



# **Crowdfunding: Status Quo in Finland**

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<p>Abstract:</p> <p>The objective of this study is to capture the status quo of crowdfunding in Finland and research the experiences and motivators of Finnish companies that have used crowdfunding. Crowdfunding has become not only a popular topic in the area of modern financing but also a widely known tool for companies of various industries. It has already had a major impact in the financing sector internationally, forming a faster, more flexible and a highly innovative way of financing in comparison to the more conventional channels. However, the phenomenon in Finland is currently a rather non-researched topic. Perceiving both the opportunities and risks and understanding the phenomenon's current state in Finland is crucial for local companies that seek financing using this specific channel. During the study, the author used mixed methodology research, qualitative research and secondary research to be able to draw conclusions of the current status and the experiences of Finnish companies concerning crowdfunding. The study itself is not strictly outlined when it comes to e.g. focusing on businesses of different sizes or industries, but rather aims at delivering a good overall understanding of companies' reasons behind using crowdfunding by going through a few practical examples. The primary data for the research was gathered through interviews and questionnaires in order to receive as much reliable first-hand information as possible, whereas the secondary data relied on literature, news articles, research papers and general public information found e.g. through published books, governmental sources, litigant companies' websites and annual reviews on the topic. The findings of the study seem to be in line with the assumptions the author had before the study concerning crowdfunding – the industry is facing an upward trend in Finland, receiving positive feedback from majority of stakeholders involved and even actions on governmental level to ensure that the industry keeps growing.</p>	
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<p>Tiivistelmä:</p> <p>Tämän opinnäytetyön päämääränä on tuoda ilmi joukkorahoituksen nykytila Suomessa sekä tutkia tätä rahoituskanavaa käyttäneiden suomalaisten yritysten kokemuksia ja näkemyksiä asian suhteen. Joukkorahoitus on viime vuosina saavuttanut laajalti huomioon otetun aseman modernin rahoituksen saralla osoittaen samanaikaisesti toimivuutensa useiden vaihtelevilla aloilla toimivien yritysten apuvälineenä. Sen voidaan katsoa vaikuttaneen huomattavasti rahoitusmarkkinoihin kansainvälisellä tasolla tarjoamalla nopeamman, joustavamman ja innovatiivisemmän rahoitusväylän verrattaessa perinteisiin rahoituskanaviin. Tästä huolimatta ilmiö on Suomessa tasolla vielä toistaiseksi melko tutkimaton. Joukkorahoitukseen liittyvien riskien, sen tarjoamien mahdollisuuksien sekä ilmiön tämänhetkisen tilanteen ymmärtäminen on hyvin merkityksellistä yrityksille jotka hakevat rahoitusta kyseistä kanavaa käyttäen. Kirjoittaja on käyttänyt tätä työtä tehdessään ns. ”mixed-method” –tutkimusmenetelmää, laadullista tutkimusmenetelmää sekä tehnyt aineistotutkimusta kyetäkseen muodostamaan johtopäätöksiä ilmiön tämänhetkiseen tilaan ja siihen liittyviin näkemyksiin ja kokemuksiin liittyen. Itse tutkimus ei ole tarkoin rajattu mitkä tulee koskien esimerkiksi tietyn alan tai tietyn kokoluokan yritysten tutkimiseen, vaan tutkimuksen tavoitteena on pikemminkin tutkia mitkä syyt saavat suomalaiset yritykset käyttämään joukkorahoitusta. Lopputyön sisältämä primääriaineisto on kerätty haastatteluiden ja kyselyiden kautta tiedon ajankohtaisuuden ja luotettavuuden varmistamiseksi. Sekundääriaineisto koostuu aiheeseen liittyvästä kirjallisuudesta, lehtiartikkeleista, tutkielmista, tiedosta, jota on kerätty esimerkiksi alan toimijoiden kotisivuilta sekä valtiollisten lähteiden julkaisuista. Tutkimuksen löydökset vahvistavat kirjoittajan oletuksia ilmiön suhteen – joukkorahoitus on selkeässä nousujohteessa Suomessa markkinoilla, keräten samalla positiivista palautetta sidosryhmiltä ja jopa toimia hallitukselta alan kasvun jatkamisen turvaamiseksi.</p>	
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## FOREWORD

This thesis would probably not have succeeded if it weren't for the support that I received from multiple people on different occasions and the guidance provided to me by Arcada's teachers and staff.

Firstly I wish to thank my parents for their ever-optimistic attitude and all the help and support they offered me during my studies.

The second party that I wish to address and show my gratitude to are the teachers and the staff at Arcada. I must confess that I have not always perceived the amount of effort and contribution that you put to us students, but as our common path begins to come to an end, this is something that I have lately come to think of and wish to truly thank you all for.

Finally I wish to thank all of the people who participated in my research and had the time and interest to put an effort to their answers. This concerns especially Aki Kallio who offered me great insights on my topic and had an exceptionally helpful attitude in providing me with material that I was either unaware of or did not have the access to.

To everyone mentioned in this text - your help was of great value in the making of this thesis, and it would not be complete without your contribution.

# 1 INTRODUCTION

The purpose of the first subchapter is to explain the author's motivation behind the decision to choose crowdfunding as his area of research. Later the phenomenon's short history and importance in the modern world are discussed.

Continuing to the second subchapter, here the author sets the aim of the study, whereas the 3<sup>rd</sup> and 4<sup>th</sup> subchapters discuss previous research of the topic and set the questions for the research. The 5<sup>th</sup> subchapter introduces and explains the limitations that both external issues and the author set for this thesis.

The 2<sup>nd</sup> part of the introduction discusses the theoretical framework used in the study, familiarizing the reader with relevant researches and findings that were used to structure the theoretical argumentation and comparing points used in the study. The second chapter briefly introduces the chosen method used for the research. Finally, the 3<sup>rd</sup> and 4<sup>th</sup> chapters discuss the key definitions used in this work and set the structure for the study, in that order.

## 1.1 Motivation for the choice of research topic

Crowdfunding has become a hugely popular phenomenon since its transference onto the World Wide Web, although the practice itself has been used on multiple occasions throughout history. The most famous and quite astounding historical example of this is very probably the funding of New York's Statue of Liberty's plinth in 1885. The US had received the statue itself as a diplomatic gift from the French government, but had trouble in finding the money for the plinth used to hold the statue. The publisher at the time of a newspaper called New York World, Joseph Pulitzer, decided to harness the power of his fellow citizens in order to gather the required money for the plinth and launched a crowdfunding campaign in his newspaper. This campaign successfully gathered the required money for the plinth, thus promoting not only American communality but also pioneering crowdfunding campaigns to-come. (BBC, 2013)

During the past few decades crowdfunding has adapted to the modern market very successfully and has grown to be a surprisingly popular option in terms of both financing and investing. This has been possible through providing both investors and seekers of financing a flexible and fast way of connecting with each other while creating a new-born competitor for the traditional financing institutions. (Guardian, 2013)

The history of crowdfunding as it currently is perceived as in the World Wide Web is considered to have started back in 1997, when the fans of a British band started a campaign online in order to raise money for the band to be able to make a tour in the US (ukcfa.org).

Since then, the popularity of the practice has increased astoundingly and there seems to be no signs for the stop of the growth – in 2014, the industry raised a total of \$16.2 billion, while the same number for 2013 was \$6.1 billion. According to the same research, there are currently a massive amount of 1250 different crowdfunding platforms (i.e. websites that act as markets for crowdfunding) that are up and running (Reuters, 2015).

As for the industry in general, the financing markets have gone through drastic changes during the past few years due to new regulations and the poor economic development, and thus it has become much more difficult for small- and medium-sized enterprises to get financing through traditional channels worldwide (Kalmi, 2013). Due to the late development, it is obviously important for small- and medium sized enterprises to have and research financing alternatives.

The innovativeness, growth and popularity of crowdfunding and the current status of the financing industry are all partially responsible for the author's decision to research this topic in particular, but personal motifs exist also.

The author's interest to research and write about crowdfunding builds upon three points; the first one being that the author works in the sphere of financing and is keen on keeping up-to-date with new industry trends. The second is that the author has an interest towards crowdfunding concerning possible future opportunities and needs in the sphere of entrepreneurship. Finally, the author had no prior experience or knowledge whatso-

ever concerning crowdfunding, and thus perceived writing about it as a worthy challenge to end his degree with.

The author hopes that this thesis gives both him and the reader the opportunity to receive a better understanding of crowdfunding, how it has proven to work in the local markets, what are the risks and threats associated and what is the current overall status of the industry.

