A shift in power? Value co-creation through successful crowdfunding

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Abstract

Crowdfunding has emerged as an alternative to traditional sources of finance such as bank loans and angel funding. In the post COVID-19 era where finance will be likely to become more difficult for small firms to access, crowdfunding has the potential to be an even more important part of entrepreneurial funding, and enable firms previously denied opportunities the chance to grow. This makes understanding crowdfunding important from a social as well as financial perspective.

The paper explores how crowdfunding enables value co-creation. It does so by analysing interview data with start-ups who raised money through crowdfunding and then compares these findings with the views of traditional funders.

The findings from the study highlight the speed of raising finance and the avoidance of financial monitoring controls as key sources of value co-creation, along with the increased negotiating power with traditional funders and retail partners that comes from achieving validation, i.e., providing evidence that there is demand for the start-up's products. The validation enables the entrepreneur to increase value capture from their interactions with further funders and business partners. The temporal dimension is crucial as a successful crowdfund can shift power towards the crowdfunded firm and away from other participants.

Keywords: Crowdfunding; value co-creation; value capture; negotiating power.

1. Introduction

The paper looks at the topical area of crowdfunding. This involves a large number of individuals, known as the crowd, each providing a small amount of funding to a firm (Mollick, 2014; Belleflamme et al, 2014). The funding is collected through a crowdfunding website, which takes on the role of a platform in a two-sided market (Hagiu and Rothman, 2016) connecting funders and projects, providing some form of vetting, and transferring payments from the crowd to the project owner, in return for payments/commission. The crowd have access to investment opportunities with the power to choose which ideas get funded in a "*democratisation of finance*" (Bieri, 2015, p2429) and entrepreneurs are provided with a new funding source. This illustrates the social as well as financial nature of crowdfunding and we have seen scholars speculate (for example, Fleming and Sorensen, 2016; Yu et al. 2017) as to whether crowdfunding will reduce, or increase, inequality, which shows the importance of this topic to wider society.

Crowdfunding, assisted by social media (Ordanini et al 2011), has proven to be popular with the value of funds raised globally estimated to increase from $10.2 billion in 2018 to $28.8 billion in 2025 (Statista, 2019), although Covid-19 has led to a slowdown in crowdfunding activity (Crowdcube, 2020).

This paper's aim is to analyse the key sources of value co-creation through crowdfunding from the perspective of entrepreneurs. It explores the following areas. Firstly, this paper will apply the ideas of Bowman and Ambrosini (2000) around value capture and perceived power to the concept of validation, i.e., proof there is demand for a product, which has been widely used in crowdfunding (for example, Schwienbacher and Larralde, 2010; Nucciarelli et al 2017; Butticè et al. 2020; De Luca et al. 2019; Paschen, 2017; da Cruz, 2018). The paper combines these two ideas and develops the field of knowledge by analysing how a successful crowdfunding campaign changes the power dynamics between the firm and potential future funding partners.

Secondly, whilst extant literature highlights the difficulty of obtaining traditional sources of finance (e.g., Belleflamme et al, 2014) it does not cover the speed at which funds can be raised by using crowdfunding and whether the monitoring costs incurred through crowdfunding, compared to more traditional forms of finance, both during and, to a greater extent, after the fundraising campaign, enable value to be co-created. These are relevant questions as speed of raising finance has been identified as important for firms with innovative products (Wu et al., 2016). In research which supports this view, North et al (2010) found that delays by banks for decisions on small and medium sized enterprises (SMEs) loan applications were a particular problem, leading to the loss of business opportunities, with 42% of SMEs reporting that a decision took over 6 months. Applying for entrepreneurial finance, from angel investors, who invest in new and early stage businesses, and venture capital, which invests in businesses which have passed the early stages, is also seen as a very difficult and time consuming process with high rejection rates (Mason et al. 2017; Fraser et al. 2015). De Clercq et al (2006, p93), writing about the full range of entrepreneurial finance, state that it is "*time consuming to locate, negotiate and close the deal*". With regard to bank finance rejection rates are higher for firms which are small, risky and high-tech in orientation (Fraser et al. 2015), a description which fits the types of firms which are using crowdfunding, whilst conditions for small firms who actually obtain bank or entrepreneurial finance are onerous (Rostamkalaei and Freel, 2016; De Clercq et al. 2006).

Thirdly, by considering the issue of monitoring costs this paper will build on the work of Chaney (2019) who, using principal-agent theory, argues that having too many principals (funders) can be a problem for a crowdfunded firm (agent) as it requires a form of coordination and power lies with the funders. Whilst this paper agrees with Chaney's findings pre-funding, which his work focuses on, we also consider the relationship post-funding and address an area he identifies for further research, namely when does the balance of power change between the funders and the firm?

The paper is structured as follows: Firstly, the literature on value creation and its application to crowdfunding is considered with the section concluding by developing specific research questions. Study 1 then explores the views of entrepreneurs followed by the findings. Study 2, which involved interviews with traditional funders, then provides a means of triangulating some of the findings from study 1. The results from both studies are then discussed with research and managerial implications being considered before the paper concludes.

2. Literature review

2.1. Value co-creation

Drawing on the arguments of several papers, Grönroos and Voima (2013, p134) see value as "*perhaps the most ill-defined and elusive concept in services marketing and management*". Unsurprisingly, the process of value creation is also something on which Lepak et al (2007) state there is a lack of agreement over how to define, or achieve, arguing that this is partly because the perspectives of the sources of value differ according to the disciplinary background of the authors.

