The potential of crowdfunding to promote business in the context of an emerging economy

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Abstract

Crowdfunding has the potential to change the historic standards of the financial services industry and reduce gaps between supply and demand economics. Over the past ten years, it has received increasing attention. However, the potential that crowdfunding holds in less fortunate economic contexts where SMEs are probably needed the most has not yet attracted the attention that it deserves. Acknowledging the influence of knowledge about crowdfunding, this research explores the viability of crowdfunding as a source of capital for SMEs, in a developing country. The research aimed to determine the difference in alignment that may exist from both the perspective of the investor and entrepreneur on the most suitable type of crowdfunding and motivations for venturing into a crowdfunding initiative. Empirical evidence was gathered through an electronic, quantitative survey. Statistical procedures included exploratory factor analysis, specifically Principal Axis Factoring, using Varimax rotation with Kaiser Normalization. Two-tailed *t*-tests were used to distinguish the preferences and anticipated behaviour of investors and entrepreneurs distinguishing respondents in terms of their knowledge about crowdfunding. Results indicate that it is crucial to create an increased awareness of crowdfunding among the broader public, amid evidence of empathy towards new businesses and willingness to support even up-starts, also indicating that investors' and entrepreneurs' motivation to participate in crowdfunding is not necessarily financially driven.

Keywords: Crowdfunding; Platform economy; SMEs; Entrepreneurs; Investors; Emerging economies

Introduction

Globally, small, medium and microenterprises (SMEs) are contributing notably to economies in terms of growth, job creation, and combating poverty (Donovan 2021). Notwithstanding, between 75 and 90 percent of small businesses fail, often due to a lack of financing (Alharbey and Van Hemmen 2021). In recent years, crowdfunding (CF) has emerged as a viable financing model that small businesses can pursue, while involving many "ordinary" people to invest in initiatives that they consider worthy (Jelinčiċ and Šveb 2021). In the business world, CF has the potential to reduce the gaps between supply and demand economics, particularly because start-ups and small companies that do not have successful track records yet, seldom succeed in raising capital per the traditional financial institutions (Valanþienơa and Jegeleviþinjtơb 2014). Miglo (2020) therefore pleads for a better understanding of businesses' needs beyond the traditional loan, insurance, and investment product orientations. Undeniably, most entrepreneurs need to source capital some time during the life cycle of their businesses, to either manage cash fow issues, for investment purposes or further development (Chemla and Tinn 2019).

As a relatively new phenomenon, CF deserves more attention in research (Kuppuswamy and Bayus 2015), explaining why it has been attracting considerable attention among scholars in recent years (Song and Tian 2020; Miglo 2020; Donovan 2021; Sorgenfrei 2021; Alharbey and Van Hemmen 2021). In particular, more insight is still needed concerning how CF could be made more accessible to entrepreneurs in the developing world (Gajda and Walton 2013), its value in countries with less developed financial systems (Hagedorn and Pinkwart 2013), and its part as impact investing that elevates the importance of business investments with social and environmental interest (Feola et al. 2017). Due to an exponential growth in CF in North America and Europe, the majority of existing empirical research on CF reflects on these regions (Hiller 2017). A study reported in the Journal of Financial Services Marketing (JFSM) on all their publications from 2000 until 2012, expressed an urgent need to expand research about CF (Grant et al. 2013), and since then, several scholars have conducted research to address this void (see Chemla and Tinn 2019; Song and Tian 2020; Lipusch et al. 2020; Sorgenfrei 2021). In South Africa, however, which is an emerging economy, representing one of the largest economies in the Third World, CF is still a relatively new phenomenon, and related research on the South African market is sparse.

This research was inspired by the potential of CF as a means of capital generation to boost SMEs in emerging countries where their failure rates due to financial constraints, are high (Wolmarans and Meintjes 2015). The study is grounded within the broader social influence network theory developed in the late 1960s (Song and Tian 2020). According to Katz et al. (2020), the value of the social network theory is vested in its focus on the social environments that individuals operate in, and how these environments may facilitate particular outcomes such as aid or support, gained in the form of tangible or intangible resources from members in their network. Accordingly, CF represents a tangible resource, which involves a social network that businesses, as well as investors, could benefit from.

This research was interested in determining how informed, thus how knowledgeable people are in general about CF in South Africa, as an example of an emerging economy. Subsequently, to explore how knowledge concerning CF influences the likelihood that people in either the capacity as investor or as an entrepreneur, would support/ pursue CF initiatives, their willingness and motivation to support CF, and what they might expect to gain from their involvement. The research acknowledged the different CF models, exploring the most viable for SMEs to pursue.

Background and hypotheses

Globally, SMEs contribute to the income and growth of individuals (businessmen) and economies (Xesha et al. 2014). Evidence that SMEs are thriving in an emerging market, is usually an indication of a healthy economy (Tengeh 2013). Traditionally, two main sources of external funding are used by new SMEs, namely equity and debt (Schwienbacher and Larralde 2010). Although equity can be sourced from venture capital or the stock exchange, this option is usually out of reach for new SMEs who do not have an impressive track record yet (Olawale and Smit 2010), and therefore, they mostly enter into loan agreement/debt agreements with traditional financial institutions, such as banks, or trade credit where their chance to succeed is very slim (Olawale and Smit 2010). Many, therefore, revert to their savings, explaining why start-ups are mostly underfunded from the outset, and remain stagnant, or fail (Fanta et al. 2017). Despite the emergence of other innovative sources of funding, such as mobile money and microfinance (Hiller 2017), they are relatively small in value and primarily short-term solutions. This gap can potentially be flled with CF, provided that the phenomenon is better understood and more broadly propagated so that potential investors and entrepreneurs would become more acquainted with it.