## **1.2 Aim of study**

In comparison to the traditional sources of financing, crowdfunding in Finland is still a relatively new phenomenon and as for now, rather lightly and unclearly regulated (Finanssivalvonta, 2015). For some companies which are facing trouble finding the required money for growth at the current financing markets it could be the only available source of financing.

Crowdfunding has already displayed a glimpse of its potential during the past few years and is quickly becoming increasingly popular for various types of businesses in Finland. During this research the author sought to identify the current status of crowdfunding as it is in Finland today and how it is perceived on the market from the perspective of the companies that have had experiences with it.

In addition to seeking answers to these questions, the author personally perceives using of crowdfunding more as a choice of strategy rather than as plain seeking for financing due to crowdfunding's manifold nature and by this study aims to correct or confirm this thought.

## **1.3 Previous research and research gap**

Crowdfunding, as stated in the earlier chapters, has quickly become not only a hot topic in the financing industry, but also a very considerable alternative for companies to seek financing through. Since its adaptation to the WWW and the beginning of the still ongoing hype around it, general information, news, terminology, case studies etc. have



become easily available online and the topic has had a few author's to write about it as well, not to mention all the reports created by different organizations, such as Massolution or Deloitte.

Despite its popularity (especially in the US), crowdfunding in Finland is currently a rather non-researched topic apart from a few thesis- and other works, good examples of these being Lasrado's (2013) master's thesis that took focus on the phenomenon in Finland at a general level and Marjomaa's (2013) bachelor's thesis that focused on researching both the legal status of crowdfunding in Finland and the traits associated with it as a source of financing.

Apart from the limited literature, a large amount of rather comprehensive outlooks and statistics on the industry have been gathered and published lately by the Finnish Government. The main reason behind this trend is that the legislation that affects crowdfunding is being currently discussed in the Finnish Parliament and the gathered material is being used as a key source of information when making decisions.

The size of the industry in Finland in 2013 was estimated at 18 million euros (Valtiovarainministeriö 2015, p. 7), while according to a Finnish newspaper, *Keskisuomalainen*, the size in 2014 was already as high as 57 million euros. (Pietiläinen, 2015) The reader should take note that the evaluation of the Finnish Ministry of Finance (Valtiovarainministeriö) is not highly accurate due to the facts that the industry is currently not very firmly supervised in Finland and because one form of crowdfunding, donation-based crowdfunding is excluded from the evaluation.

From the author's point of view, the fact that not even the Finnish Ministry of Finance is currently able to gather data on the industry that could be described as reliable captures the present state of crowdfunding in Finland quite well – that is, it is still a newcomer in the local financing sphere, controlled and supervised lightly and seeking its place. However, by looking at the numbers (see next page for Figure 1) it is easy to depict that the industry is certainly facing an upward trend also in Finland although not at a pace compatible to e.g. that of the United States, where the market size has grown from 1.6 billion USD to 17 billion USD from year 2012 to year 2015.

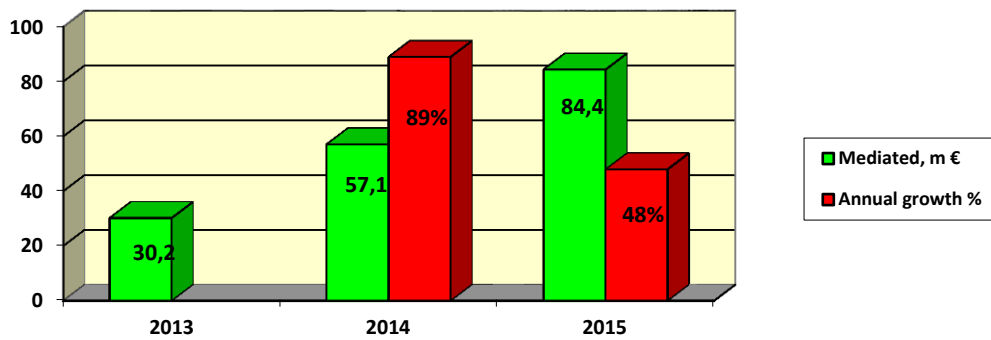


Figure 1. Estimated size & growth of the crowdfunding industry in Finland 2013-2015 (Finnish Parliament, 2016)

Internationally, some researches that have studied the reasons behind choosing crowdfunding exist, a fairly comprehensive example of this being Micic's (2015) work. In his research he studied e.g. the key motifs for companies that sought financing via crowdfunding among other points. Steinberg and DeMaria (2012) have also outlined the key advantages and downfalls of crowdfunding in contrast to traditional sources of financing.

Due to the rather scarce research material and practically non-existent published literature on crowdfunding's status in Finland it is important that the phenomenon, market and development are all researched and that the information is extracted together into holistic and clear reports or researches. Doing so would offer further help for all the stakeholders connected into crowdfunding in Finland one way or another in terms of more efficient decision-making, better and more accurate forecasting of the outcomes of their choices and increased general awareness on the current status of crowdfunding in Finland.

## 1.4 Research questions

As stated in the previous chapters, crowdfunding in Finland is currently a rather non-researched topic. However, the phenomenon internationally has gained a huge amount of attention both from the investors and seekers of financing and it is yet to be seen whether it will grow up to be as popular in Finland as it is abroad.

The overall status of crowdfunding in Finland is currently a large question mark both for a large group of potential investors and the parties that seek financing. For some, applying for crowdfunding may be perceived as an act of desperation, i.e. the last available option, while some consider it as plain innovativeness.

Another issue that has caused suspiciousness towards crowdfunding is the legislation. The different interpretations from authorities concerning the legislation have caused for funding runs to become cancelled after authorities have adjudicated the actions as either or illegal or to have been started without the correct permissions, which in turn has attracted negative attention towards the industry.

A good example of such negative occurrences is a crowdfunding run held in Finland that was set up in order to gain financing for a Swedish-teaching book. The campaign was hugely successful and received a lot of positive feedback, until the funding run (during which a party gathers financing from investors) attracted the Finnish Police's attention. The police questioned the legality of the run based on Finnish legislation that has a specific set of laws regarding collecting of money. After a while the funding run was deemed as collection of money by the local police, which requires a permit from the authorities. Since the party that had sought financing had no existing permit they had to cancel the whole run, returning the gathered money to the investors. (Böhm, 2014)

In contrast to the risks, limitations and confusion that are involved with crowdfunding in Finland it is also crucial to be able perceive the possibilities that it provides and to research positive experiences that companies have had using it.

Therefore, the questions for the research are as following:

1. What is the status quo of crowdfunding in Finland?
2. What are the risks, advantages and perceptions associated with crowdfunding in Finland from the point of parties that seek financing?

## 1.5 Limitations

Since crowdfunding has been on the Finnish markets for a relatively short time in comparison to other countries, it is still quite a fresh topic to research. In practice this is well displayed by the amount of e.g. published literature available on the topic. In addition to this the methods used to evaluate different features of the phenomenon may vary between organizations. Only lately somewhat trustworthy material concerning the industry has become available, mainly due to the phenomenon's visibility on the Finnish market and the fact that the legislation that concerns crowdfunding has become under discussion in the Finnish Parliament.

Another major limitation concerns the availability of potential participants for the research: as the business in Finland is very small in comparison to countries abroad, such as the US, the author had to use convenience sampling to be able to gather a proper sample for the research. The task of collecting willing participants and gathering the results afterwards proved out to be more demanding than what the author had expected, and also the sample size ended up being smaller than what was planned due to a lack of potential and willing participants.

As the study focuses on the Finnish market, similarly the secondary research material primarily focuses on Finnish sources or sources that discuss the issue on a global approach or an approach that can be perceived as generalizable to Finland and the Finnish market.

Due to the set focus area and the nature of the research questions, the primary research material used to answer the second research question has been gathered directly from professionals and individuals working on either the crowdfunding platforms or the companies that have used crowdfunding.

To provide the reader with a good overall understanding of the status of crowdfunding in Finland, the author has interviewed Finnish professionals working in the sphere and researched the current market environment, both in terms of market development and legislation.

## **2 THEORETICAL FRAMEWORK**

In this part of the introduction the author defines the theoretic frame that is used to approach the topic and the research questions. This is achieved by going through some of the previous studies and relevant researches on the topic.

For this research, the two most relevant studies are most probably Micic's (2015) book published in the beginning of 2015 and the Finnish Parliament's proposal for the new laws concerning crowdfunding from the 2<sup>nd</sup> quarter of 2016. For his book Micic conducted a large-scale research studying what companies seek from crowdfunding and what are the risks involved.

The latter of these two is a proposal for the new laws that would concern crowdfunding along with an accurate and holistic overview of crowdfunding's current situation both in- and outside of Finland. These proposals are used by the Finnish Parliament in their decision-making process when adjusting laws. The overviews included in these proposals are put together by large groups of experts and include opinions and statistics gathered from stakeholders working close to or in a specific industry (Finlex).