Bowman and Ambrosini (2000) draw on resource based view theory to define value, with resources being valuable if they enable a firm to better meet the needs of customers, or meet these needs at a lower cost than rival firms. They also make the point that some consideration needs to be given to how customers make decisions about their perception of value, especially when these judgements are made before actual consumption. They argue that this is a more complex process in an organizational context as there would need to be "*cause-effect linkages between the use value of the resource and the ultimate delivery of profit*" (Bowman and Ambrosini, 2000, p2). In many cases, including the development of crowdfunded firms, such cause-effect linkages may not be possible for a considerable time if the aim of the firm is to grow its customer base.

Grönroos (2011) argues that value can be seen as a feeling of becoming better off in some way from accessing services. This may be a more appropriate lens of analysis in this context as value creation can be applied to the aims of the crowdfunded firms and what they want to achieve, through the process which will vary. These may include, for example, access to (cheaper) finance, the ability to link with customers to establish whether demand actually exists for a product (i.e. validation) and gain feedback, gaining publicity for their business venture and being able to grow their business through connecting with other funders and stakeholders, e.g., retail partners. In this way the work of Eggert et al (2018) which argues that co-creation comes from integrating resources from a wider network of stakeholders may be particularly relevant.

The perception of value leads on to a key distinction in the literature between *use value* and *exchange value*. Vargo et al (2008) refer to value-in-exchange as being based upon goods-dominant logic whereby firms and customers are distinct, with value created by the firm and such value being defined by price. Value-in-use, in contrast, refers to the benefits the customer derives *over time* from a product and is associated with service-dominant logic (SDL) with the customer being seen as an integral part of the value creation process. SDL literature sees value creation as value co-creation stating "*the customer is always a co-creator of value: there is no value until an offering is used – experience and perception are essential to value determination*" (Vargo and Lusch 2006, p44). With crowdfunding campaigns being managed on openly available platforms one could argue that value-in-use actually starts from the beginning of a crowdfunding campaign, rather than when customers receive a product, as the campaign is when potential customers come into contact with the firm and value co-creation can start through the exchange of ideas and the publicity generated.

Bowman and Ambrosini (2000) argue that if value is created then it is not necessarily the case that the firm will benefit. They state that "*value capture is determined by the perceived power relationships between economic actors*" (p1) and for the focal firm this means the ability to charge customers higher prices and resist price increases from suppliers. In the crowdfunding context customers include consumers and retail partners, whilst suppliers include labour, materials used and finance. For crowdfunded firms their relationships with suppliers of finance are particularly important as they will have ongoing financial needs to fund expansion if they are successful. A crucial source of such finance is venture capital (VC) funding, with Heughebaert and Manigart (2012, p525) stating "*we argue that the relative bargaining power of the VC investor affects investee firm valuation*" a point made by other authors, e.g., Cumming and Johan (2008). Heughebaert and Manigart (2012) also find that valuations are positively correlated with factors including previous invested amount, revenues and cash and non-cash assets, which are evidence of a business track record. The problem early stage firms face is that they lack such evidence and as a consequence, in the words of De Clercq et al. (2006, p.93), "*the valuation might be very low*".

Retail relationships, also important for crowdfunded firms as they are developing innovative products with uncertain demand, are another area where bargaining power determines value capture. For crowdfunded firms which are focused on consumer products access to retailers will give them the ability to create value by gaining access to a wider base of consumers. However, to protect against the high failure rate of such products, estimated at 60–95% (Anderson et al. 2015 cited in Devlin et al 2021), manufacturers often have to pay slotting fees, which are higher for riskier products, "*to persuade those retailers to stock, display, and support the products*" (van Everdingen et al, 2011, p582). These fees offset the risk, ensuring value capture for the retailer, however, "*small manufacturers (or any manufacturer who is without bargaining power vis-a-vis its retailers) are prevented from obtaining adequate distribution*" (Marx and Shaffer, 2007, p825) as they either lack the finance, or cannot evidence that there is likely demand for their product.

2.2. Value creation approaches to crowdfunding

Papers which specifically analysed value creation approaches to crowdfunding were also reviewed. As these papers draw on the wider crowdfunding literature they provide a focused analysis of the area. Gierczak et al (2016, p7) argue that "*This digital user is no longer located at the end of the value chain. He is an integral part of it, a co-decision-maker*". They examine the potential of crowdfunding identifying key points including greater access to finance, the benefits of the pre-sales model through upfront funding, efficient marketing and word of mouth marketing from backers, the ability to test business ideas, and co-creation through customer feedback, though co-creation can be seen as inherent in the whole crowdfunding process.

Nucciarelli et al (2017), in an analysis of the digital game industry, integrate value chain logic with platform logic and find that that crowdfunding has greater benefits than just the availability of finance. They find that the cases they consider confirm the relevance of the value chain but argue that it needs updating to take into account the novelty that crowdfunding brings. The research also finds that crowdfunding is a technological platform which enables new forms of collaboration and competition. They identify four main impacts on the value chain of crowdfunding. Firstly, crowdfunding facilitates access to traditional sources of finance from banks and venture capital, as well as being a source of finance in itself. Second, crowdfunding firms have chosen to avoid distribution channels controlled by powerful intermediaries, the console makers and app stores, rather targeting niche markets. Thirdly, crowdfunding provides access to market information and enables co-creation as community members offer product ideas and raise awareness. Finally, crowdfunding allows early validation of a product, i.e., demonstrating that demand exists, a point mentioned earlier in this paper. With regard to this final point Paschen (2017) breaks validation down into three categories. Problem/solution – does the idea solve a problem? Product validation – how the product can be developed and improved through engaging with customers. Market validation – will consumers and/or retail partners pay enough for the product?