Crowdsourcing and crowdfunding in a nutshell

Outsourcing, per se, refers to a participative online activity, that is part of the so-called platform economy, where an individual, institution, non-profit organization, or company presents a flexible, open call for others to voluntary undertake/participate in a venture, for example, to make a financial investment, including crowdfunding (Estellés-Arolas and González-Ladrón-De-Guevara 2012). Crowdfunding (CF), as a form of outsourcing, is a financial tool that allows entrepreneurs to source capital for their businesses across geographic boundaries to help finance a new venture, product, or project (Sorgenfrei 2021). Crowdfunding, as well as crowdsourcing, offers great potential for entrepreneurs to fund a specific endeavour (Lipusch et al. 2020) by attracting relatively small contributions from a fairly large number of people (the "crowd") such as an online community, through the Internet, bypassing conventional financial intermediaries and related complexities (Mollick 2014). In so doing, funds, selected services, ideas, or content is acquired from a large group of people, such as an online community, rather than to pursue conventional channels such as the support of personal. friends', or acquaintances' resources (Kleemann et al. 2008). Amid challenges that SMEs encounter concerning the sourcing of capital, CF is a revolutionary way whereby individual investors can pool small amounts of money to contribute to businesses' minimum funding requirements and to gain access to incremental resources that are otherwise beyond reach (Bruton et al. 2015). Considering the potential that CF has to address a lack of funding, it could be very advantageous for the developing world to boost progress and could leapfrog the conventional capital market structures and financial regulative authorities of the developed world (Best et al. 2013).

Types of crowdfunding and associated benefits

Four types of crowdfunding that imply diverse advantages for investors and entrepreneurs are distinguished (Mollick 2014). Donation-based CF entails online calls for donations, with no obligation to reciprocate with any form of physical reward or return (Bellefamme et al. 2013). Rather, investors support a cause or interest that they would want to promote (Sorgenfrei 2021), gaining immaterial rewards, such as public recognition (Bouncken et al. 2015). Reward-based CF has been gaining strong momentum recently to finance the needs of start-up businesses (Miglo 2020). It offers some form of material or immaterial reward, in return for sponsorships (Fleming and Sorenson 2016; Chemla and Tinn 2019; Lipusch et al. 2020), such as investors' access to a product before its formal release in the market (Bouncken et al. 2015), or future discounts. Loans/Debt-based CF implies the issue of small loans to entrepreneurs at an interest rate (Bouncken et al. 2015; Donovan 2021), differing from "peer-to-peer" lending (Fleming and Sorenson 2016) in that it involves the so-called crowd, contrary to individual-to-individual involvement. Equity-based CF is also called "crowd investing" or "investment crowdfunding" (Bouncken et al. 2015; Donovan 2021). Typically, crowd funders receive monetary compensation in the form of equity, revenues, or through profit-sharing agreements with the business they are investing in (Bellefamme et al. 2013). Due to associated legal and practical constraints, this form of CF is less popular (Fleming and Sorenson 2016).

The potential growth of crowdfunding

A report by Fleming and Sorenson (2016), which was later supported by Hiller (2017), indicates that over the period 2009 to 2015, the majority of CF was debt-based, followed by the donations-based model, while the equity-based option was one of the fastest growers. In 2014, the total funds raised through CF with in the African context was less than 0.1% of the total worldwide CF markets

(Massolution 2015). In South Africa, specifically, 10.4 million US$ was raised through CF in 2015, which increased by 4.1 million US$ in the first quarter of 2016 (Garvey et al. 2018). The dominating CF model in Africa seems to be rewards-based (FSD Africa 2017; Garvey et al. 2018), although in South Africa, overall, donation-based CF dominated with a 57% share, followed by the reward-based model (37%). Admittedly, these numbers are minute in terms of global standards. The potential growth is, however, undeniable if CF as a phenomenon is optimized (Miglo 2020), such as in the UK that raised 4.2 billion US$ in 2015 through CF, and New Zealand, where investments soared from 3 million US$ in 2013 to 22 million US$ in 2014, and to 268 million US$ in 2015 (Garvey et al. 2018). In both countries, the debt-, and equity-based CF dominated.

The dilemma

Undoubtedly, start-ups and small to medium enterprises have high growth potential and are important drivers of innovation and job creation, particularly in the economies of developing economies (Donovan 2021). They are, however, risky and opaque compared to established businesses, explaining why it is generally difficult for them to attract capital from established financial institutions and external investors. Subsequently, the majority, unfortunately, eventually fail (Alharbey and Van Hemmen 2021), tarnishing investors' interest in start-up companies.