In addition to these, Dresner's (2014) and Gerber & Hui's (2013) works are used to gain further support for the findings of these two publications. In his study Dresner attempted to capture the then state of crowdfunding along with some assumptions of what the market might turn into in the future, whereas Gerber & Hui focused on identifying the motivators for crowdfunding-seeking parties, although by approaching the question at a much more qualitative manner in comparison to Micic.

### **2.1 Method**

The chosen research methods for this study were both qualitative and mixed research depending on the interviewee. For platforms, the researches were conducted using qualitative approach, whereas companies were interviewed using a mixed research.

## 2.2 Key definitions

In this chapter the key terminology is explained in order to give the reader a good understanding of the industry-specific words included in this research, different subcategories of crowdfunding and other relevant definitions. As for crowdfunding, several subcategories exist – therefore it is crucial for the reader to be able to distinguish them from one another.

### Crowdfunding

The term crowdfunding refers to the collection of funding from large pool of investors (hence the word “crowd”) by both companies and private individuals for a vast variety of projects and needs. Crowdfunding typically involves a company working as a middleman between the investors and the applicants. These middlemen are called platforms, and they provide a technical solution (e.g. a webpage) where the crowdfunding projects are displayed to the public and through which investing and applying for crowdfunding is made possible (see Figure 2). (Eduskunta, 2016)

The screenshot displays the Invesdor website interface. At the top, navigation links include 'Invest', 'Get funding', 'News', 'Case studies', 'How it works', and 'About us'. A summary bar shows 'Capital invested: 13.53M €', 'Successful rounds: 57', and 'Companies listed: 129'. The main content area is titled 'Featured businesses raising funding' and features two project cards. The first card is for 'TPS football – the story of a lifetime', a Turku-based football club, with a funding goal of 300,000 - 400,000 €, 46 days to invest, and 204,850 € invested (68% progress). The second card is for 'JUNO', opening soon, with a goal of 225,000 - 389,380 £, located in Rickmansworth, UK, and a 'Round is being showcased'. To the right, an 'Events' section lists 'Entrepreneurship Forum 2016 - Everyday Tech' and 'Future Flight Seminar'. A 'News' section highlights 'Invesdor joins the largest industry partnership of its kind in the UK - Race to Scale'.

Figure 2. A screenshot from the website of a Finnish crowdfunding platform, Invesdor, displaying relevant information for the investors. (invesdor.com, 2016)

## **Donation-based crowdfunding**

In donation-based crowdfunding, the made investments are gratuitous and generally used for projects that support e.g. the common good, arts, researches or such. (Eduskunta, 2016)

## **Equity-based crowdfunding**

This form of crowdfunding involves the release of financial instruments, such as bonds or shares, which are offered for the investors in exchange for their investment. The key difference here in comparison to ordinary IPOs is that the instruments, be it bonds or shares, are generally not traded at the aftermarkets and they do not include warranties. (Eduskunta, 2016)

## **Reward-based crowdfunding**

Reward-based crowdfunding collects funds from the investors prior to the production of a specific product or service and up to some part aims at financing the production using the collected money (Digitoday.fi, 2013). Investors who take part in a reward-based crowdfunding project receive a compensation for their investment (Eduskunta, 2016). Depending on the project, it can be the product that was manufactured using the received money or a chance to be a part of the actual project, e.g. to get the investor's name to the ending credits or to perform on a role in a funded movie (IndieGoGo, 2014).

## **Crowdlending**

Crowdlending is lending money from a large group of investors with a promise to pay the borrowed money back to the investors at a specific rate or in some cases without interests. Crowdlending is used by both private individuals and companies alike. (Eduskunta, 2016)

Crowdlending includes two different subcategories: peer-to-company (P2C) and peer-to-peer (P2P) crowdlending.

Crowdlending is a very popular investment alternative offering excellent ROI's. A good example of this is a Finnish company named Fixura that has already distributed loans worth over 52 million euros for the Finnish markets since it started mediating peer-to-peer loans in July 2010. On average Fixura has paid a 10.25% annual interest for the made investments. (Fixura.fi)

## **Status quo**

Status quo in this study refers to the current state of affairs in the crowdfunding industry in Finland. This includes describing and analyzing the market and its threats and opportunities, the actors operating within, the competition and finally the legislation.

## **2.3 Structure of thesis**

This thesis consists of a total of five chapters. The first chapter, introduction, explains the author's motivation and the importance of the addressed topic in the modern world, from where the author continues to set the aim of the study and to discuss previous research and research gap. Finally, the research questions and the limitations are set and explained.

The second chapter, theoretical framework, briefly introduces the reader to the most relevant studies and researches published on the topic. The chosen method for the research, key definitions used in the work and the structure of thesis are also defined in this chapter.

The third chapter, methods, further elaborates on the chosen methods and justifies their use through discussing relevant methodology theories. In addition to that, this chapter also describes the reader the criteria that was used concerning selecting the material that was used in this study.



The fourth chapter, findings, begins by further delving into the literature and researches published on the topic to familiarize the reader with the current market situation and the earlier relevant results concerning the motifs of companies to apply for crowdfunding and the risks associated. Next, the findings of the mixed and qualitative researches are presented and compared with the earlier to see if Finnish trends in crowdfunding follow the international ones.

The fifth and final chapter, discussion and conclusions, starts by analyzing the discovered findings and continues onto the conclusions drawn from these. Lastly suggestion for further research on topic is proposed.

### **3 METHODS**

The purpose of this chapter is to familiarize the reader with the methods and data used in the study. The importance of this chapter lies in setting and justifying the methods used in the study, i.e. in telling what was done and why this specific approach was selected.

The chapter begins with describing the data, both primary and secondary, their advantages and disadvantages when used in a research and the method of collection. Both chapters also include a short description on what type of sources were used for each type of data.

Second part of the chapter introduces the reader to the different research methods used to gather the primary data, the justification of those methods and also the pros and cons associated with them. In addition, the processes of how the data was collected are given an elaboration. The chapter's third and final part discusses the reliability and the validity of the study.

#### **3.1 Data selection & method of collection**

The data that was used in this research was gathered from a wide variety of sources including literature, articles, professional interviews and information and statistics availa-

ble through the WWW. The main reason behind this decision was that the amount of material available on the research topic is rather scarce, and thus all of these means had to be adopted in order to be able to provide a holistic answer to the questions handled in this thesis. Data selection criteria for both primary and secondary data are further elaborated in the following two sub-chapters.

### **3.1.1 Primary data**

The primary data used in this study was collected from different types of stakeholders tied closely to the crowdfunding industry, including platforms, companies that have previously used crowdfunding and professionals working on the currently ongoing governmental discussion on the new legislation concerning crowdfunding. The goal was to receive an up-to-date overall image on the current status of the crowdfunding market in Finland and to map the perceptions of Finnish companies on crowdfunding.

Primary data gives the researcher a very fresh outlook on the researched problem. This is simply because primary data is typically collected during the research, instead of having been collected one or five years ago. In addition to this, primary data is also much more relevant for the research, since the researcher has control over the collection of the data. (Ghuri & Grønhaug 2005, p. 102; David & Sutton 2004, p. 69)

On the downside, primary data can be costly and might require a large amount of work to receive a sufficient sample for the research. Also the accessibility to primary data may be limited – this may cause difficulties especially concerning the phase when looking for willing interviewees. Furthermore, issues concerning quality of the data may also occur for various reasons, such as lack of time or interest towards the research. (Ghuri & Grønhaug 2005, p. 105)

### **3.1.2 Secondary data**

Secondary data and its quality were of particularly high importance during this study - the earlier findings on relevant studies concerning markets and perceptions abroad were used to establish both a base and a comparing point for this study. This practice is useful

when seeking insights and a better understanding of the problem area and to gain help with choosing the method(s) used in seeking primary data (Wrenn et al. 2013, ch. 2 ff). Wrenn and others also mention that secondary data has many advantages over primary data – such as cost-efficiency, faster and a wider availability of data and flexibility. The data is often available for free, whereas primary data may include research costs associated with e.g. the purchasing of recording equipment, telephone charges etc. The faster availability is a rather obvious pro – when approaching a problem with solely on information based on secondary data, there is no need to design and hold time-consuming interviews or using other methods that are typical for gathering primary data. Instead, the researcher can simply head to e.g. the nearest library and start searching for data on the desired topic. Another notable pro of secondary data is that the amount of included samples is generally greater than those of primary data (Sarstedt & Mooi 2014, p. 29).