We combine the findings of Nucciarelli et al (2017) on validation and how crowdfunding leads on to other forms of finance with our earlier discussion on value capture and bargaining power, applied to entrepreneurial finance (Heughebaert and Manigart, 2012; Cumming and Johan 2008;

Heughebaert and Manigart 2012; De Clercq et al. 2006) and relationships with retailers (Anderson et al. 2015 cited in Devlin et al 2021; van Everdingen et al, 2011; Marx and Shaffer, 2007) to develop research question 1: *We analyse whether the validation achieved through the crowdfunding process can strengthen the firm's negotiating position with funders and business partners thus enabling it to capture a greater share of the value created.*

We also build on the novel access to finance that crowdfunding provides, noted by several authors, for example Nucciarelli et al (2017), Gierczak et al. (2016), and combine this with the importance of speed of fund raising (Wu et al 2016; North et al. 2010) and the difficulties that SMEs experience in applying for finance (Mason et al. 2017; Fraser et al. 2015; De Clercq et al. 2006) identified in section 1 to develop research question 2: *This examines whether crowdfunding co-creates value through enabling faster raising of finance with a less bureaucratic process for the entrepreneur.*

Our third research question builds on the work of Chaney (2019). In a study using Kickstarter, he sees reward based crowdfunding, whereby consumers pre-order a product, as a specific case of co-production with co-production moving to an early stage of the value chain, i.e., which products are selected for development. In an adapted value chain for such co-production power shifts to the customer. Chaney develops an inverted principal-agent relationship with the crowd as the principal, who has supplied the funding, and the firm as the agent, as they have promised to fulfil work for the principal. As Chaney argues (2019) the problems that emerge are that the principal cannot control which customers take part (adverse selection) and secondly the firm cannot control the quality of customer co-production (moral hazard). The "*special feature of crowdfunding*" (p81) identified is that there are too many principals to control the agent, which results in a loss of control, which leads to the need for close relationships to develop between the funders and the firms. As noted earlier, Chaney raises the question of when the balance of power changes between consumers and the company. This leads on to research question 3: *In this paper we consider the situation post a successful crowdfunding campaign and analyse whether the higher coordination costs (Schwienbacher and Larralde, 2010) for the principals can be advantageous for the entrepreneur.*

3. Study 1: The views of entrepreneurs who used crowdfunding

3.1. Research methodology

The research is exploratory, as whilst there are papers on crowdfunding there is relatively little research on their value co-creation potential. An inductive approach was taken which offers interpretations on the existing literature and thus provides new insights. A case study approach was used as this is recommended by Yin (1994) when "*how*" or "*why*" questions are being considered. Interviews were used, following the advice of Yin, as they are "*one of the most important sources of case study information*" (Yin, 1994, p84) and enable a researcher to access the interpretations of participants about "*actions or events which have or are taking place*" (Walsham, 1995, p78).

Eisenhardt and Graebner (2007) highlight the importance of replication with cases. Drawing on Yin's work they describe each case as a distinct experiment with multiple cases again seen as discrete experiments but serving to illustrate "*replications, contrasts, and extensions*" (Eisenhardt and Graebner, 2007, p25)

For study 1, approaches were made to entrepreneurs who had raised money through crowdfunding as they were well placed to provide information about the research study. Contact was made with entrepreneurs through a combination of methods; the personal contacts of the authors, assistance from UK government economic development agencies, direct approaches to firms listed on the platforms and snowballing - referrals from participants. This meant that there was no theoretical basis for the selection of cases and the main method used was convenience sampling, which is acknowledged as a limitation.

All respondents apart from R6 (Denmark) and R8 (Sweden) in table 1 were based in the United Kingdom, with a good geographic spread. Eisenhardt (1989) states that there is no ideal number of cases, noting that between four and ten cases typically works well, as once the number of cases goes above ten the data becomes difficult to cope with. The research went a little over this range and in total there were thirteen respondents when saturation was reached on the research question (Eisenhardt, 1989) as further recoding of the data did not lead to the development of new themes (King, 2004b).

As the views of those interviewed may not be accurate, for reasons including bias, or inaccurate recall the views expressed were compared to other sources of information such as details on the campaign from the crowdfunding websites used, company websites, social media, news reports and company documents made available to the researchers. This is a process termed triangulation (King, 2004a) which "*through this form of capture or corroboration, has long been asserted as a means of achieving a degree of validity or confidence in the findings of the study*" (Farquhar, 2020, p161).

Respondents included those who had raised money from reward based crowdfunding and equity based crowdfunding. With reward based crowdfunding the crowd respond to a request for funding and pledge money in return for various types of reward, for example, a simple thank you, or most obviously the product. Eight of the respondents used reward based crowdfunding, with seven using Kickstarter which works on an all or nothing basis, meaning that if the full amount requested is not met then the funding is not available. Equity based crowdfunding, which works on the same all or nothing basis, and involves the crowd taking on the role of an equity investor (Belleflamme et al, 2012) was used by six of the respondents (one of the respondents used both methods). Equity based crowdfunded is more restricted than reward based crowdfunding (Cholakova and Clarysse, 2015), and, as Vismara (2018) notes, is only open to registered companies.

An interview schedule was developed with initial questions around the general background of the entrepreneur and their business to put the respondent at ease and the questions then being organised around the research questions outlined in section 2.2 and core concepts connected to value co-creation and crowdfunding. However, the interviews were semi-structured, to encourage two-way discussion allowing respondents to freely give their views on the topic to ensure important information was not excluded. The interviews were mostly conducted over Skype and recorded with the permission of the respondents. The interviews lasted on average about 45 minutes, with some being 1 hour and 15 minutes long with further information clarified where required after the interview.

