company receives funding elsewhere perhaps the reason for a campaign may not be as strong. Particularly, if the company already is selling their product in the market.

### 6.2.5 The Product

#### **The Market Demand**

The demand for a product or solution which the startup claims to deliver, is important for all interviewed investors. The interviewed crowd investors will refrain from investing if they do not comprehend the demand for a product or service.

#### **Scalability and Market potential**

The crowd investors will only invest in a campaign if the product or service is scalable.

Preferably, they want the scalability to be an easy route to accomplish.

The similarity can be found in the research by Haar et al. (1988, p.12), where he describes it as an important criterion in BA's decision-making process.

#### **Media attention**

The media attention which a startup might get before or during launch of campaign is viewed favorably by the interviewed investors. Investor-1, 3 and 5 are more confident and convinced about a campaign which has received media attention. Investor-1 has a positive attitude toward startups who create good media attention about themselves. Investor-3 knows a campaign will have a greater chance to receive supporters when it appears on media channels. Investor-5 will rather invest in a campaign which has received much media attention. Through the media, the investors are also exposed to the startup to an extent, which makes investor-5 take them more seriously.

#### **Acquired customers**

The interviewed investors have more trust in a startup who has already acquired customers. Both investor-3 and 5 trust the campaign more and are more likely to invest. It becomes a reassurance and proof of the concept that the campaign is offering.

### **Environmentally friendly products**

According to the interviewed investors, the campaigns which offer environmentally friendly products are more popular. Investor-1 actively seeks campaigns offering sustainable products. Investor-1 and 2 both value sustainability higher than the rest of the interviewed investors. Nevertheless, all interviewed investors seem genuinely concerned about the environment and try to make deliberate decisions to invest in sustainable products.

### **Technological innovation**

There are a few investors who favors technology higher than other characteristics of the product. Investor-3 and 5 are supporters of innovative products in technology, which reflects in their choice of equity crowdfunding campaign. Investor-3 will invest in any industry, if the campaign shows a scalable business model and is connected to technology. Investor-5 searches for technology companies, because he finds them most reliable and with the chance of high return on his investment.

## **6.2.6 The Impact of a Hidden Phase/Insurance of the investment (tax relief and exit)**

### **Tax Relief Schemes**

Tax relief schemes creates insurance for the investors. The benefit of the tax incentive scheme is reduced risk for the investors. The investors will invest more money if they know they will receive tax relief.

An investor will receive part of the tax relief, when he invests before the limited amount a campaign can receive. Thus, all interviewed investors bind themselves to equity first and then evaluate the campaign for as long as they need before the campaign ends.

Although, the tax relief makes it safer for the crowd investors, it might be a strain for the government, as some exploit the benefit. The interviewed investors also share their doubts of how long this tax relief will last. Alas, they reap their benefits while they can.

### **Exit strategies**

The exit opportunities of a campaign are important to the interviewed investors. A concern to the investors is if a campaign has made any plans of exit strategies.

For the interviewed investors it is vital that a campaign have an exit opportunity. They see tax relief schemes and exit strategies as decisive criteria before investing in equity crowdfunding.

Investor-3 decides to invest only after knowing what exit strategies the startup team has in mind, when they expect investors to receive a return and if they will apply for tax incentive schemes.

Both Investor-3 and 5 stresses the importance of exit opportunities in a campaign. Exit strategy, return on investment and tax incentive schemes are vital for investor-3. He will not invest in a campaign that do not meet these three criteria.

As mentioned by Sudek, R. 2007; Mason & Harrison, 2002, a startup with no viable exit plan is not interesting to investors. Their primary goal is return on their investment which is only attained through an exit or liquidity phase.

## 7 Conclusion

The purpose of this case study is to research how crowd investors reason and which investment criteria they apply when they invest in an equity crowdfunding campaign.

The Norwegian crowd investors' participating in this research is a diverse and heterogeneous crowd. They have a multitude of reasons to why they participate on equity crowdfunding platforms.