The disadvantages associated with secondary data are mostly related to issues concerning reliability. For example, the author or the publisher of a specific book, article or other source of data may act bias, driving the writer's personal interests (Driscoll & Brizee, 2013). In order to counter the possibility of using such data, the author consistently cross-checked the validity of the claims by comparing the data to what the author had previously read on the topic and put care on using data provided by neutral, highly reliable parties, such as different state-run organizations.

Another disadvantage of secondary data stems from the reliability of the data when looked at the data from time perspective. The question whether the former results are still valid and up-to-date per today is situational. To counter this downfall, the secondary data that is used in answering the research questions in this thesis is rather fresh, with most of the data being published during the period of 2013-2016. In addition to reliability issues, also the fact that the researcher has no control over the categorization and terms of data can provide headache for researchers using secondary data. Sometimes data may be presented in different forms or words, e.g. measuring household averages instead of individual averages. Depending on the situation, this may make the available secondary data highly irrelevant or practically useless for the researcher (Patzner 1995, p. 20 ff.).

The secondary data used in the study had to be carefully selected from highly reliable sources in order to avoid bias. As some of the secondary data was extracted from sources that could benefit from a positive attitude or outcome on the research, the author had to put effort in maintaining an objective and neutral narrative during the research. In order to do so the author relied highly on neutral sources of data that shared the author's approach on the handled research questions. Some exceptions on the use of neutral sources were made during the study, those consisting of situations where e.g. general terminology or past events were discussed.

### **3.2 Research method & strategy for companies**

The goal of the conducted research on Finnish companies was to hear if they perceive the same risks and opportunities concerning crowdfunding as companies abroad do. The second goal of this research aimed at identifying possible risks and opportunities specific to Finland and what experiences have Finnish companies had when using crowdfunding at the local markets.

The exact selected design method for companies was convergent parallel mixed method, which merges both the quantitative and qualitative methods into one. Combining both qualitative and quantitative research methods into mixed research gives a more holistic overview on a problem than approaching it with a single method. In comparison to explanatory sequential and exploratory sequential methods, this method allows for both the qualitative and quantitative data to be collected simultaneously instead of performing two separate researches. (Creswell 2014, pp. 4-15; Creswell & Clark 2011, p.8)

The chosen research strategy on companies was secondary analysis which exploits previous researches made on the topic (Heaton 2004, p. 16). The main purpose behind this decision was the thesis' goal in verifying whether or not the same occurrences concerning companies' perceptions on crowdfunding also apply in Finland. The author of this thesis studied past researches on the issue, and was able to form a set of perceptions based on those.

Relying heavily upon the past studies, the questionnaire used in the research was designed in a manner that it includes a majority of the common pros and cons associated with crowdfunding abroad, including a few adjustments and also the option to further elaborate the participant's experiences and perceptions on the topic. The used questionnaire can be found in full at the end of this work (see Appendix 1).

The questionnaire was sent via e-mail for the willing participants. In order to gain as relevant data for the research as possible, the companies that were listed as potential interviewees were set the following criteria:

- 1) Be of a Finnish background
- 2) Must have had previous experience with crowdfunding
- 3) Must have operated for over a year.

Since the conducted research was highly personal, also ethical issues had to be taken into account. The respondents were provided with a comprehensive set of questions focused on their privacy, asking what information concerning e.g. company-specific answers or company information could be mentioned in the study.

### **3.3 Research method & strategy for professionals**

The primary goal for the research conducted on professionals was to map what the current status of crowdfunding is and what are the benefits and downfalls associated with it in Finland. As mentioned earlier, the crowdfunding market in Finland is a novel research topic and thus a well-justified method for gathering relevant data concerning this question was particularly important.

As for platforms and other professional interviewees, a qualitative method was chosen. According to the Qualitative Research Consultants Association, qualitative researches are helpful when trying to identify the feelings and perceptions of the researched parties on an issue (QRCA.org). Also Mason (2002, p. 1) agrees with this opinion, stating that:

Through qualitative research we can explore a wide array of dimensions of the social world, including ... the understandings, experiences and imaginings of our research participants...

Furthermore Ritchie et al. (2013, p. 37) also state that the strengths of qualitative methods lie within researching topics which are not well understood or possess a complex or unclearly formulated nature. In addition to these, Stern (1980, p. 20) also claims that qualitative methods are best used when approaching rather non-researched topics, such as the topic of this research.

The potential interviewees were first contacted through e-mail and asked for willingness to participate. In case of a positive answer, the time for the interview was agreed upon and the interview questions were delivered through e-mail before the interview so that the participants could familiarize themselves with the questions and the area that were going to be discussed.

The interviews were conducted via telephone and the calls were recorded with permissions from each of the participants. Both the purpose of the interviews and the purpose of use for the received data were stated for each of the participants both through e-mail and during the call.

The interviews were of a semi-structured nature, meaning that there were a set of questions of which some could be omitted depending on the interviewee. This was an obvious choice for the research, as some of the included questions did not concern all of the participants involved. In contrast to structured interviews, the possibility of additional, elaborative questions in semi-structured interviews is not excluded. In many cases elaborative questions were proposed for the participants. Semi-structured interviews are perceived as a practical research method when trying to seek qualitative data and to answer the questions what, how and why, with a focus on the latter. (Saunders et al. 2009, p. 230 f.)

After interpreting the received data, the participants were contacted via e-mail in order to check if the interpretations were valid and to confirm the authorization to publish and use the received data for this thesis.

### 3.4 Validity of study

With any type of data, be it either qualitative or quantitative, the issues concerning validity and reliability of the gathered data should be given a good thought. However, the view on the validity and reliability is dependent on the type of data. As this research employs a mixed research, it was essential to investigate and discuss all of the approaches.

Reliability is an issue mainly associated typically with the qualitative research approach. The measurement of reliability builds upon the repetitiveness of a study – if the same study, conducted on another occasion leads to the same results as previously, then the study can be described as reliable. Similarly if the outcome was to turn out as highly different in comparison to the original, then there is a high probability that the used measures and thus also the study were unreliable. (Bryman 2015, p. 41)

Validity, when compared to reliability, is a much wider issue. In some occurrences reliability is included as a type of validity. Validity investigates multiple parts of a research, with the sum of all results forming the total validity. A wide amount of descriptions and what is included in the definition of variety exist, depending e.g. on the used context. However, as this is a business study, similarly taking a business approach on the term was an obvious choice. According to Quinton and Smallbone on a book that discusses business researches, validity is divided into four different types, with those being the following:

- 1) Internal validity
- 2) External validity
- 3) Construct validity
- 4) Reliability. (Quinton & Smallbone 2006, p. 126)

Before we continue on to the chapters discussing internal and external validity, the author wishes to mention that those two are in many instances argued to possess a close relationship with each other by nature. In practice this is proven by the fact that a re-

search possessing both high internal and external validity is quite impossible to achieve, since an increase in either causes a decrease on the other. (Berg & Latin 2004, p. 183)

### **3.4.1 Internal validity**

Internal validity possesses a rather constant definition regardless of the context it is used in. The existing interpretations may slightly differ from source to source, but the basic meaning remains unchanged. According to several authors, internal validity is the evaluation of whether or not the correct conclusions could be formed based on the received data. In causal studies, internal validity could be described as the amount to which a research possesses the aptitude to establish a connection between causes and effects. Internal validity is generally an issue associated with quantitative research, and is thus discussed in this chapter only from the quantitative perspective. (Coldwell & Herber 2014, p. 40; Quinton & Smallbone 2006, p. 127 f.; Langbein & Felbinger 2006, p. 34)

Risks that exist in the sphere of internal validity and may cause loss of validity are history, maturation, testing effects, selection and mortality. Risks concerning testing effects and mortality only occur in researches that include a pre- and post-test, and thus no risk concerning those areas exists in this study (Trochim et al. 2015, p. 212). Risks concerned with history are generally associated with unforeseeable changes in the market during the beginning and ending of a research that could have an effect on the results (Coldwell & Herber 2014, p. 40 f.).

As for this study, no major changes occurred in the Finnish crowdfunding market during the research, and thus the validity of the answers when considering the risk of history can be seen as valid. However, it is worth mentioning that since there is currently an ongoing decision-making in progress at the Finnish parliament concerning the new legislation that is to set new regulations and clarify the status of crowdfunding in Finland. If this new legislation would have become effective during the research, it could have had consequences on the validity of the study as the research also included the mapping of how companies perceive the regulatory status of crowdfunding in Finland.