All respondents and their organizations were anonymised. The details of the case companies, respondents and the interviews were edited accordingly to prevent identification. Table 1 below, provides details on the respondents who are referred to as R1, R2, etc.

	Respondent Role	**Company Type**	**Year est.**	**Platform**	**Amount raised**
R1	Founder	Musical instruments	2011	Reward based	£15,000
R2	Founder	Programmable synths	2013	Reward based	£65,000
R3	Founder	Cycle lights	2013	Reward based	£35,000
R4	Founder	Food manufacturer	2013	Equity based, 2 rounds of funding	£80,000 Round 1 £25,000 Round 2
R5	Founder	Umbrella designer/manufacturer	2013	Reward based	£265,000
R6	Founder	Board and card games manufacturer	2012	Reward based, 3 rounds of funding	£10,000 Round 1 £20,000 Round 2 £10,000 Round 3
R7	Co-Founder	Gaming controller for toothbrushes	2014	Reward based	£40,000
R8	Founder	Aquarium manufacturer	2014	Reward based	£5,000
R9	Founder	Crowdsourced computing power	2015	Equity based	£150,000
R10	Founder	Crowdsourced support for start-ups	2013	Reward based and equity based, 4 rounds of funding	£5000 Round 1 (reward) £40,000 Round 2 (equity) £30,000 Round 3 (equity) £35,000 Round 4 (equity)
R11	Founder	Biotechnology	2010	Equity based	£350,000
R12	Founder	Craft brewery	2010	Equity based	£180,000
R13	Founder	Aviation	2010	Equity based	£55,000

Table 1: Profile of crowdfunding respondents. Note: Amounts raised have been rounded to avoid identification
Source: Authors

All interviews were transcribed and analysed using template analysis as this is suited to the analysis of interview data (King, 1998; 2004b). Template analysis offers a method of thematically analysing qualitative data, which is usually interviews, but can be other forms of data. A coding template is developed by the researcher(s) to summarise the pertinent themes which exist in the data. Hierarchical coding is preferred in template analysis with broader themes being developed into narrower, more specific ones. Analysis can start with a priori codes, which are expected to be important to the research, which can be modified or removed and new codes can emerge from the reading of the documents (Brooks et al, 2015). To ensure reliability of the data the researchers independently used an initial template based on a priori codes to 3 of the interviews. Differences in coding were discussed and new broader codes emerged which were discussed and agreed on by the research team; market validation, access to finance and entrepreneur-crowd relationships. Second level themes also emerged under each concept, e.g., speed of fundraising and lower bureaucracy under access to finance. This led to the final template as shown below in table 2. There was some discussion, for example, where opportunities for customer feedback would be placed, under broad theme 3 or 4, but it was felt that feedback was better suited to validation as its value came from identifying what customers actually wanted in terms of a product. All interviews were then coded using the agreed template with the work of each researcher compared to resolve any differences in interpretation with differences discussed and resolved. Not all the themes were drawn on for this paper with the research team applying the selectivity that King (2004b) recommends to choose the themes that are most directly relevant to the research questions posed in this study.

1	**Case background**
1.1	The entrepreneur & the firm
1.2	Products
1.3	Their role in the firm
1.4	Their understanding of crowdfunding
1.4.1	Types of crowdfunding
1.5	Motivations for using crowdfunding
2	**Access to finance**
2.1	Means of initial business funding
2.1.1	Use of personal networks
2.2	Use of banking services
2.2.1	Experience of applying for bank loans
2.3	Experience of applying for angel finance/VC finance
2.4	Speed of fundraising through crowdfunding and lower bureaucracy
3	**Market Validation through crowdfunding**
3.1	Ability to plan the business
3.1.1	Opportunities for customer feedback
3.2	Increased bargaining power
3.2.1	Better terms for follow on funding
3.2.2	Better terms from retail partners
3.3	Publicity through validation
4	**Entrepreneur-crowd relationships**
4.1	Success factors in crowdfunding
4.1.1	Credibility with the crowd
4.1.2	Initial momentum
4.1.3	Use of social media
4.2	Managing the crowd during the crowdfund
4.3	Freedom from control post crowdfunding
4.3.1	Trust from the crowd

Table 2: The final template
Source: Authors

3.2. Results

3.2.1. Value capture and perceived power after market validation

Reward based crowdfunding was seen as attractive to entrepreneurs because of its ability to identify customers and thus lower risk through pre-ordering. The term validation, covered in the literature review, for example Nucciarelli et al (2017), was used to describe this process by six of the eight respondents who had experience of reward based crowdfunding.

For example:

"*You have this connection of the financing and the actual customers that want the product…the bank is like "Oh business proposition and looking at some figures and this might work and here's some cash" but with crowdfunding it's like "we want the product please take our cash", but it's more than just the money you get from that it's also the validation which is super important.*" (R2)

By pre-ordering the product the crowd enable two of Paschen's categories (2017) to be met, problem/solution validation and market validation; although, the latter assumes the crowdfunded firm can deliver at the agreed price. For the equity based respondents validation was identified as important by four of the six respondents (as noted earlier Respondent 10 used both methods meaning the total comes to fourteen, not thirteen).

On a related point eight respondents out of the total sample also noted that crowdfunding by providing a direct link to customers enables feedback to be given which can refine the product development process, to meet the needs of customers (this enables the third, and final, of

Paschen's categories (2017), product validation, to be met). Unsurprisingly, these respondents were mainly from the reward based side, as they were selling a product, with six out of eight identifying feedback as important compared to three from six on the equity side. The engagement of crowdfunding entrepreneurs from this sample with their customers on the crowdfunding platforms, and social media, where they discuss product features provides supporting evidence for this finding.