Moreover, different types of CF entail different levels of commitment from investors and entrepreneurs, with entirely different outcomes for the relevant parties, which may be daunting, unless CF as a phenomenon is aptly understood. As an example, Hiller (2017)s cautions that is likely that entrepreneurs might opt for the debt-based model to source capital because it is very popular worldwide, while Equity-based CF could produce the largest average absolute amount of funding per campaign. This suggests that investors, too, should be informed about the benefits that they could derive from their involvement in the endeavour.

Most entrepreneurs' financial needs stem from a need to either experiment and develop new products, or to grow and expand their businesses, which is difficult to accomplish amid strict regulations from traditional financial institutions. This elevates entrepreneurs' expectations of the benefits, especially the financial benefits, that could be derived from CF (Hiller 2017), particularly when attracting a large number of people through the Internet (Jelinčiċ and Šveb 2021). Evidence indicates that many small and medium enterprises and start-ups in developed economies where CF is more established have in recent years transformed traditional financing practices by rather seeking funds from crowd platforms than from financial institutions such as banks (Alharbey and Van Hemmen 2021). In countries where CF has become a more established phenomenon, it has emerged as a popular, alternative source of financing for entrepreneurs.

This research hence proposed that:

H1 Knowledge about CF significantly influences.

H1.1 Potential investors' willingness to participate in CF initiatives

H1.2 Potential investors' willingness to invest in the CF initiatives of start-up businesses

H1.3 The likelihood that entrepreneurs would pursue CF to supplement their resources.

Motivation to pursue or to support CF initiatives

Thaler's acquisition-transaction utility approach (1983) guided the investigation of the most prevalent reasons/motivation why people would participate in CF initiatives.

Accordingly, two utility values may be derived from a transaction (such as CF), namely acquisitions and transaction utility (Thaler 1985). A potential investor's decision to invest is generally determined by the value that may be gained from the investment, relative to the actual amount invested, keeping some reference amount in mind, along with perceived benefits investors anticipate may be derived from the investments (Lichtenstein et al. 1990). With impact investing, which is a relatively new phenomenon, an investor's satisfaction may be derived from contributing to an important social and environmental cause, apart from envisaged financial returns (Clarkin and Cangioni 2016; Feola et al. 2017), suggesting shared value (Porter and Kramer 2011). In this study, acquisition utility value refers to the economic gains that an investor (or entrepreneur) may derive from an investment. This links the amount invested with the benefits, which are calculated relative to the monetary value that investors/entrepreneurs believe they will derive from the transaction (Ha 2015; Thaler 1983, 1985). Entrepreneurs can subsequently boost value perceptions by enhancing investors' perception of the commodities they are investing in, relative to the amount invested, to increase perceived net gains (Grewal et al. 1998). The transaction utility value of investment entails a comparison of the amount invested, to what is perceived to be realistic, assuming a relationship between the amount invested, and the perceived value. This acknowledges additional benefits beyond what investors may believe they are receiving, such as benefiting from the image of the product/service they have invested in, or satisfaction derived from taking advantage of the opportunity to invest in a particular endeavour (Thaler 1985; Lichtenstein et al. 1990; Grewal et al. 1998). Ultimately, investors compare the amount invested with their perception of the value of their contribution. Translated in terms of CF, transaction utility represents the pleasure derived from becoming involved as an investor. For example, investors' contributions towards social causes were predominant in terms of funding volume by CF in 2014 (Bugg-Levine and Emerson 2011; Hiller 2017), indicating that people's knowledge of a particular cause would motivate their involvement concerning a plea for funding. Eventually, the involvement of investors and entrepreneurs in CF initiatives can be fueled by multiple reasons, but both parties will probably express predominant, yet different reasons to become part of a CF initiative (Bugg-Levine and Emerson 2011; Feola et al. 2017). Accordingly, this research hypothesised that:

H2 Potential investors' knowledge of a particular cause will influence their motivation to support a particular CF initiative.

Due to a lack of funding for small businesses, especially start-up businesses with no proven track record (Valanþienơa and Jegeleviþinjtơb 2014; Miglo 2020), CF would enhance entrepreneurs' affinity for CF to address this problem, hence the hypothesis that:

H3 Entrepreneurs are more strongly motivated by financial needs (acquisition utility) to pursue CF.

Transaction utility represents the pleasure that is derived from a person's involvement as an investor, particularly when interested in the business initiative (Bugg-Levine and Emerson 2011; Feola et al. 2017). Worldwide, for example, contributions towards social causes have dominated CF by volume (Bugg-Levine and Emerson 2011; Hiller 2017). The study hence proposed that:

H4 Potential investors' support of CF initiatives is associated with implications other than financial benefits, thus the implied transactional utility.

Methodology

Empirical data were gathered through an electronic survey. An invitation for participation was posted on social media, with clear instructions concerning the purpose of the research, the eligible age for participation, as well as the link to the survey that could only be accessed if interested individuals were 18 years or older. Respondents were kindly requested to forward the invitation to acquaintances, reminding them that participation would be anonymous and that responses would remain confidential. By not limiting the population to entrepreneurs, or individuals who had previously participated in CF initiatives, an opportunity was created to include respondents who were familiar with the phenomenon, as well as those who were not, to gain evidence of the effort that might be required in the future to promote CF. After two weeks, snowball sampling was used to attract more responses within the older age and higher income categories that were underrepresented. The researcher approached particular individuals to gain access to their social circles. Data collection was done over a period of three weeks.