Risk of maturation refers to changes that occur during the research and concern a single individual internally in opposition to risk of history. As the research was done during a very short period of time and took a rather little time from the respondents to complete, the risk of maturation and internal changes in respondents can be seen as almost non-existent. (Fink 2005, p. 93; Privitera 2013, p. 170)

Risk in the selection of sample is caused by erroneous selection of the research participants. For example, if the conducted research in this study would have included charity organisations in the sample, the received data could have been partly biased. This was countered by forming a highly specific selection criterion, which allowed for valid respondents. (Srivastava & Rego 2011, ch. 4, p. 6)

As a conclusion after having discussed the risks associated with internal validity, their existence or absence depending on the type of research and having a look at the countermeasures taken before the research conducted in this study, it is safe to say that the research conducted in this study possesses a high level of internal validity.

### **3.4.2 External validity**

External validity is a term referred to when evaluating the amount to which the results of a research are adoptable to a wider variety of situations or contexts. (Quinton & Smallbone 2006, p. 129).

Existing risks in the sphere of external validity when looked at from the quantitative perspective are mostly associated with the selection of the participants. The risk may increase because of e.g. the researcher choosing a sample including only specific types of companies or people, thus leading to a decreased ability to adopt the research results onto different circumstances. However, in some cases it is particularly important to act so in order to receive as specific information as possible. For this reason, the “appropriate” balance of internal and external validity is dependent on the research. (Berg & Latin 2004, p. 183; Quinton & Smallbone 2006, p. 129)

In this study, the acquired sample for the research was fairly small due to a low availability of potential respondents. Additionally, there was a selection criteria designed to fit the targets of the research which lowered the amount of potential respondents even further. This obviously causes a threat for the external validity. However, a small but precisely selected sample can prove as more useful in comparison to a bigger sample, but only if it has been very carefully selected to fit the needs of the researcher (David & Sutton 2004, p. 20). In addition to this, it has been claimed that random sampling from a small group of potential participants would not provide a representative sample (Langbein & Felbinger 2006, p. 36).

As a conclusion after considering these arguments both for and against the external validity of this study, we can clearly notice that there exists a relationship between internal and external validity. In this particular research this is well mirrored by the truth that the high internal validity leads to doubts on the external side, but not to the extent that it should be concerned of.

Furthermore, Quinton & Smallbone (2006) also mention that external validity could be approached by simply evaluating how well a researcher can transfer the results of a research to another context. Concerning this research, we could e.g. think if we can make generalizations from situations of other countries based on this study. Since the Finnish market includes a higher risk concerning the legalisation of crowdfunding for example in comparison to the US, this would deduct the research's ability to be generalized.

On the other hand we could also think of the other risks, opportunities and perceptions mentioned on crowdfunding in this study – can we assume that some of those are shared by companies operating abroad? This is certain to some extent, simply because we are discussing the same industry. Thus we can reason that this research possesses not only internal validity but also external validity, although the earlier of these two is more present than the latter.

### **3.4.3 Construct validity**

Construct validity refers to checking if the designed measurement used in the research can actually measure what it was supposed to measure and if by conducting a research using those measures we can support an earlier theory on the issue (Weathington et al. 2012, p. 61).

In order to measure construct validity of this research, the author conducted comparisons regarding both of the research questions. For the first research question regarding the status quo of crowdfunding in Finland, Lasrado's (2013) MSc thesis was taken as the comparing point. In his thesis he studied the realities of the Finnish crowdfunding market not from the perspective of companies that had used crowdfunding to gain financing, but instead from the perspective of the platforms and other professionals working in the financing sphere in Finland. In his thesis he investigated issues such as the competition on the market, legalisation and the possibilities and threats associated with crowdfunding in Finland. The results of the research conducted in this thesis share a strong resemblance with his findings, thus creating not only a connection between Lasrado's study and the one conducted in this thesis, but also a clear sign of construct validity concerning this research.

For the second research question of this thesis focusing on the overall perception of Finnish companies on crowdfunding, the comparison point would be that of Micic's (2015) work. Micic has conducted an extensive research on the perceptions and motivators of companies on crowdfunding and since this research supports the past findings, it can be described as possessing construct validity.

However also the question whether or not the used measures measured what they were designed for should be discussed. In this research, the target was to map the perceptions of Finnish companies on crowdfunding and also to achieve an understanding on the status quo of crowdfunding in Finland. How well did the used research design succeed in relation to this? Clearly the used design on Finnish companies included in the sample allows for a good overall understanding of their perceptions on crowdfunding, and similarly the semi-structured interviews provide essential data on describing the status quo.

Thus, we can reason that this research possesses a significant amount of construct validity.

#### **3.4.4 Reliability**

Concerning qualitative studies LeCompte and Goetz have divided the evaluation of reliability into two different areas: external and internal reliability. External reliability is the measurement of the repeatability of the conducted research – can it be conducted by another researcher at a later time and if so, to what extent would the results share a similarity with the answers of the previous research? Internal reliability again focuses on the internal issues that might arise inside a research team. An example of this could be e.g. the different interpretations that two members make based on an answer given by a respondent, thus causing a question about what is the “correct” interpretation from a result. (see Bryman & Bell 2015, p. 400)

LeCompte and Goetz state that the difficulty of repeatability in researches involving people and situations such as interviews is the fact that the setting of the previously conducted research is often impossible to catch and repeat at a later time. Thus, we can raise a question about the internal reliability of this research. However many of the qualitative researches battle with the existence of this very same risk simply due to their social nature, and according to some it is a risk that should not be given concern to when performing a qualitative research. This approach was also adopted for this research. (see Quinton & Smallbone 2006, p. 129 f.)

According to LeCompte and Goetz, external reliability can be achieved by providing a clear description of e.g. the data collection process, the interviewees, the interviewer and the relationship of these two and the setting of the interview used to gather the data. For this thesis some of these details were a mandatory task to include a description of, thus increasing the reliability of the research. In addition to this specific details were added on the thesis concerning other details listed earlier to further increase reliability. However, LeCompte and Goetz also suggest e.g. the use of multiple researchers when conducting a research in order to further increase reliability. Due to the very same guidelines that require the data gathering process to be described in high detail, this op-

tion was out of question since the author of this thesis had to do go through both the writing and research processes on his own. (see Gibson & Brown 2009, p. 232; Seale 1999, ch. 10, p. 2)

After considering the nature of the research conducted in this study, the general risks associated with such studies and the actions that have been taken to counter those, the research can be described as reliable. However if we look at the current market situation of crowdfunding in Finland which is rapidly changing due to e.g. the new legislation that is supposed to come into effect this year (2016), we can see a clear threat on the consistency of the research when looking at the research question concerning the status quo of crowdfunding in Finland. This is however a factor that is obviously persistent in the field of studying rapidly changing environments, and thus attempting to establish evasive actions in order to add to the consistency of this research can be deemed as futile.

## **4 FINDINGS**

This chapter looks into the results received from all the stakeholders on the industry that participated in the interviews in order to answer the proposed research questions. A total number of 11 stakeholders were interviewed for the researches. This amount consists of 6 companies that had previous experience with crowdfunding in Finland, 5 employees working for the platforms operating in Finland and 1 governmental employee who has worked with crowdfunding very intimately during the past few years. In addition to this, also the relevant statistics and data are examined.

As this thesis includes two research questions that handle rather different areas, both of these are dedicated a subchapter of their own. These chapters begin similarly by discussing secondary data available on the topics in order to further familiarize the reader with the past findings, the status quo and to provide a base of information to compare the findings to.

## 4.1 Status quo

The answer onto the question concerning crowdfunding's status quo is sought via analysing both relevant secondary data and the conducted interviews. This chapter begins by discussing the findings on these by going through relevant, up-to-date statistics, secondary data and data received from the interviewees.

The interviewees that took part on the questions concerning the status quo of crowdfunding in Finland were the following:

**Interviewee 1:** Aki Kallio, lawyer / ministerial advisor at the Finnish Ministry of Finance. Kallio has worked on an important role regarding the law proposal on crowdfunding in Finland, among others gathering and creating reports and especially being in charge of the preparation of the Crowdfunding Act itself. In addition Mr. Kallio works as a the representative of Finnish Government in the informal expert group of European Crowdfunding Stakeholder Forum, which assists the European Commission in developing EU-wide policies for crowdfunding.

**Interviewee 2:** Malin Lundsten, Marketing Coordinator at Invesdor.

**Interviewee 3:** Pauliina Seppälä, founder of Mesenaatti.me

**Interviewee 4:** Olli Tannerkoski, founder of Vauraus Suomi Oy.

**Interviewee 5:** Tuomas Talola, CEO of Lainaja.fi / Vertaislaina Oy

### Market situation

The market situation of Finland is very suitable for the industry. Many of the Finnish SME's are currently unable to gain financing due to the tightened lending regulations of banks, but some of these companies might very well attract investors for their business through crowdfunding. Additionally, Finland is a developed country and has a high internet usage rate, having 97.2% of people aged 16-64 using internet within three past

months (stat.fi, 2015). As crowdfunding currently operates largely on the internet and social medias, this gives a good starting point for the industry.