Validation in this manner could help to address the high rates of new product development failure (Derbyshire and Giovannetti, 2017) and also lessen the high failure rate of new firms. Indeed, Crowdcube, an equity crowdfunding platform cited evidence that firms which raised money on their platform had lower closure rates after 3 years, 21%, compared to the UK rate of 50% (Crowdcube, 2018).

However, R8, who has used reward based crowdfunding, suggested that raising money through crowdfunding may not be evidence that there is broader demand for a product as the limited sample for pre-order through reward based crowdfunding may not be generalizable to wider customers. This is a point made by Agrawal et al (2014).

All the respondents felt that the exposure of crowdfunding benefitted their business through the increased publicity they received which included promotion by the crowdfunding platforms, funders sharing the campaign on social media and news outlets covering the campaigns, all examples of co-creation. An interesting point which emerged amongst the respondents who had used reward based crowdfunding, was how pre-sales strengthened their position with large retailers and also for future equity based investment rounds as it reduced information asymmetry about the likely success of the new venture. Seven of the eight respondents who used reward based crowdfunding stated this. An example is as follows:

"*Whenever we went to big retailers we could say "not only have we got this brand new product that no-one has seen, it's not in production yet, we think it's a really good idea, but guess what? We have sold more 850 of them in 30 days to more than 500 people". That's what they sat up and paid attention to more than how good the product was, how clever it was, anything like that, it was about real market validation.*" (R3)

Although equity based crowdfunding did not provide such sales evidence, and therefore was unable to reduce uncertainty about product demand, it could show that there was a body of investors who supported the idea. From the views of the equity based respondents, five out of six believed that this increased the bargaining position of the firm with regard to business partners and future investors and thus enabled greater value capture. This builds on the arguments of Nucciarelli et al (2017) that successful crowdfunding influences investment by venture capital but here we also argue that the crowdfunded firm has a stronger negotiation position with suppliers of finance and other business partners. The increased power and value capture potential can clearly be seen as value co-creation in-use as the benefits come from a successful crowdfunding campaign and continue after exchange value has been realised through payment to the crowdfunding platform.

Company websites and news reports for R2, R3, R4, R7, R9, R11 and R12 demonstrated that they were able to raise equity based finance, both from investors and from follow on equity crowdfunding, on enhanced terms after they had completed their initial crowdfund. To show two examples R9, which raised £150,000 at a valuation of under £600,000 in its equity crowdfund in

2015, went on to receive venture capital funding of £2.5 million in 2019, whilst R7 raised £500,000 from venture capitalists in 2016 and $2 million in 2017, after raising £40,000 on Kickstarter in 2014.[1]

3.2.2. Speed of fundraising and lower bureaucracy

Unsurprisingly, the respondents saw crowdfunding as a novel way to access funding which was not easily available from banks due to their high perceived levels of risk, a view which is line with the literature (e.g., Gierczak et al 2016; Chaney, 2019). However, the speed with which money could be raised from crowdfunding, something which is not focused on by existing literature, was also identified by nine of the thirteen respondents. This is illustrated by R9 as follows:

"A major benefit was the speed of the raise, it took 2 weeks and 2 days to raise the money and we were all impressed with how quickly things went. It was the right thing to do for the business, for the market for everything was to build our product faster so we could launch it quicker." (R9)

This links to developments in the related areas of crowdsourcing where speed to market enabled through crowdsourcing has been seen as a way to shorten innovation product cycles and achieve competitive advantage (Martinez, 2017; Ye and Kankanhalli, 2013). Also, once a product is listed on a crowdfunded platform, speed is even more important as the product may fall victim to imitations. The speed of fundraising was checked by looking at the crowdfunding websites

[1] The amounts raised are stated as in the relevant press releases using the quoted currencies, which are different, i.e. UK Pound Sterling and US Dollars.

which maintain an archive of previous campaigns, money raised and the duration of the campaign.

Whilst respondents saw the crowdfunding campaign as being demanding, nine out of thirteen (six to two reward and four to two equity) felt that it was an easier process than applying for traditional finance. For example, as a respondent explains:

"So I approached a bank which I had worked with previously to see if I could get finance but it wasn't very easy…..I have assets that I could put to them as collateral but the actual process was very, very complicated. They would probably eventually have backed me if I jumped through all the hoops." (R5)

This was contrasted with a less bureaucratic approach through crowdfunding and the two respondents (R9 and R12) who had been through both the due diligence process of equity based crowdfunding and had prior experience of a business sale or corporate financing process, felt the equity crowdfunding process was less demanding. Whilst the entrepreneurs could not control the success of a project they found the process clearer and easier to deal with. This fits with the arguments of Sampagnaro et al (2015) who, drawing on the work of Blackwell and Winters (1997), state that riskier loans, which describe the typical crowdfunded venture, require more documentation to be approved.

In this way the three types of participants come together to co-create value: the crowdfunding platform, by connecting the two distinct groups and offering an efficient way to apply for/receive and promote the funding, the funder, by offering finance with some also promoting the campaign virally through their own social media and the firm, by conceiving the initial product. However, in this scenario value in-use comes before value-in-exchange, as entrepreneurs do not pay any exchange value unless the fundraising campaign is successful, at which point they will have accrued the benefits of a faster funding process and speed-to-market.

3.2.3. Principal-agent theory and the changing balance of power

Crowdfunding was attractive to the respondents as it gave them freedom to develop their new ventures and enabled them to avoid the monitoring mechanisms imposed by traditional sources of finance. This is illustrated by the following quotes.