There are several factors that make the crowd investors stand out from each other. The level of expertise and experience is very different. Except for investor-1, they all work in business-oriented industries. Three of the investors are in their 30s while the other two are around 50 years old. The oldest investors are also more confident in their investment decisions and trust more in their own assessments and gut feeling. The other three are more reliant on their network for tips and help to make a good investment. However, their reasoning to invest also differs across age by using heuristics.

It is not possible to evaluate crowd investors as either crowd funders or business angles, as they fall into their own category. There are more intrinsic motivations behind investing in equity crowdfunding compared to traditional investment methods and other types of crowdfunding.

### **Expertise and Investor Network**

Professional investors are characterized by their access to significant organizational resources, and personal knowledge and experience.

The crowd investors can seem misunderstood as inexperienced and uneducated to make good investments. However, the investors in this case study are knowledge-seekers and use the tools they have available with the campaign as their main source of information. They build experiences through angel programs and investor forums and share their potential investment with the network they have.

In the literature, crowd investors lack resources and experience to perform extensive due diligence. In most cases, it is not justifiable to perform extensive due diligence because the startup does not have enough financials to make a complete understanding of the growth potential. In my thesis the focus is not on the lack of resources and experience to perform extensive due diligence, but rather the simpler heuristics which the crowd investors use to be more efficient with their investments.

The network of the interviewed investors varies both in size, quality, and usage. Investors-2 and -3 trust their own assessments and gut-feeling rather than exploiting their network. They are open to the perspectives of others in their network who may have reached other conclusions or have more expertise, thus their tips and assessments are highly valued. Others are more inclined to use their network actively in their investment decision process. They will seek out the knowledge they may lack and be proactive in figuring out the campaign and how it fits with their beliefs and values.

### **Investment Criteria and Motivations**

The crowd investors in this thesis enjoy being part of the journey of the startups. They are intrigued by the novelty of the equity crowdfunding market, and they enjoy helping startup companies. They experience that they participate in long-term investments.

Most importantly to an investor, is a startup that is scalable but also trustworthy, have the right team and deliver the right environmentally friendly or technology driven product. Increasingly, the crowd investors emphasize that startup companies need to focus on sustainability.

The interviewed investors can experience high risk and possibly high return on their investments through equity crowdfunding, which is part of the attractiveness and excitement of investing in crowdfunding. They see the risk it entails to invest in unlisted shares and still find reasons to invest.

The crowd investors are not only looking for return on investment, but they want to have a deeper meaning behind the campaigns which they support. Thus, they differ from professional investors by taking on a greater responsibility to invest in campaigns which reflect an improvement or new solution to today's issues. It is a main motivation for the investors to invest in equity crowdfunding that contribute and help startups to grow.

### **Exit Strategies and Tax relief**

A central reason for the interviewed investors to invest in equity crowdfunding are the tax relief schemes which exist to lessen the risk of the investment. It encourages the investors to invest more.

Although, the tax relief makes it safer for the crowd investors, it might be a strain for the government, as some exploit the benefit. The interviewed investors also share their doubts of how long this tax relief will last. Alas, they reap their benefits while they can.

Further it is vital that a campaign have an exit opportunity. The investors see tax relief schemes and exit strategies as decisive criteria before investing in equity crowdfunding. Only when the startup companies have clearly defined, in their campaign, what exit strategies they have planned for, will the investors consider investing.

### **Differences between Crowd Funders and Business Angles**

Professional investors often use a professional referee to screen the investment proposals (Haar et al., 1988, p. 28). The crowd investors, in this case study, suggest instead that the due diligence is performed by the platform to ensure the safety of the investments' prospects. Moreover, instead of being dependent on an outside professional referee, the crowd investors are more interested in the acquired customers of a campaign as an alternative heuristic, which increases the probability of venture success. They believe that acquired customers show a demand for the product which creates more trust in the campaign's success rate.

While a professional referee is used to screen the proposals to business angles (BA), the crowd investors prefer to use the popularity of the campaign and their own assessments. Thus, they place a lot of importance on developing their knowledge and experience in the investment process before investing.