As stated in the introduction, the industry and market size in Finland have both grown rapidly, and the growth is expected to shift even higher. However if we observe the more detailed estimates provided by Finnish Ministry of Finance (see below for Table 1) we can see that there was a notable decrease (-41%, or from 13.7 million to 8.14 million euros) in investment-based crowdfunding from the year 2013 to year 2014. In 2015, the amount of investment-based crowdfunding grew back to approximately the same size as in 2013, estimated at a total of 15.5 million euros - a 90% growth in comparison to the amount in 2014.

*Table 1. Amount funded by different subcategories of crowdfunding 2013-2015 (Eduskunta.fi, 2015).*

	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Reward-based, mil. €</b>	<b>0.227</b>	<b>0.364</b>	<b>?</b>
<i>Growth %</i>	<i>?</i>	<i>60 %</i>	<i>?</i>
<b>Crowdlending, mil. €</b>	<b>16.3</b>	<b>48.6</b>	<b>68.9</b>
<i>Growth %</i>	<i>?</i>	<i>198 %</i>	<i>42 %</i>
<b>Investment-based, mil. €</b>	<b>13.7</b>	<b>8.14</b>	<b>15.5</b>
<i>Growth %</i>	<i>?</i>	<i>-41 %</i>	<i>90 %</i>
<b>Total, mil. €</b>	<b>30.227</b>	<b>57.104</b>	<b>84.4</b>
<i>Growth %</i>	<i>?</i>	<i>89 %</i>	<i>48 %</i>

This magnitude of variance might raise a question on the market stability, especially since the given numbers are annual and thus we cannot justify the changes through seasonal variances. When asked about the factors that have had a negative impact on to the growth of crowdfunding in Finland, interviewee nr. 1 was able to provide a clear explanation for this occurrence. In summer 2014, the authority in Finland that monitors the local financing markets, Finnish Financial Supervisory Authority (Finanssivalvonta), published their interpretation of the current laws. This interpretation set new, additional

requirements for platforms operating in the crowdfunding industry and in some cases even caused the abandonment of already started funding runs (Saarinen 2014).

The Finnish trend on the popularity of different subcategories of crowdfunding shares a high resemblance with the global statistics. During the year 2015, the market share of crowdlending in Finland was estimated to be 81.6%. The same percentage for year 2014 on a global perspective for crowdlending was 68.3% (Reuters, 2015). One major difference exists when comparing Finnish markets to the global ones, that being that donation-based crowdfunding is locally practically non-existent, and by the end of year 2014 no platform offered it to the public (vm.fi 2014, p. 44).

The amount of operating platforms in Finland is rather small. By the end of the year 2014, there was only estimated to be 13 platforms operating at the time. In comparison, the amount of platforms operating in the US alone was estimated to be 375. (Valtioneuvosto 2016, pp. 9-60).

However, according to the interviewees nr. 1 and 4, new entrants are expected to the market and have already even made public statements on their plans. A good example of this is Nordea's announcement to introduce their platform to the markets after the new legislation has come into effect (Nordea.com, 2016).

The platforms currently operating in Finland are highly focused into specific subcategories of crowdfunding. There exists no platform that would offer the investors or applicants all of the subcategories of crowdfunding (see Table 2 next page). It should be noted that in the provided table crowdlending is divided under peer-to-company lending (P2C-lending) and peer-to-peer lending (P2P-lending) for a more accurate description of the situation.



Table 2: Types of crowdfunding alternatives provided by 12 different Finnish platforms (source: websites of listed companies, 2016)

Column1	P2C-Lending	Donation-based	Investment-based	Reward-based	P2P-Lending	Total sub-categories:
Invesdor			X			1
Mesenaatti.me				X		1
Venture Bonsai			X			1
Voraus Suomi	X		X			2
PocketVenture			X	X		2
FundedByMe			X			1
Fixura					X	1
Rapport				X		1
Fellow Finance					X	1
Fundu	X					1
Vertaislaina Oy					X	1
Innovestor Oy			X			1
<b>Total:</b>	<b>3</b>	<b>0</b>	<b>6</b>	<b>3</b>	<b>3</b>	

The amount of competition on the markets among platforms is dependent on the area of operation. For P2C-lending and investment-based companies the amount of competition was considered average by the interviewee nr. 4. Additionally there was a strong expectation that the amount of competition will experience a notable shift as the new legislation concerning crowdfunding comes into effect, thus lowering the barriers of entry for potential new competitors.

For P2P companies, according to interviewee nr. 5, the competition over the investors is not very intense, although some exists. Instead his thought was that the successes among the P2P platforms increase public awareness on the opportunity to invest into these types of companies, which subsequently leads to all of the platforms receiving more attention. However in contrast to P2C-crowdlending businesses, the interviewee mentioned that P2P-crowdlending businesses face major competition concerning finance-seeking individuals from a wide variety of parties operating in the sphere of financing, such as traditional banks etc.

Interviewee nr. 3 described the competition between reward-based platforms as light, mainly basing this opinion upon the fact that Mesenaatti.me is the only reckoned actor in its sphere of operation. However, the interviewee further added that there is some competition coming in from abroad by large platforms operating in the same sphere, seeking to conquer new markets.

## Publicity

The crowdfunding phenomenon in the local markets is actively observed and discussed by Finnish newspapers, introducing both the risks and possibilities to the crowd. Public awareness on the phenomenon and its traits increases also through the actions and funding runs of companies, since companies generally promote crowdfunding along with their financing runs (see ex. below for Figure 3).



31.03.2016 20:00



TPS jalkapallon taustayhtiö, FC TPS Turku Oy, järjestää kaikille avoimen joukkorahoitusannin, jonka tavoitteena on kerätä 400.000 euroa käytettäväksi seuran taustayhtiön taseen vahvistamiseksi sekä maksuvalmiuden parantamiseksi. Seura pyrkii pitämään joukkorahoitusannin avulla toimintansa laadun edelleen korkealla sekä kehittämään omaa juniorityötään. Jokainen yksittäinen ostettu osake on äärimmäisen tärkeä TPS jalkapallolle tällä hetkellä. Joukkorahoitusanti avataan perjantaina 1.4. klo 10.00 ja sen organisoi suomalainen finanssiteknologiayritys Invesdor Oy.

Yhden yksittäisen osakkeen hinta on 50 euroa. Kaikki osakkeenomistajat saavat omistajadiplomin ja äänioikeuden yhtiökokouksessa. Vähintään neljän (4) osakkeen ostaja saa TPS Omistaja -etukortin ja pääsyn TPS Omistaja -sisäpiiriin. Vähintään kahdenkymmenen (20) osakkeen ostaja saa 50 % alennusta kauden 2016–2017 kausikorteista (ei VIP-kortit) sekä TPS Omistaja -kevytuntuvatakin.

Joukkorahoitus on uudehko rahoitusmuoto, jolla haetaan rahoitusta suurelta yleisöltä yksittäisten suursijoittajien sijaan. Startup-yritysten lisäksi joukkorahoitusta on käytetty muun muassa erilaisten kulttuurihankkeiden ja hyväntekeväisyysprojektien varainhankinnassa. Urheilun parissakaan joukkorahoitus ei ole aivan uusi ilmiö ja jalkapallon puolella esimerkiksi HIFK on käyttänyt varainhankintaansa joukkorahoitusta.

TPS:n joukkorahoitusanti on alkanut osoitteessa: [www.invesdor.com/tps/](http://www.invesdor.com/tps/)

TPS-omistajaksi: <http://fc.tps.fi/omistajaksi/>

*Figure 3. A screenshot from a Finnish soccer team's webpage, informing fans and investors about the opportunity to become an owner and describing crowdfunding. (fc.tps.fi, 2016)*

Public awareness was perceived both as a risk and an opportunity for the crowdfunding industry. Multiple interviewees mentioned that public awareness, obviously in positive form, is a key factor in securing the growth for the industry.

Several success stories concerning companies that have used crowdfunding in the local markets can easily be found online, on newspapers and other sources. The availability of the positive information is high, further boosted by the optimistic and expectant general tone of various newspapers towards the phenomenon. However, the industry has also received bad press on a few occasions, e.g. due to the confusion concerning the legal status of crowdfunding and its different subcategories. This type of press was considered to have a severe negative impact to the growth of the industry by interviewee nr. 1.

In addition to the confusion that has circulated on the news concerning the industry, another example of bad press is the bankruptcy of a Swedish P2P-crowdlending company TrustBuddy, which also operated in Finland. It could be described as the worst case scenario for both the crowdfunding industry and the investors who had put their money at stake.