The survey link to the electronic questionnaire was preceded by an introductory screen (cover letter) that explained the purpose of the research. Because CF is not widely used in the country yet, crowdfunding (CF) was defined and related funding models were explicated in relevant sections of the questionnaire after completion of the first section that explored respondents' awareness of CF. Explications of the different forms of CF were included to prevent confusion while completing the questionnaire. Respondents had to grant permission to use their responses as part of the aggregated data for academic research purposes. To facilitate completion of the questionnaire when using smaller, handheld electronic devices, instructions for completion of the scales were repeated, following the recommendations of three of the ten respondents who completed the pre-test. Based on evidence that CF is not yet widely established in the country (Garvey et al. 2018), the CF phenomenon, as well as the different CF models, was defined as part of the instructions for completion of specific sections of the questionnaire. Realising that the sample would include a smaller percentage of practicing entrepreneurs and that some respondents who are employed might consider pursuing new business ventures in the future, instructions to the different sections were that respondents had to envisage a scenario "in the capacity as a potential investor", and "in the capacity as entrepreneur, should they start their own business in the future". Therefore, all the sections were completed by the entire sample.

Four sections were presented in the questionnaire for completion. All responses, excluding the demographic section, were captured in terms of five-point Likert-type "Likelihood" scales (1=highly unlikely and 5=highly likely) (Vagias 2006).

• The introductory demographic section was intended to describe the profile of the sample.

• Next, followed a section that explored respondents' knowledge/awareness of CF, even before any definition or explanation of the phenomenon was provided. By awareness, this study meant how conscious the population is, and recognizes crowdfunding as a financial mechanism (De Leon and Mora 2017). This entailed two questions where respondents' self-report of their knowledge was captured, as implemented by Islam (2017). Firstly, they indicated on a five-point scale (ranging from 1=not at all aware to 5=extremely aware) their awareness of crowdfunding as a phenomenon. More specifically in the second question, they indicated how knowledgeable/ informed they considered themselves with crowdfunding (1=I have no idea what it means or entails; 2=I have heard of it before, but do not understand what it entails; 3=I fully understand what it means). Hereby, a mean score for awareness, and self-reported knowledge and understanding of the phenomenon were calculated. Respondents then indicated their businesses' time of operation (if applicable), which distinguished more than five years, and up to five years as "*More Secure*", and "*Less Secure*" businesses, respectively.

• The section dealing with the popularity of different forms of CF comprised 14 items that were adapted from previous studies that specified in detail, reasons for the relative popularity of different forms of CF in terms of the related advantages and disadvantages (Gazzaz 2019; Khan, and Baarmah 2017): seven items each, investigated investors' and entrepreneurs' perceptions of CF, asking "As an investor in crowdfunding (now or in the future), how likely are you to participate in a Crowdfunding initiative?", and "As an entrepreneur who wishes to acquire funding for a business (now or in the future), how likely are you to participate in a Crowdfunding initiative?".

• Investors' motivation to pursue CF was investigated through 17 items, derived and adapted from previous studies. Specifically, Gerber, Hui, and Kuo (2012) implemented a qualitative, inductive research design to explore people's motivations for participating on computer-mediated crowdfunding platforms in America, using one-on-one semi-structured interviews with crowdfunding creators and funders. Items were confirmed in the quantitative study of Islam (2017) that was based on a scrutiny of literature, and which produced reliable outcomes. Accordingly, two sections in the questionnaire discriminated broader, social reasons, and personal motivation. The 7-item section on entrepreneurs' motivation to pursue CF was adapted from previous research, namely the qualitative investigation of Vergara (2015) that produced insight on motivations for CF in the Philippines; the quantitative study of Sırma et al. (2019) conducted in Turkey, focusing on entrepreneurs' motivation to rely on CF; and the study of De León and Mora (2017) that compared people's motivation for participation in CF in Trinidad and Tobago, and Jamaica, based on successes across various industries.

Data analysis

Descriptive statistics served to describe the sample profile and to present some idea of the sample's awareness of CF as a phenomenon, as well as their willingness to support CF initiatives to either support small businesses or to finance their business ventures. Exploratory factor analysis (EFA), specifically Principal Axis Factoring (PAF) using Varimax rotation with Kaiser normalization, was used to identify the predominant reasons to invest in CF. Two-tailed t-tests were used to distinguish the responses of respondents who were more, or less knowledgeable about CF.

The survey attracted interest across the two most affluent provinces in South Africa, namely Gauteng (78.4% of the sample), and the Western Cape (13.4%). The sample (N = 231) comprised of 44.8% males (n = 103) and 54.8% females (n=127), with one missing response; 61% (n=141) of the sample was aged between 18 and 39 years, while the remainder were older; 58.4% (n = 135) was full-time employed, 28.1% self-employed entrepreneurs (n = 65), and 12.9% (n = 30) was either employed part-time or students, while one respondent was unemployed at the time. Due to the convenient sampling technique, and resource limitations, the sample was unfortunately not representative of the population. However, the researchers were confident that those who completed the questionnaire willingly, demonstrated interest in the topic, which would enhance honest and truthful responses. The sample size was sufficient for the envisaged statistical analyses, while the gender- as well as the age composition sufficed to present a fairly balanced view.