The crowd investors get the opportunity to invest in campaigns of startups from their initial stage of growth instead of established companies where the growth rate is low. At the equity crowdfunding platforms, shares are not listed, and the companies are not well-established. Therefore, there are higher stakes involved and some of the interviewed investors describe the process as a "gamble".

The investments of equity crowdfunding are meant to help the campaigners reach their goals with what they want to produce as well as give benefits to the investors. An advantage with startups is their broad specter of new solutions they provide, as there are no established rules or norms in the company yet, that obstructs creativity. The campaigns include future-oriented and innovative products and ideas which according to the Norwegian investors can change the world.

### **The Future of Crowd Investing**

The equity crowdfunding market is still a novel form of finance in Norway, but the crowd investors believe it will grow and prosper.

The interviewed crowd investors believe the crowdfunding market can be an interesting investment opportunity for non-professional investors to invest a smaller share of their total savings. They believe more platforms will emerge. They believe it will be a normal way to collect funding, perhaps even for companies which have a hard time scaling up, because it's trust and belief by ordinary people as well as potential customers. Investor-3 thinks it may be industry-specific platforms that will arise in the future. Investor-5 believes it will become a starting point for new companies.

All interviewed crowd investors in this thesis are men, which is not by mistake. According to a study by Herve et. al. (2016, p. 4), 93 % of investments are made by men in the crowdfunding market. It is in sharp opposite position to reward-based crowdfunding, where observations have shown that 44 % of the investors on Kickstarter are women. However, the statistics are consistent with reports from business angels in the financial world (Harrison and Mason, 2007; Becker-Blease and Sohl, 2011). In 2019, several institutions in Norway made a conscious decision to market themselves toward women, which has created significant changes already (Telle, 2021). In the fourth quarter of 2019, the amount of new female investors was almost aligned with the number of new male investors at the stock market. It would also be interesting to see the changes in criteria between men and women which could be a potential future project.

The downside of interviewing only equity crowdfunding investors is the one-sided perspective of the equity crowdfunding market. Another way would be to include the operators of the platforms, experts in the crowdfunding field, and the startups behind the campaigns. This would create a broader concept of the interaction between the players. However, by solely focusing on the investors of equity crowdfunding, it allows the space to have in-depth interviews with them.

I believe some investment criteria has received more attention than others by theorists. The reason behind each criterion will always be to some extent an individual interpretation where its importance fluctuates from each investor. Future research might benefit from comparing Norwegian crowd investors with crowd investors from other countries. This could strengthen our understanding of how crowdfunding investors reason, and if there exist similarities between crowd investors across borders.

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## Appendix: A Interview Guide

### Intervju Guide – Norsk Versjon

#### Oversiktsspørsmål

1. Kan du fortelle litt om din bakgrunn, hvilken stilling du har og hva du jobber med i bedriften?
  - a. Hvilke arbeidsoppgaver har du?
2. Hvorfor investerer du i folkeinvestering?
3. Hvordan ble du introdusert til folkeinvestering?
4. Hvor mange investeringer har du investert i over de siste 2 årene?
  - a. Hva heter selskapene du har investert i?
5. Har du investert andre steder enn folkeinvestering?
  - a. Hva slags investeringer er dette?
  - b. Var beslutningsprosessen din annerledes ved andre investeringstyper?
6. Hva slags kunnskap hadde du om folkeinvestering før du begynte å investere?
7. Når var din første folkeinvestering?
  - a. Hvordan var det?
8. Hva er overraskende med å investere i folkeinvestering?
9. Hvor mye er det normalt for deg å investere?

#### Hovedfasen

10. Kan du fortelle meg litt om din beslutningsprosess når du investerer i en kampanje?
11. Når du investerer i aksje-folkeinvestering, hvordan finner du kampanjen du vil investere i?
  - a. Er det visse kategorier eller nettsider du søker etter?
12. Hvor lang tid bruker du på å beslutte deg for en investering?
13. Når du investerer, har tidsrammen på kampanjen noe å si for din investeringsbeslutning?
14. Har du lært noe om investering i folkeinvestering som du ikke visste fra før?
15. Kjenner du noen som investerer i folkeinvestering?
  - a. Har du ved en anledning fått hjelp, tips eller diskutert med andre om folkeinvestering og nye kampanjer du lurer på å investere i?
16. Hvilke støtteapparat har du til å hjelpe deg til å ta den endelige beslutningen om å investere?
17. Hva er det som er vanskelig med å investere i folkeinvestering?