"*We have got 155 investors and not 3 investors, those 3 investors they have a louder voice, whereas having 155, then managed through [the name of the platform is removed for confidentiality reasons], from a business, a management and a shareholder management perspective is a lot easier to manage certainly at this stage of the business.*" (R9)

"*I can imagine banks having monthly meetings on progress. We knew it was going to take time and we said we would never go to market until we had the beer recipes developed properly so we had the freedom to get on with what we were doing properly.*" (R12)

Nine of the thirteen respondents expressed the view that they gained more freedom through crowdfunding. Interestingly, this view was held more strongly by the equity based firms, with only one not sharing this view, than those which used reward based crowdfunding, where three did not state this view.

This finding relates to the work of Chaney (2019) on the inverted principal-agent relationship who, as we noted earlier, found that crowdfunding empowered consumers. The entrepreneurs from this sample value the co-creation from the crowd in terms of finance, marketing, validation and networking opportunities, but see the freedom from operational and financial controls as a major source of value creation. The large number of principals, to use Chaney's terms, makes it very difficult for a coherent message to be presented to the entrepreneur, or the agent, or controls to be exercised compared to dealing with a single funder, or a few major suppliers of finance. Again, drawing on Sampagnaro et al (2015) riskier loans are monitored more closely and have more ongoing reviews making alternative finance an attractive option. One would expect that dealing with a large number of individuals would be costly in terms of time for entrepreneurs but the sample here felt that the freedom from control outweighed this.

A further more specific code which developed from the analysis was, unsurprisingly, *trust*, as whilst most of the entrepreneurs stated that freedom from funder control was important to them, they all stated they were committed to keeping to what they had promised their funders. Trust was also essential to retain the support of the crowd to co-create value by word of mouth, further funding and purchases. However, the literature on entrepreneurs shows that overconfidence is particularly evident at the point of market entry (Chen et al, 2018) and research by Appio et al (2020) shows that there are problems with the delivery of rewards on Kickstarter caused by incompetence, fraud and funding cancellation. However, eleven of the thirteen respondents listed below were still trading in 2021 with one sold and only one being wound up. The entrepreneurs' views are summarised in Table 3.

	Validation	Feedback	Publicity	Bargaining Power	Less bureaucracy	Speed	Freedom	Trust
R1	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes
R2	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R3	Yes	No	Yes	Yes	Yes	Yes	No	Yes
R4	No	No	Yes	Yes	Yes	Yes	Yes	Yes
R5	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R6	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R7	Yes	Yes	Yes	Yes	No	No	Yes	Yes
R8	No	No	Yes	No	No	No	No	Yes
R9	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R10	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R11	No	No	Yes	No	No	No	No	Yes
R12	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R13	Yes	No	Yes	Yes	No	No	Yes	Yes
Yes	**9/13**	**8/13**	**13/13**	**11/13**	**9/13**	**9/13**	**9/13**	**13/13**

Table 3: Summary of the main themes and respondents' views
Source: Authors

4. Study 2 – the views of traditional funders

4.1. Research Methodology

To further triangulate the interviews with entrepreneurs, the sample was extended to include the views of respondents with experience in banking, angel investment and venture capital with seven more interviews conducted.[2] The findings from the entrepreneur interviews which were concerned with the change in the bargaining power of the crowdfunded firm vis-à-vis further potential funders (research question 1) and the level of freedom the crowdfunded firm would

[2] This was a helpful suggestion made by one of the anonymous reviewers.

have through crowdfunding compared to other forms of finance (research question 3) were presented to the funders to get their perspectives.

The anonymity of respondents continues with respondents identified as R14, R15 etc. in table 4 below.

R14	Director at an UK alternative finance provider with many years' experience of facilitating SME business funding with banks, angels and venture capitalists
R15	Angel investor, with previous experience in venture capital and small business banking
R16	Manages angel investments for high-net-worth families/individuals. Previous experience in venture capital
R17	Angel investor with many years' experience
R18	Angel investor with experience of running crowdfunding campaigns
R19	Venture capital and angel investor with many years' experience
R20	Venture capital investor with many years' experience

Table 4: Profile of funder respondents
Source: Authors

These respondents were recruited using the networks of the researchers so this was a convenience sample. The interviews were conducted over video-conferencing or telephone with the exception of the final respondent who provided responses through a number of emails. The other interviews were on average about 45 minutes, with R15 to R18 recorded with the participants' agreement, and detailed notes made on interviews R14 and R19. Summaries of each interview were developed with the interviews compared and discussed within the research team. This was a simpler and quicker process than for study 1 as there was a much clearer focus, i.e. to triangulate the findings from study 1 which involved the relationships between entrepreneurs and potential funders.

4.2. Results

4.2.1. Increased bargaining power through validation

All of the funders supported the idea that validation improved the bargaining power of the entrepreneurs, although this came with caveats. Five out of the seven respondents stated that there had to still be significant potential for growth and a strong business case (this was mentioned by all except R18 and R20). In the words of R14:

"On the equity side you cannot knock validation from the crowd. I think it would make it a lot easier to raise VC money on better terms, but it is also about your ability to sell your future story, to deliver on big business plans, and to give the 10% month-on-month growth that VCs want." (R14)

Four of the respondents stated that the validation was stronger for reward based crowdfunding, R15, R17, R18 and R20, whilst R18 held the view that validation did not work with equity based crowdfunding in the same way. R15 made the following comment.

"Crowdfunding is harder for B2B because the whole idea is much more complicated. Investing £50 in a folding desk is very different to investing into software development. People can see what they are funding and what they are going to get. It is a shorter timescale and people understand consumer products much more easily." (R15)

This is an interesting finding and can be linked back to Paschen's (2017) three categories of validation, shown in italics, as reward based crowdfunding can be seen as meeting (a) showing a *problem* is solved, (b) developing and improving the *product* with customers and (c) demonstrating the *market* will pay enough. Whilst equity based crowdfunding can show investors believe the three categories can be met, these can only be actually met over time. However, as venture capital firms are investing in a firm's future potential this is not necessarily a problem, as they in turn are making a judgment on whether the three categories will be achievable.