Empirical findings

Awareness and knowledge about crowdfunding

Concerning respondents' knowledge and awareness of CF, an approximately equal percentage of respondents considered themselves as knowledgeable, and not: 49.9% indicated that they fully understood what it meant, compared to 39% who had heard of it before but did not fully understand it, in addition to the 11.1% who had no idea what it entailed. Notwithstanding near half of the sample understanding the phenomenon (Mean=3.09; Mode=3.0; Max = 5; SD = 1.2), the majority of the sample (84.8%) had never invested in CF initiatives before, with near a third (32.9%) indicating that they are unlikely/very unlikely to support CF initiatives in the future. Comforting, though, is that near a third of the respondents (29.4%) were likely/very likely to invest in CF initiatives if the opportunity arises. Only 4.6% (n=30) of the entrepreneurs in the sample had participated in CF before. A similar percentage (29.9%; *n* = 69), when compared to the scenario as potential investors (32.9%' *n* = 76), indicated that they are likely/very likely to seek CF in the future to fund a business venture. Unless all entrepreneurs were financially secure, CF therefore apparently still evokes some hesitation.

The most popular/ viable form of crowdfunding

The questionnaire specified and defined four key streams of CF, namely *stock shares*/equity-, *debt/loan-, rewards-*, and *donation-based* CF to ensure respondents' correct interpretation of the questions within context. Both in the capacity as investors and entrepreneurs, respondents expressed distinctly, and different preferences for certain types of CF, although their preferences were more closely aligned for debt/loan-based CF ($M_{Inv.}$=2.83; M_{entr}=2.94). The biggest discrepancy concerned donations-based CF that seems less attractive for investors ($M_{Inv.}$=2.39; M_{entr}=3.20), and probably not a sensible option for entrepreneurs to pursue. On the contrary, the most preferred form of CF from investors' perspective was equity-based CF (*M*=3.55). Differences in potential investors' and entrepreneurs' preferences for different types of CF are visually presented in Fig. 1.

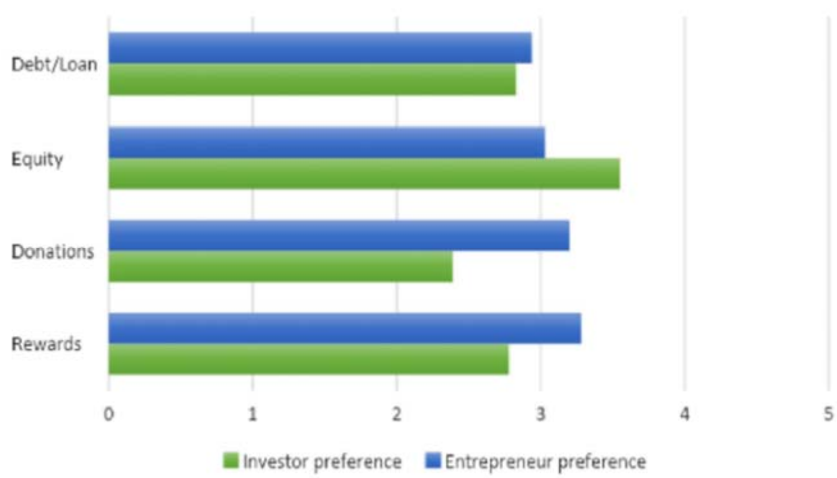

Fig. 1 Investors and entrepreneurs' CF preferences

From the perspective of investors, equity-based finance emerged as the most attractive type of CF (64.5%; *M*=3.55, Max=5) that respondents were likely/very likely to support in the future, supporting previous evidence that this model of CF is growing faster compared to all forms of CF (Hiller 2017). A much lower percentage of the potential investors (36.8%) showed interest and were enthused (*M* =2.83) by debt/loan-based investments, and investments that offer tangible rewards in return (32.1%; *M* =2.78). Least attractive, was donation-based Investments (20.3%; *M* =2.39). Surprisingly, potential investors did not necessarily require evidence that a business is secure to encourage investment, as 63.2% (*M* =3.54) of the respondents were willing to invest in less secure businesses (start-ups), compared to an almost equal percentage (61.9%; *M* =3.55) who were willing to invest in more secure businesses with a proven track record. Respondents' (37.8%; *M* =2.90), willingness to invest in less secure businesses even if they could not produce a good track record, is rather encouraging. SMEs should therefore confidently explore the potential of CF to afford their businesses some momentum, as small businesses' contribution is crucial for economic growth and sustainability (Song and Tian 2020).

The influence of knowledge concerning CF on potential investors' willingness to invest in more secure, and less secure businesses, was investigated using an independent sample's two-tailed *t*-test. Hereby, it is significantly more likely (p = 0.015) for people who are more knowledgeable about CF (*M* =3.50), to invest in more secure, established businesses, compared to less knowledgeable people (*M* =3.22).

Therefore, *H1.1 proposing that knowledge of CF significantly influences potential investors' willingness to participate in CF initiatives, is supported.*

More should therefore be done to inform the broader public about CF, all the models of CF, and how they could become involved to optimise entrepreneurs' chances to grow their businesses.