18. Hva er det mest spennende med å investere i folkeinvestering?
19. Har du like stor tro på alle kampanjene (eller bedriftene bak) som du investerer i?

### Kriterier

20. Hvor stor grad av usikkerhet kan du ha når du investerer i en kampanje?
  - a. Hvilke metoder bruker du for å forsikre deg når du investerer på FolkeInvest?
21. Hva er det du ser etter i en kampanje som gjør det tryggere å investere i?
22. Hvor mye må du forstå (selv) om en kampanje for å investere i den?
23. Hvordan påvirker den profesjonelle bakgrunnen til personene bak kampanjen din beslutning?
24. Kjenner du noen ganger de som oppretter en kampanje?
  - a. Hvordan påvirker dette din investering?
25. Hva skiller en suksessfull kampanje fra andre etter din mening?
26. Har det noe å si for deg hva slags rykte plattformen har av andre når du investerer?
27. Kjenner du de som driver plattformen?
  - a. Hvordan påvirker dette din investering?
28. Som en del av din beslutning om å investere, tenker du over hvordan plattformen ser ut eller hvordan kampanjen ser ut?
29. Hva er kriteriene du bruker for å investere? (hva vil du si er dine kriterier for å investere?)
  - a. Hvilke kriterier blir viktigere for deg, jo mer du investerer?
  - b. Har kriteriene for hva du ser etter noen gang endret seg?
  - c. Er det noe som kunne ha påvirket deg til å endre kriteriene dine?
30. Hender det at du lar deg påvirke av andre investorer når du investerer?
31. Når du investerer, har det noe å si for deg hvilken oppmerksomhet bedriften har fått?
  - a. Både av sosiale kanaler og andre medium?
32. Når du skal investere, hender det at du oppsøker bedriften andre steder enn FolkeInvest sin nettside?
33. Når du investerer, har det norske markedet noen påvirkning på deg? Altså, hvilke faktorer i omgivelsene legger du vekt på? (sosiale trender, politiske, innovative, miljø og bærekraft)
  - a. Legger du vekt på hvilke trender som vokser i Norge når du investerer?
  - b. Er det enkelte industrier som er mer interessante for deg?
34. Når du investerer, hvor mye betyr prisen på aksjen for deg?

35. Har det noen innvirkning på deg om bedriften har en finansiell rapport eller annet økonomisk oppsett?

### **Framtidsrettede spørsmål**

36. Skal du fortsette å investere i folkeinvestering framover, og hvorfor/hvorfor ikke?

37. Tror du folkeinvesteringsmarkedet vil endre seg? Hvis så, hvordan?

38. Hvordan tror du framtiden ser ut for folkeinvestering?

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## **Interview Guide – English Version**

### **Introduction Phase**

1. Can you tell me a little about your background, what position you have in your company, and what you do?
  - i) What work assignments do you do?
2. Why do you invest in equity crowdfunding?
3. How were you introduced to equity crowdfunding?
4. How many investments have you invested in over the last 2 years?
  - i) What are the invested startups called?
5. Have you invested elsewhere than equity crowdfunding?
  - i) What kind of investment was it?
  - ii) Was the decision-making process different?
6. What type of knowledge did you have about equity crowdfunding before investing?
7. When was your first investment?
  - a) How was it?
8. What is surprising about investing in equity crowdfunding?
9. How much on average do you normally invest?

### **Main Phase**

10. Can you tell me a little about your decision-making process when you invest in a campaign?
11. When you invest in equity crowdfunding, how do you find the campaign you want to invest in?
  - i) Are there certain categories or websites you search for?