As companies such as TrustBuddy are not currently supervised by authorities, there exists a risk of abuse. In TrustBuddy's case, this risk was realized. As the board of the company was changed in 2015, they noticed that large amounts of funds were missing from the accounts. Eventually the company was declared bankrupt. The whereabouts of the missing funds are still being solved, and 3 former board members have been reported to the police. (Mauno, 2015; Taloussanomat, 2015)

## **Users**

So what type of companies use it? According to interviewees nr. 2 and 4, there is no solid answer to this question. The industries that the applying companies operate in, according to the interviewees, vary significantly. This is well displayed when looking at the websites of the platforms and the currently ongoing financing runs, which include

companies from a wide variety of different spheres of businesses, not to mention the non-profit organizations, art projects and other such parties to whom crowdfunding is also a useful source of financing.

According to multiple interviewees, the only common trait that could be identified among the applying companies is their strong for growth. The motivations and perceptions of the Finnish companies to use crowdfunding will be discussed in more detail in the following subchapter.

## **4.2 Motives & experiences**

This chapter begins by introducing results of earlier researches on the topic, continuing onto reviewing the received data from the companies that participated to the interviews.

The participants to the survey researching motives, perceptions and experiences were the following:

**Interviewee 1:** Matti Lattu, CEO of Heeros Systems Oy

**Interviewee 2:** Marianne Mäkelä, COO of Korjaamo Group

**Interviewee 3:** Pasi Pohjala, CEO of Eximap Oy

**Interviewee 4:** Sanna Kantola, CEO of Lumi Accessories Oy

**Interviewee 5:** Pekka Kääriäinen, CEO of Rakuuna Olut Oy

**Interviewee 6:** Harri Eskelin, founder of Suppilog Oy

### **The choice for crowdfunding**

According to Dresner (2014), crowdfunding provably offers several advantages in comparison to the traditional sources of financing, a few examples of these being a larger

investor pool, increased publicity and a more streamlined way to invest in particular projects or to support specific causes. Crowdfunding by nature is more of a belief-based investing method, meaning that the pressure from the investor's end is divided more equally between having an interesting or promising idea and a stable economy instead of most focusing onto the latter. (Dresner 2014, p. 17-18).

In his book, Micic (2015) asked a total number of 50 companies about were their main motivators to use crowdfunding (see next page, Figure 4 for statistic). The respondents of his study consisted of various nationalities and spheres of businesses, however it should be noted that Micic mentions that the three largest countries of participation were the US, Italy and UK, with the US being the largest country of participation and UK the third largest. (Micic 2015, p. 58 f.)

#	Question	Not at all	Somewhat important	Moderately important	Very important	Extremely important - the principal goal	Total Responses	Mean
1	Money to support my business	4	2	4	20	20	50	4.00
2	Gain access to a market for my product (Pre-selling)	4	2	9	24	11	50	3.72
3	Test the general market reaction to my product or idea	3	1	15	21	10	50	3.68
4	Collaboration/new contacts/networking	8	2	8	25	7	50	3.42
5	Gain recognition in order to be able to approach other investors	10	9	9	15	7	50	3.00
6	Marketing and attention of the media	10	6	9	18	7	50	3.12

Figure 4. A table showing the results of a previously held survey, indicating the motivators on using crowdfunding by respondents (Micic 2015, p. 49)

The results show that most of the companies – not very surprisingly – seek financing through crowdfunding. It is however important to notice that the advantages that are generally associated with crowdfunding were considered to be of importance as well, with all of them being rated at least moderately important on average. The findings are in line with Gerber & Hui's (2013) with some minor differences. In their research Ger-

ber & Hui identified also the advantage of maintaining control over the company instead of giving it away to the investor (Gerber & Hui 2013, p. 12 f.)

The results on the part of the survey that investigated the key motivators for Finnish companies to apply for crowdfunding are presented on Table 3 below.

*Table 3: The results of the survey asking respondents which traits of crowdfunding had the biggest effect into their decision to apply for crowdfunding.*

	No effect	Small effect	Significant effect	Mean
The difficulty of gaining financing through traditional channels		3	2	2,4
Free visibility and new customers & connections		1	5	2,8
Testing the popularity of a product / service / business plan	2	3	1	1,8
The opportunity to collect a significant amount of money at once		5	1	2,2
The quickness and easiness of crowdfunding	1	2	3	2,3

In contrast to Micic’s research and based on the results of the research conducted for this thesis, Finnish companies seem to consider the increased visibility and new customers and connections that come along the most appreciated benefit of crowdfunding. Additionally, all of the respondents saw the better availability of crowdfunding in comparison to traditional sources of financing to have had at least some degree of effect on to their decision to apply for crowdfunding.

In addition to the benefits listed above, interviewees 3 and 6 mentioned two additional factors that had a significant effect in their decision to use crowdfunding. Interviewee 3 told that they took part in a crowdfunding contest held by Tredea Oy, which promised a significant amount of visibility for the contest winner in local channels.

Interviewee 6 added that a significant factor for them was that crowdfunding allowed them to maintain the control over the company inside the company (i.e. they were not required to give any control or voting rights to the new shareowners) and assured that there would be no negotiations concerning the evaluation of the company, which they had previously experienced with angel investors.

The participants were also asked for the risks that they perceive in using crowdfunding. The results of this part of this part of the questionnaire are available on Table 4 below.

*Table 4: The results on the part of the survey asking companies what were the risks they perceived in using crowdfunding.*

	No risk	Small risk	Risk	Major risk	Mean
The obscurity of the current legalisation and the regulation of the industry	2	2	2		2
Unprofessional or otherwise negative visibility	2	3		1	2
Waste of efforts if the funding run doesn't succeed	1	4	1		2
Managing the financing run and the costs associated	1	5			1,83
Leaking information to competitors (e.g. projects, business models etc.)	1	3	2		2,17
Holding onto the promises made for the investors (e.g. rewards)	2	2	2		2

The results concerning the perceived risks shows that on average, all of the associated risks were considered small. However, when looking at the results, we can see that one of the respondents stated that “Unprofessional or otherwise negative visibility” was considered as a major risk. This is an interesting occurrence and something that the author wishes to discuss a little more, as the other respondents saw that this factor caused no risk at all or a risk that was perceived as small.

The reason for this occurrence was solved during the research, although not from the companies which took part into this survey. Interviewee nr. 1 of the part of the research asking participants on the status quo of crowdfunding, Aki Kallio, mentioned that some

of the Finnish companies might perceive (or fear that the public perceives) using crowdfunding as a final straw or somehow otherwise as an desperate act in order to be able to gather financing for a company's needs. This way of thinking may well affect the willingness to apply for crowdfunding and restrain some of the local companies from using it in the near future. However, such perceptions or fears are assumed to decrease in the future by means of wider utilization of crowdfunding by companies as an alternative or complementing financing channel.

## **Experiences**

The same survey also inquired companies for their experiences on using crowdfunding in Finland. In overall, all of the interviewees had good experiences with crowdfunding. On the conducted survey, 50% of the respondents agreed with the statement "Crowdfunding campaign has been an easy project", and furthermore 5 out of 6 respondents agreed with the statement "the used platform has acted professionally and has been supportive".

On the other hand, it should also be mentioned that two of the respondents stated that they had experienced some problems with the service providing platform, regarding mainly unclear stating of expenses and what was described as a "lack of professionalism".

All of the companies agreed that they had generated growth by using crowdfunding, received positive feedback concerning their campaign and that they will use crowdfunding in the future, obviously given that there is a situation both requiring and allowing it.

## **5 DISCUSSION**

The last chapter focuses on analyzing and discussing the results and comparing them with the earlier researches and other relevant secondary data. The primary goal of this study was both to capture the status quo of crowdfunding in Finland and to identify the motifs and experiences that Finnish companies have had when it comes to crowdfunding.



The chapter ends with the author's suggestions for further areas of research concerning the topic.

## **5.1 Discussion and conclusions**

The newcomer of the financing industry, crowdfunding, has certainly gained a foothold in the Finnish markets. In comparison to its current market size, it is a surprisingly popular and discussed topic that gets a large amount of public visibility. The market is currently experiencing major growth, with new service providers and legislation expected to the industry. Also the amount of customers (both of investors and applicants) is expected to rise as the phenomenon becomes better understood and more trusted by the public.

The Finnish market shares some similarities when put under comparison with the global markets, being very dominantly pushed forward by crowdlending. Nevertheless, the crowdfunding market of Finland is currently at developing stage. This is well displayed not only by the increasing growth in the statistics and the large amount of discussion on the topic on all channels, but also by the facts that the discussion indicates that there is a high level of positive anticipation along with some uncertainty associated with the industry. Additionally, also the issues concerning the legislation (or the current absence of a fitting one) further strengthen this claim.