Evidence was presented that less secure businesses that have been in operation for less than five years have a fair chance to attract investment through CF as almost fourty percent (37.8%) of the respondents as potential investors were willing to support them. Further examination indicated that the likelihood of investing in less secure businesses does not differ significantly (p=0.07) for knowledgeable (*M* =2.79) and less knowledgeable people (*M* =2.59; *M* >2.5; Maximu *M*=5).

Therefore, *H1.2 proposing that knowledge of CF significantly influences potential investors' willingness to invest in the CF initiatives of start-up businesses, is not supported.*

Although people's willingness to invest in start-up businesses is only moderately strong, this is an encouraging finding knowing that a start-up business does not entirely discourage potential investors—irrespective of whether they are acquainted with CF or not. Two outcomes can be derived from the findings. Firstly, it is imperative to encourage entrepreneurs to pursue CF to gain momentum in their businesses, even at the start of their venture. Secondly, it should be understood, from investors' point of view, that the support of small businesses may be motivated by other incentives than to benefit financially, as the perceived financial risk associated with the support of a new business without established evidence of success does not seem to deter investors out rightly. In support, studies conducted by Clarkin and Cangioni (2016) and Feola and co-researchers (2017), suggest that investors' satisfaction may be derived from the transactional utility, thus gaining pleasure from contributing to an important cause, such as job creation, and a pressing environmental cause, apart from envisaged financial returns, thus the transactional utility.

From an entrepreneurs' perspective, a need for funding is indisputable, in that only 34.8% (*n*=80) indicated that it is unlikely that they would seek investment when starting a new business, compared to 19.5% (*n*=45) and 28.6% (*n* =66), respectively, who indicated that they would do so for more-, and well-established businesses. Near half of the respondents (48.5%; *n* =112) indicated that they would seek CF when starting their businesses. The need for investment increased for more established businesses, with 58.2% (n =134) and 54.1% (n =125), that would seek investment for businesses around five years of existence, and thereafter, respectively. Without exception, for every type of funding, those who–in the capacity as entrepreneurs–were likely to seek investment (rewards-based: 51.5%; Donation-based: 51.2%; Equity-based: 45.9%; Debt-based models: 42.4%), exceeded the percentage of those who were not likely to do so (Rewards-based: 22.1%; Donation-based: 33.8%; Equity-based: 36.8%two; Debt-based models: 40.3%).

Two CF models, namely rewards-based finance (51.5%) and donations (51.2%) were identified as the most preferable that entrepreneurs might pursue, both near equally acceptable (M=3.28, M =3.20, respectively). Their affinity/interest for equity-based investments and loans should however not be negated (45.8% and 42.4% of the respondents, respectively), as it showed an above-average attraction (M =3.03; M =2.94).

An independent sample's two-tailed t-test revealed that knowledge about CF does not significantly influence the likelihood that entrepreneurs might pursue CF (knowledgeable: M =3.23; not knowledgeable: M =3.10; p=0.26).

Therefore, H1.3, proposing that knowledge about CF significantly influences the likelihood that entrepreneurs would pursue CF to supplement their resources, is not supported.

Predominant motivation for investment

From investors' point of view, the predominant motivation for investment was explored by subjecting the battery of items in the relevant section of the questionnaire to Exploratory Factor Analysis (EFA), to distinguish coherent factors in the context of this study as potential investors' motivations/reasons for participation in CF initiatives. Based on the Scree plot, with an eigenvalue=1 as cut-of point; the ten items assimilated under two factors that were labelled: "Personal and Financial gains" and "Ecologic and Social issues", respectively, which coherently explained 64.3% of the variance in the data. The Kaiser–Meyer–Olkin measure of sampling adequacy of 0.879 (sign=0.000), indicated that these two factors were significantly distinguishable and internally consistent (Cronbach Alpha>0.7) (Pallant 2013) (see Table 1).

Table 1 Investors' predominant reason for investment in CF

Item	Factor 1	Factor 2
Being part of a convenient form of funding	**0.738**	0.217
Ease of entering into a loan agreement	**0.736**	0.133
Evidence that many investors have already supported a specific crowd-funding initiative	**0.725**	0.082
Gaining early access to innovative projects	**0.685**	0.203
Supporting entrepreneurs	**0.665**	0.398
The expectation of monetary benefits	**0.654**	0.008
Expanding the existing variety of products in the marketplace	**0.648**	0.143
Contributing to solving the dilemma of a scarcity of funding in recent times	**0.597**	0.457
Supporting a social or humanitarian cause	0.121	**0.933**
Supporting an environmental cause	0.130	**0.735**
Mean	3.41	3.57
SD	0.77	1.07
Cronbach Alpha	0.89	0.83
% Var explained	48.73	15.57

Bolded figures represent the stronger cross-loadings for a particular item across the two factors