12. How much time would you use to decide on investing or not?
13. How does the time limit of when the campaign is available, affect your decision-making process?
14. Was there anything about investing in equity crowdfunding which you did not know about before?
15. Do you know anyone who also invests in crowdfunding?
  - i) Have you at any occasion received help, tips or discussed with others about equity crowdfunding and new potential campaigns?
16. What kind of support system do you have available to make the final decision of investing?
17. Is there anything which is difficult about investing in equity crowdfunding?
18. What is the most exciting about investing in equity crowdfunding?
19. Do you have the same belief in every campaign (or startup) which you invest in?

### **Criteria**

20. How high a level of insecurity can you have when investing in a campaign?
  - i) What methods do you use to secure yourself when investing at FolkeInvest?
21. What do you look for in a campaign, which makes it safe to invest in?
22. How much of a campaign do you have to understand to invest in it?
23. In the decision-making process, are you concerned about the team's professional background?
24. Do you sometimes know the people behind a campaign?
  - a) How does that affect your investment?
25. In your opinion, what makes a successful campaign?
26. Does the platform's reputation have any impact on your crowdfunding investment decision?
27. Do you know the people who run the platform?
  - a) How does this affect your investment?
28. As part of your decision to invest, do you think about how the platform looks like or how the campaign looks like?
29. What criteria do you use when investing? (What are your investment criteria?)
  - i) What criteria become more important to you, the more you invest?
  - ii) Have the criteria you use ever changed?
  - iii) Is there anything which could have made you change your investment criteria?

30. When you invest, is it possible for other investors to influence you?
31. When you invest, does it matter to you what type of attention the company behind the campaign has received?
  - a) Both by social media and other mediums?
32. When you invest, do you ever try to research the business outside of the platform FolkeInvest?
33. When you invest, do the Norwegian market have any influence on you? Are there any factors in the environment you notice? (Social trends, political, innovative, sustainable)
  - i) When you invest, does trends within the market affect you?
  - ii) Are there any industries which are more interesting to you?
34. When you invest, how much does the price of investment matter to you?
35. Does a financial report or any sort of economic layout affect your decision to invest?

#### **Future-Oriented Questions**

36. Will you continue investing in equity crowdfunding, and why/why not?
37. Do you think the equity crowdfunding market will change? If so, how?
38. What do you think the future will be for equity crowdfunding?

## **Appendix B: Reflection notes**

Through this master thesis, I try to understand the perspective of crowd investors and their reasoning to invest in equity crowdfunding.

The funding gap will decrease as equity crowdfunding becomes more recognized and expected in a startup company's growth stage. Still, the campaigns can be both risky and filled with information asymmetries. However, it is crowd investors and not professional investors who decide to invest in these campaigns. Although professional investors have more knowledge and experience, the crowd investors are risk averse and dare to try new financial markets.

The crowd investors use simple heuristics to screen an investment proposal, as extensive due diligence is not relevant for startups at this stage in the business lifecycle. However, the crowdfunding market is a fast-growing industry which rapidly changes how crowd investors view their investment process. The ideal way to assess an investment prospect a few years ago, might not be relevant in today's environment. As more attention and curiosity is placed on crowdfunding, the more changes will have to be installed to cater to the different types of investors that may appear.

### **Innovation**

Equity crowdfunding is opening doors to a financial market with no previous access. Startups who were forced to rely on donations, friends and family, or go to banks for funding, can now enter a new market. Equity and lending-based crowdfunding are pioneers in the new financial market. The interviewed crowd investors feel excited to try a new market, especially with companies and solutions they have never heard about before. It motivates them when the startup is Norwegian, since they feel like contributors to growth in their own country. The idea that many people can contribute small amounts of surplus money to a startup company, challenges the previous way of thinking about investing.

The equity crowdfunding market in Norway is still relatively new. There are still not a lot of Norwegian equity crowdfunding platforms available, although the market is growing vastly. FolkeInvest has only been in operation since 2015. The novelty of equity crowdfunding has influenced crowd investors to show interest and be initiators of the new financial market.