4.2.2. Increased freedom through crowdfunding

Five of the seven funders supported the view that crowdfunding would give entrepreneurs more freedom compared to using traditional forms of funding, with one disagreeing with this view and one not expressing a view either way. However, the views in favour of greater freedom through crowdfunding came with qualifications, most importantly the views that traditional funders provided non-financial support. This was expressed by R16 as follows:

"The crowd give them the cash and say build it, but the VCs say "here's the cash but you have to reach these KPIs and metrics for us to give you more cash". These will be hard metrics. They want to allocate the cash and how it will be spent and so they will keep control. With crowdfunding you get a whole load of cash and it's up to you what you do. You have to deliver but not in the staged way you would with VCs and angels. But what you also get from the VCs and angels is the expertise, the contacts and guidance and you will miss out on that." (R16)

Three of the funders (R14, R18 and R19) identified the lack of flexibility with crowdfunding as a problem. Crowdfunding works on the basis of a fixed sum being raised which is not ideal for start-ups with changing financial requirements. R14 commented as follows.

"*They [the crowdfunding investors] may not be able to put more money in, where the one investor can and so there is a trade-off. If you are a founder who wants to keep control it is a good route but you may not be able to rely on them for more finance if there is a blip.*" (R14)

What makes this funding constraint more serious is that the crowdfunding firm may have cost overruns and in the case of reward based crowdfunding have promised to deliver the reward, typically a product, for a fixed investment. R18 makes the point that reward based crowdfunding places constraints on a start-up, seeing equity based crowdfunding as less restrictive.

"With the equity based one you are really making a decision based on, like what's the right decision for the shareholder value of the company. Whereas the rewards based stuff is like you got the money and you've got to provide their rewards, right? They realise this sort of business is better suited to go in a slightly different route than this, but their constraint is they have to deliver what they promised in the first place." (R18)

The focus on trust identified by the crowdfunded firms was something that none of the traditional funders agreed with. Four of the seven respondents expressed concerns that this was not sufficient to protect investors, and the remaining three expressing no view. In the words of R17:

"*I would not be touching any company where I got a whiff of the founders saying the one liner "the crowd trust me and they'll just leave me alone and I'll get on with it". That smacks of, not arrogance, but naivety.*" (R17)

The views of the funders are summarised in Table 5 below.

	Research question 1	Research question 3	
	Increased bargaining power	Greater freedom	Trust
R14	Yes	Yes	No view
R15	Yes	Yes	No
R16	Yes	Yes	No
R17	Yes	Yes	No
R18	Yes (only for Reward based)	No view	No
R19	Yes	No	No view
R20	Yes	Yes	No view
Yes	7/7	5/7	0/7

Table 5: Summary of the views of the funders
Source: Authors

The overall findings from the research are summarised in figure 1 below.