Although both factors (reasons) seem rather important (Factor 1, Personal and Financial gains: M = 3.41; Factor 2, Ecologic and Social issues: M = 3.57; M_{Max} = 5), the means indicate that both are rather strong motivations for investment. However, the support of humanitarian or environmental causes (transaction utility) seems a stronger motivation for investment among potential investors than to derive personal and financial gains (acquisition utility) (see EFA outcome as presented in Table 1). This outcome supports previous research arguing that investors' satisfaction when supporting CF, may be derived from contributing to an important social and environmental cause, apart from possible financial returns (Clarkin and Cangioni 2016; Feola et al. 2017). This acknowledges additional benefits that go beyond what investors may believe they are receiving, particularly financial benefits. For example, investors may be motivated by their association with the image of the product or service they have invested in, or mere satisfaction in that they have optimised an opportunity to invest in a particular endeavour they believe has merit (Thaler 1985; Lichtenstein et al. 1990; Grewal et al. 1998). From potential investors' point of view, the motivation to invest is therefore not necessarily financial in kind, and not necessarily related to acquisition utility.

While the study found that knowledge about CF significantly influences potential investors' willingness to support CF initiatives, an independent sample's two-tailed *t*-test indicated that it does not significantly influence their motivation to support CF. Whether knowledgeable concerning CF or not, potential investors however concurred that their' strongest motivation to support CF initiatives, is to serve "Ecologic and Social issues" -, significantly more so (p=0.13) than to achieve "Personal and financial Gains" (p=0.794).

Therefore, H2, proposing that potential investors' knowledge of a particular cause will influence their motivation to support a particular CF initiative, is supported.

From entrepreneurs' point of view, a similar EFA procedure (PAF; four iterations; Cronbach Alpha=0.93; Kaiser–Meyer–Olkin measure of sampling adequacy=0.885), assimilated the seven items in the questionnaire as a single factor, that was labelled "Ease of business conduct", hence not discriminating financial support from other forms of support such as marketing and convenience, as presented in Table 2.

Table 2 Entrepreneurs' motivation to pursue CF

Item	Factor 1
Easy access to a larger audience	0.896
The benefits associated with crowdfunding	0.873
The associated marketing opportunity	0.853
Ease of attracting investments	0.846
Difficult access to traditional financing sources such as banks, angel investors, venture capital	0.832
The convenience of an array of platforms whereby possible investors can be reached	0.825
Unfavourable interest rates of formal institutions	0.633
Overall Mean	3.61
SD	0.92
Cronbach Alpha	0.93
% Var explained	72.56

An independent sample's two-tailed *t*-test indicated that it is significantly more likely (p=0.032) for entrepreneurs who are more knowledgeable about CF (M =3.76), than those who are not (M =3.50), to seek CF to gain access to an array of resources, including benefits such as marketing, but not necessarily elevating financial benefits as the predominant motive.

Therefore, H3, proposing that entrepreneurs who are more knowledgeable about CF are more strongly motivated by financial gains (acquisition utility) to pursue CF, is not supported.

Clarity about this outcome was achieved by ordering the calculated means for the seven items of the construct "Ease of business conduct", in descending order. The three strongest descriptors that were almost equally important, are: "Easy access to a larger audience" (*M* =3.76); "The associated marketing opportunity" (*M* =3.73); and "The convenience of an array of platforms whereby possible investors can be reached" (*M* =3.70). Particularly noteworthy, is that entrepreneurs perceive CF as an easy way to market their businesses, somewhat more so than to benefit from "Ease of access to funds" (*M* =3.64); "Complications related to traditional funding routes" (*M* =3.57), and "Any benefits associated with crowdfunding" (*M* =3.57). The weakest criterion is "Unfavourable interest rates of formal institutions" (*M* =3.30).

Potential investors' consideration of expected gains

This study firstly explored *the likelihood that potential investors would invest in CF* initiatives, followed by an investigation of their *motivation to support CF*, discriminating potential investors who are knowledgeable about the phenomenon, and not. Subsequently, responses to items that examined *the potential gains* that investors may derive from participation in CF (Table 3), were subjected to EFA (PAF; Kaizer normalization; eigenvalue=1; Kaiser–Meyer–Olkin measure of Sampling Adequacy=0.84). One item, with a low inter-item correlation (r=0.328), namely: "To invest simply as a pass-time" was deleted. The remaining items were assimilated as a single factor (see Table 3) that does not discriminate between personal and social gains (Cronbach alpha=0.83). The factor was labeled "Personal and social gains", producing an above-average overall mean for potential investors' expectation of gains when participating in CF (*M* =3.23, M_{Max}=5).

While potential investors apparently do not distinguish social gains (transactional utility) and financial gains (acquisition utility), when investing in CF initiatives, an independent sample's two-tailed t-test indicated that knowledge about CF does not significantly influence (*p*=717) the expected gains that they anticipate deriving from their involvement in CF (knowledgeable: *M* = 3.22; not knowledgeable: *M* =3.23).

Therefore, H4, the expected gains that potential investors anticipate to derive from their support of CF initiatives, is related to transactional- rather than acquisition utility (financial gain), is not supported.