The purpose of running an equity crowdfunding campaign is first and foremost to raise funding, but secondary goals have also been of importance to the companies, including market testing, relationship building, collecting feedback, promoting, and marketing. (Lukkarinen et al, 2016). Likewise, can be said about crowd investors, who not only invest to gain a return on investments, but to grow new startups, gain perspective on new innovative products, and explore new financial markets.

### **International trends**

There has been a growth of international equity crowdfunding platforms where crowd investors from several countries can apply for the investments. However, the intricacy of making such investments is still hard for the crowd investors, to the point that they rather chose to invest in national platforms. One of my interviewed investors mentioned how difficult it was to invest in international platforms, because it demands more documentation, and it takes longer to finally be able to invest in a campaign. Moreover, regulations of international platforms are not always formed in alignment with the growth of the platforms, which has resulted in platforms being shut down when regulations eventually arrived.

It is not always an advantage for the campaigns either, to be part of an international platform. Although the access to capital increases substantially, it also creates more competition between the campaigns. The campaigns will also be met with challenges of how to collect the capital across countries and with a big platform it can be more difficult to detect fraud. There are political, economical and socio-cultural factors to take into consideration before entering an international market.

### **Responsibility**

There is an ethical responsibility to behave well among the players in equity crowdfunding to behave. The stakeholders, platform, crowd investors and campaigners all benefit from a transparent system.

The equity crowdfunding market is helping to break down barriers and get ordinary people to invest. At the same time, it can weaken confidence in professional actors that already exist.

There is not much discussion about the ethical aspects of crowdfunding practice. Although a new financial market can serve as a solution to ethical challenges in the financial sector, it also brings with it a set of new ethical challenges which need to be addressed.

The platforms strive to be taken seriously and need to ensure safe investment processes for the crowd investors and the campaigners. FolkeInvest is obliged to prevent the possibility of money laundering using their services. Crowd investors prefer transparent platforms, preferably with a brokerage in the background. It creates trust in the platform and crowd investors may view the investments as safer.

The duty of the campaigner is to ensure the information provided on the campaign is correct (Fries, 2021b). The information needs to be in an understandable form, so non-professional investors have a reasonable opportunity to understand the nature and risk associated with the investment offer. This is the contract a startup company agrees to when seeking investments on FolkeInvest. A breach of this contract would be the result of deliberate misinformation by an issuer in a published campaign, with the intention of giving the potential investor a different image of the issuer than is the case. This can have severe political and legal consequences on the startup. The FolkeInvest platform has a reserved right to remove investment offers in case of suspicion of breach of the agreement between FolkeInvest AS and the issuer of the campaign.

All investors must confirm their identity when using the FolkeInvest platform with their BankID (Fries, 2021c). Misuse of the platform may result in expulsion for investors. Moreover, the platform wants to take care of the crowd investors by offering a suitability test. It is on the surface a test to recommend campaigns into the crowd investors' knowledge and understanding. Thus, if a crowd investor is evaluated with lack of knowledge and experience, FolkeInvest will advise against investing. Crowd Investors who fail the test are encouraged to acquire sufficient knowledge of investments in unlisted shares and the risk associated with this before the investor eventually conducts a new test or invests in campaigns.

FolkeInvest AS is not responsible for screening suitable investment opportunities onto the platform. It is the crowd investors who are responsible for assessing the associated risk and opportunity to the individual investment. However, they do introduce several control measures to ensure the information provided with each campaign is correct (Fries, 2021b).

Moreover, FolkeInvest has also implement anti-money laundering measures to all established customer relationships.

The Finanstilsynet sets requirements for the competence, experience and quality of how the work is carried out at FolkeInvest (Fries, 2021a). The tax deduction incentive Kapitalfunn is implemented by the Norwegian authorities to encourage investments in startup companies.

It should absolutely be of interest to the government and law institutions of Norway to pay attention to the crowdfunding industry and keep up with the growing market. The primary reason a business goes bankrupt is the lack of adequate capital. Encouraging markets who supports and promotes growth in startups can have positive repercussions in the economy, which crowd investors understands and supports.