Looking at the statistics and the research data, we can definitely see that the views on the interpretation of the laws and legislation have caused serious disturbances to the industry's growth and also affected the phenomenon's public image during the past few years. Thus the industry could be described as being highly dependent on the interpretations and changes in laws. However, if the new legislation succeeds in both providing the industry with a clearer set of regulations under which to operate and loosening the leash of bureaucracy and limitations currently held on the platforms, the industry may start to grow at an astounding rate.

The new legislation, supposedly coming to effect in July 2016, will also simultaneously reduce the risk of such fluctuations as experienced in 2014, which certainly had a large effect to the industry as a whole. Additionally, the new legislation will very probably lead to crowdfunding getting perceived more as an official channel of financing by the public after clear and common rules have been set for the industry.

It should however be noted that there is another just as important issue that creates a threat for the industry in Finland. That is the development of its public image. After the negative press that the industry has been facing in the local newspapers etc., the importance of building a trustworthy, transparent and in all ways positive public image of the industry to the crowd is highly essential. If the crowd doesn't trust, it certainly doesn't invest.

In addition to the expected improvement of the phenomenon's public image followed by the new legislation, good publicity will without a doubt also help in dismantling such perceptions as considering crowdfunding as a "desperate" or otherwise negative source of financing, attracting new applicants for the industry.

All in all the building of the positive public image is a common task for all of the platforms operating in Finland in order for the industry to be able to achieve the same level of growth as it has experienced abroad. If new TrustBuddy –cases were to occur in the market, these would certainly receive high media attention and cause severe effects to the industry.

Taken that the industry succeeds in building the type of a public image described in the last paragraph and the legislation fills the tasks that it has been designed to, this would certainly lead into a win-win situation for a large amount of stakeholders involved. Finnish small- and medium sized enterprises, as all of the other EU-based SME's as well, are currently facing a hard time due to the strict regulations of banks on lending money.

Through a wider adoption of crowdfunding, local SME's would gain access to a new alternative of financing. The new investments collected through crowdfunding would

promote innovations and growth, and these would respectively accumulate new jobs. This depiction has been also stated in multiple discussions in the Finnish Parliament by various members of the parliament. The list of benefiting parties is numerous, as always if discussing economic growth occurring at a general level.

Apart from the risks mentioned earlier, the general outlook on crowdfunding in Finland remains very promising. The platforms operating in the industry have shown skills in adapting to changes in the market and acting in a professional manner, providing extremely valuable positive press and user experiences for the industry. This has improved crowdfunding's public standing and attracted additional participants to the industry.

The competition in the industry is expected to shift in the near future along with the passage of the new legislation, which lowers the barriers of entry for new competitors. A very interesting example on the development of the competitive situation is Nordea's decision to also enter the business. Nordea is the largest bank operating in the Nordic countries, and possesses a client database of approximately 10 million private individuals.

With a direct access to such large amount of potential investors, Nordea could have a significant impact on the crowdfunding markets in Finland if they succeed in providing the consumers with a working platform. The effects of such a large and a well-known player entering the markets would certainly not be limited into increased competition, but also the public perceptions on the phenomenon would definitely become more admitting, thus promoting the industry as a whole.

Finnish companies seem to have perceived the benefits of crowdfunding quite well, using it strategically for their benefit instead of a simple source for money. This is well displayed by the fact that all of the companies which participated in the conducted research had identified e.g. the benefit of additional visibility that comes along with using crowdfunding, and that they additionally had put much value to this benefit in their decision-making process.

Additionally, all of the companies reported to have achieved growth through using crowdfunding. When summing up this and the other findings mentioned in the study, we can definitely see that crowdfunding has proven out to be a working tool also in Finland, apart from the uncertainty tailing the industry.

Finnish companies did not see any major risks on using crowdfunding on average, with the risk of leaking information to the competitors being considered as the most significant one. This is however a risk that is generally associated with crowdfunding, as applying for crowdfunding obviously requires telling various pieces of information about e.g. a company's plans, strategy or such topics to the public.

## **5.2 Suggestions for further research**

As a foreword for this subchapter, the author wishes to point out that the market is currently at a stage where considerable changes are to be expected in the near future. According to the research, this is mainly due to the new legislation that is to come into effect very shortly. This will certainly have an effect on the industry and be largely discussed in the public. Thus, the author strongly suggests that any further research on the topic should be conducted only after the market has balanced from the upcoming changes. If any researches were to be conducted in the near future, this factor could drastically reduce the reliability of the received results.

### **First proposal – returns on crowdfunding investments**

After finishing this study, the author feels that there are still many interesting research opportunities in the sphere of crowdfunding in the Finnish market. The most interesting topic, from the author's point of view, would be to research the actualized returns of crowdfunding to investor.

Depending on the scope of the research, a research such as this could e.g. seek to deliver the public information concerning average returns on investments made through crowdfunding, failure rates of the funded projects or companies, successes and such. As for now, no such data is available in holistic researches, statistics or annual reports.

This type of research would provide the potential investors interested in crowdfunding with essential answers and help in making investment decisions, simultaneously increasing the transparency of the industry in the eyes of the public. Currently only a few platforms publish and collect such information, with all of the publishing platforms operating in the area of P2P-crowdlending.

### **Second proposal – growth of crowdfunded companies**

Another particularly interesting area of research would be conducting a wide research on the amount of growth and success that successful crowdfunding campaigns have brought to Finnish companies. Although this type of a research would very probably require a large amount of time and effort, it would certainly add to the transparency of the industry in the eyes of the investors and other relevant stakeholders. The author recommends that the time period that would be observed in the research should be decided upon after a careful evaluation, as it might have a significant effect on the received results.

### **Third proposal – effects of crowdfunding to an economy**

The third and final of the author's suggestions for further research concerns investigating the phenomenon's effects onto an economy of a specific area or country. By this the author means seeking out how many new jobs have been created through the increased investments made possible by crowdfunding, how much more taxes have been paid and other such relevant issues.

As Finland is still a relatively small market in terms of crowdfunding, there is a better chance than e.g. in the US that the broader consequences of the phenomenon could be captured. The findings of such research could then be later generalized when measuring the effects on another surrounding or alternatively at another time in Finland. Although highly ambitious, this type of a research would allow for a way clearer understanding of the phenomenon and its effects on a wider perspective.

In comparison to the two suggestions mentioned earlier, this would be a very challenging task in all aspects. For the research to succeed, the researcher (or more preferably the research team) should definitely possess prior experience in investigating similar issues. Additionally, a significant amount of time should be reserved for the research and the designing of used research tools should be done in a highly professional manner to ensure the accuracy and quality of data.

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## **7 APPENDICES**

### **7.1 Appendix 1: Questionnaire used on researching percep- tions and experiences**

1) Where did you first hear about crowdfunding?

On a magazine	
Internet	
At work (through e.g. a colleague)	
Other, what?	

Comments to question 1:

2) What were the risks that your company perceived in using crowdfunding?

	No risk	Small risk	Risk	Major risk	Mean
The obscurity of the current legislation and the regulation of the industry					
Unprofessional or otherwise negative visibility					
Waste of efforts if the funding run doesn't succeed					
Managing the financing run and the costs associated					
Leaking information to competitors (e.g. projects, business models etc.)					
Holding onto the promises made for the investors (e.g. rewards)					
Other, mark the amount of risk and elaborate below on the "comments" section.					

Comments to question 2:

3) Which factors had an effect into your decision to apply for crowdfunding (instead of other channels of financing)?

	No effect	Small effect	significant effect	Mean
The difficulty of gaining financing through traditional channels				
Free visibility and new customers / connections				
Testing the popularity of a product / service / business plan				
The opportunity to collect a significant amount of money at once				
The quickness and easiness of crowdfunding				
Other, what? Mark the amount of effect and describe the factor below on the "comments" section.				

Comments to question 3:

4) What type of an experience has crowdfunding been to you overall at this stage?

	Yes	No
Crowdfunding campaign has been an easy project		
Service provider* has been supportive and acted professionally		
We have received a lot of positive feedback concerning the funding run		
Crowdfunding has helped us to grow		
We will gladly use crowdfunding also in the future		

\*Crowdfunding platform, e.g. Invesdor, FundedByMe etc.

Comments to question 4:

5) Other comments concerning the topic

Comments to question 5:

6) Questions concerning privacy

	Yes	No
Our company and basic info can be mentioned in the study		
The position and the name of the interviewee can be mentioned in the study		
Given answers can be mentioned given by the interviewee		