Table 3 Investors' consideration of potential gains

Item	Factor 1
Considering the associated enjoyment of the venture	0.784
To gain the associated recognition from others	0.738
To benefit from the associated compensation	0.714
For the sake of contributing to a sense of community	0.694
Specifically, if the aim is to reap social benefits apart from financial growth	0.604
Mean	3.23
SD	0.78
Cronbach Alpha	0.83
% Var explained	68.71

Discussion and implications

Despite vast differences in the funding models associated with CF, which should make it easier for potential investors to become involved, the phenomenon has thus far not yet gained the expected momentum in developing economies where a dire need exists for job creation and economic growth. This study aimed to provide some insight concerning investors' and entrepreneurs' knowledge, the likelihood that they would pursue CF in the future, their willingness to become part of CF as well as their motivation to do so, to indicate how CF could be propagated in emerging economies to simulate the success reported elsewhere in the world. Ideally, for entrepreneurs to optimise CF as a funding opportunity and to attract investors, all have to be better acquainted with what the various funding models imply. The electronic survey designed for this investigation posted an open online call for participation to adults aged 18 years and older on social media platforms. Because CF is not an established form of funding in the country yet, the invitation explained the purpose of the research, and to prevent confusion, crowdfunding was defined. The associated funding models were explicated from an investor's as well as entrepreneurs' point of view. Following completion of the demographic section, respondents were asked to complete all the sections of the questionnaire, assuming the capacity as either potential investor, or entrepreneur, where applicable. A mix of respondents (*N*=231) was recruited, comprising an almost equal gender representation, including entrepreneurs, full-time employed adults, as well as a few part-time employed individuals and student s (<10%).

As a point of departure, respondents were first questioned about their knowledge of CF in general. Near half of the respondents admitted being acquainted with the phenomenon and what it entails, although near 85% had never invested in a CF initiative before. Although barely one percent of the operating entrepreneurs in the study had made use of CF before, it was comforting that after being informed about the phenomenon and funding models in the cover letter, near a third of the respondents–whether adopting the role of investor or entrepreneur (29.4% and 30%, respectively)—were willing to support or pursue a CF initiative should the opportunity arise in the future. Very limited participation of respondents in CF initiatives in the past, and indications that approximately one in three respondents are likely to participate in CF in the future suggest that the uptake of this form of funding has to date probably been jeopardised by some form of hesitance, doubt, ignorance, and even reluctance.

Concerning the likelihood to support CF initiatives, evidence of empathy towards start-up businesses was evident as potential investors were not necessarily dissuaded to financially support less secure businesses. However, results confirmed that it is significantly more likely for people who are more knowledgeable about CF to invest in more secure, established businesses. Surprisingly, entrepreneurs indicated that they are more likely to seek financial support after five years to grow their businesses. Of greater concern in the earlier stages of a venture seems to be guidance and assistance with marketing-related matters and media, which confirms the merit of promoting different CF models where investors can become involved in different ways.

Concerning the most popular type of CF that might be more viable for SMEs to pursue, distinct, yet different preferences were expressed by potential investors, compared to the scenario of an entrepreneur. The biggest discrepancy concerned donations-based CF that was the least popular from potential investors' point of view, although it was the most attractive from entrepreneurs' perspective. Concurring with literature (Hiller 2017), equity-based CF, seemed the most preferred form of CF overall and equally acceptable by near two-thirds of the sample in the capacity as either investors as well as entrepreneurs. Donations- and rewards-based CF were significantly less attractive from an investment- than from an entrepreneur's point of view. The type of funding pursued should therefore be contemplated very cautiously by entrepreneurs to attract investors.

What became clear, is that a willing investor is not necessarily attracted by all funding models, and a miss-match could easily result in a lost opportunity for both parties.

While the study concluded that knowledge about CF significantly influences potential investors' willingness towards CF initiatives, it was found that whether knowledgeable concerning CF or not, potential investors' strongest motivation to support CF initiatives, is related to the transactional utility of a venture, specifically to serve "Ecologic and Social issues", rather than for acquisitional utility that implies financial gains. This probably explains potential investors' empathy towards start-up businesses. Notwithstanding respondents' knowledge about CF, a stronger motivation exists for potential investors to support endeavours with social- and environmental underpinnings than to gain financially from their investments. In essence, therefore, potential investors' CF contributions seem rather unselfish, and while knowledge about CF might attract more funds, knowledge about CF does not significantly influence the potential gains that investors expect to derive from their involvement in CF. This study found that investors' support of CF initiatives is not driven by financial gain and personal agenda, such as to gain exposure or recognition as previous research indicates (Sorgenfrei 2021).

Limitations

This quantitative study relied on a convenience sample and therefore, the findings can not be generalized across the population. While it was useful to describe certain behavioural patterns, a subsequent qualitative study would enhance our understanding of investors' and entrepreneurs' apparent hesitance to actively pursue and/or support CF initiatives. The results are based on the views of respondents who assumed the position as potential investor and as an entrepreneur. While this captured the views of individuals who might in future adopt either role, another study might gather the views of operating business owners of SMEs with more experience to share their thoughts. The study relied on respondents' self-reported knowledge of CF: in future, with more evidence about the different formats of CF, the knowledge test could test specific aspects of every type of CF to provide more detail of potential issues that might jeopardize people's involvement in this viable funding alternative. The study can furthermore not infer cause and effect, due to the cross-sectional nature of the investigation.

Conflict of interest

On behalf of all authors, the corresponding author states that there is no conflict of interest in this research, of any kind.

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