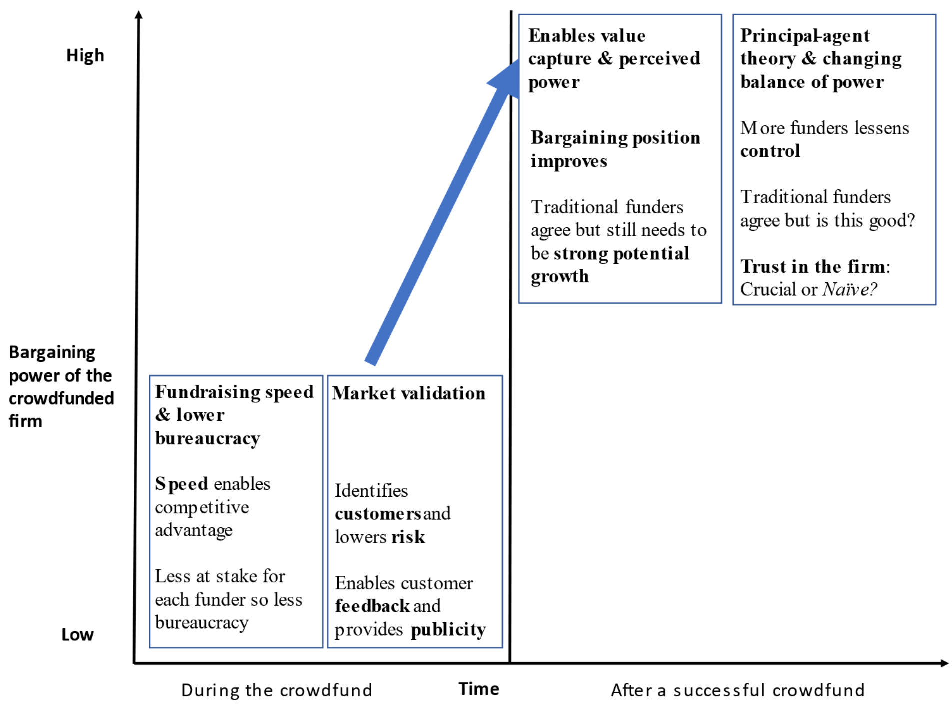

Figure 1: Value co-creation over time in crowdfunding
Source: Authors

5. Discussion

The data examined in this research suggests that crowdfunding creates value for entrepreneurs due to its speed, lower monitoring controls compared to traditional forms of finance and the increased bargaining power that a successful crowdfund results in. Validation was a core concept to the paper, as it is seen to prove that there is demand for a product, or that a start-up is seen as a good investment. The demand from the crowdfunding site (to buy the product or invest in the firm) acts as a signal of quality and by reducing information asymmetry helps to reduce new product development failure rates and small business failure rates. This also enables increased value capture as the crowdfunded firm has increased their credibility with business partners. Successful reward based crowdfunding demonstrates that there is a demand for the product and the retailers' shelf space would not be wasted on a product customers do not want and the direct sales they have achieved shows they are not dependent on retailers. For equity based crowdfunding value capture is increased as potential funders know there is an alternative funding source for the entrepreneur. The findings from the interviews with funders confirmed that validation would increase firm bargaining power, but the firm would still have to show it had high growth potential and they also felt the validation was stronger for reward based crowdfunding. This reflected the fact that it was easier to understand the value creation potential of a product which looked to obtain reward based crowdfunding compared to the longer term nature of equity based investments. The research would also suggest that an unsuccessful attempt at crowdfunding would weaken the bargaining position of the entrepreneur leading to them having to accept less attractive terms with business partners.

The research has also answered a question set by Chaney (2019), namely, when does the balance of power change between the funders and the firm? It identifies this point as being after the funds were raised due to the large number of investors and the freedom this gives to the entrepreneur. The funders interviewed confirmed this stating that entrepreneurs would be subject to far less control after raising crowdfunded money than they would be if they were funded through traditional means. However, this freedom was seen as something of a double-edged sword as the entrepreneurs would not obtain the non-financial benefits of investment from traditional funders, e.g., contacts and guidance. A further point which came out here was the lack of flexibility that crowdfunding provided as the funding provided is a fixed amount. For reward based firms, if they have not carefully planned their product development, for example, through developing prototypes and incorporating delivery costs, then they could easily run out of money, as well as failing to deliver what they had promised to provide their funders for the specific donations made. A privately funded firm, in contrast, could ask for more money, and/or increase their prices for future sales which shows the constraints a crowdfunded firm can operate under.

Crowdfunding can also be seen to create a situation of moral hazard after the funds have been raised, as the principals (funders) cannot easily monitor the entrepreneur (agent) who may not keep to their campaign pledges. However, trust was seen as integral to crowdfunding by many respondents and all saw it as a given that they delivered what they had promised. The funders, in contrast, were sceptical about this idea of trust seeing it as unrealistic. This reflects both the larger investments made by the traditional funders, compared to the smaller amounts typical in crowdfunding, and the time and effort traditional funders will put into evaluating and then managing investments.

5.1. Implications for theory

The paper's theoretical contributions are threefold. Firstly, the paper adds to the existing literature around value creation in crowdfunding by taking the idea of validation and using it to show how entrepreneurs can use this to increase value capture in their future partnerships with funders and business partners. Existing literature has shown how such validation, which is a form of co-creation, can enable access to funding (Agrawal, et al 2014; Schwienbacher and Larralde, 2010; Nucciarelli et al 2017) but it has not considered how this changes the power dynamics. For a start-up business looking to secure venture capital funding a stronger negotiating position will enable them to give up a smaller share of their business for a larger amount of money, i.e., increased value capture. The research with traditional funders supported this view, though a majority felt such validation was stronger for reward based crowdfunding and there was also a strong feeling that a crowdfunded business had to demonstrate the scope for further growth.

Secondly, the paper has argued that value is co-created through the speed funds can be raised at, and also lower bureaucracy compared to other forms of finance, points not covered by existing literature.

Thirdly, the paper has considered the governance structures post-crowdfunding and argues that this represents a shift in power towards the firm. This is a contribution to the literature as the existing focus has been on empowered consumers pre-funding. Pre-funding, the need to secure the financial target means that the entrepreneur has to respond to a wide audience, with the knowledge that funding can be withdrawn at any time, which has major time implications. Once the firm has the funding, however, the diverse audience becomes an advantage as the entrepreneur does not face the close oversight of their progress they would experience from a traditional investor. Such freedom from supervision comes with costs though, as the crowdfunded firm loses flexibility to access further finance and has less scope to divert from its business plan.

5.2. Implications for practice

With small businesses even more important for economic growth in the recovery from COVID-19 initiatives to promote awareness amongst entrepreneurs of the benefits of crowdfunding could be developed by local government and professional bodies. Such initiatives could consider the role of crowdfunding in the funding cycle, how to successfully crowdfund, communicating with funders during and after the crowdfund, specifically for reward based crowdfunding how to effectively plan revenues and costs and, finally, how to use the validation that comes from a crowdfund. R10 from the sample provided services which included how to successfully crowdfund which demonstrates there is demand for such knowledge.

There are also issues around funder protection, as whilst the sample here felt trust was important and took their responsibilities to the crowd seriously, financial monitoring mechanisms, even if perceived to be overly strict exist for a reason and protection is required, both for products and financial investments.

5.3. Limitations and future research directions

The research has limitations. Firstly, the limited sample size for the interviews means the findings may not be generalizable. Second, even though triangulation methods were employed, it is acknowledged that there are limitations of interviews as a research method which include the role of the interviewer and interpretation of the respondents' comments (Walsham, 1995).

Future research could also look at interviews with a larger sample to further probe the issues identified here followed by a survey to produce more generalizable results. The research could include entrepreneurs who have failed to reach their crowdfunding target as well as those who were successful. This would provide a more comprehensive view on whether value capture in particular is facilitated through successful crowdfunding. Crowdfunding is an important and dynamic phenomenon and it is important that it is properly understood by entrepreneurs, funders, the crowdfunding platforms, the wider financial sector and policymakers, especially in the even more uncertain post COVID-19 world.

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