

# Crowdfunding among Entrepreneurs in Ireland

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## Introduction

In the new global economy, crowdfunding has become a powerful tool to assist entrepreneurs. This new platform has been described as a ‘disruptive business model’, transforming the financial landscape for entrepreneurs worldwide. In numerous countries including America, the UK, Canada, Australia and South Korea, sectors as diverse as information technology, creative arts, social and community groups, have embraced this new funding arena with startling vigour. Recent statistics indicate that in 2013, approximately US\$5.1 billion (Massolution, 2013) were contributed in the form of crowdfunding. By 2015, this figure had increased rapidly with estimates of over US\$ 34.2 billion being exchanged among global crowdfunding platforms. According to Forbes (2017), the crowdfunding industry is set to overcome venture capital funding with a CAGR growth rate of 17% forecast for the next 5 years.

Given the potential and growth within the industry, it is not surprising that the academic community has taken notice, with a proliferation of academic studies within the last five years. Studies suggest that crowdfunding has become a real alternative to traditional funding methods (Gedda *et al*, 2016; Roggan, 2015; Estrin *et al*, 2017), enabling entrepreneurs raise much needed capital and seed funding boost (Belleflamme *et al*, 2013; Rossi, 2014; Cumming *et al*, 2015; Lam and Law, 2016; Baskerville and Cordery, 2014; Ingram and Teigland, 2013; Lehner, 2013; Schwenbacher and Larralde, 2010), particularly at the crucial start-up stage (Sassoon and Duggal, 2015, Belleflamme and Lambert, 2014). Moreover, research suggests that in addition to much needed capital injection, non-financial benefits in the form of market validation and building business confidence are also part of the crowdfunding appeal. By placing new ideas on a crowdfunding platform, the project becomes part of the public domain allowing entrepreneurs engage with the crowd and thereby receiving much needed comments and feedback (Rossi, 2014 and Bruton *et al*, 2014). There is also new evidence to suggest that crowdfunding is also opening the door to other funding arenas (Agrawal *et al*, 2015) traditionally beyond the scope of start-ups.

While the evidence is overwhelmingly positive, there are concerns. Agrawal *et al* (2015) cautions that crowdfunding is not without its challenges for small businesses and entrepreneurs in terms of the sheer workload and skillset involved. There is also the issue of intellectual property and copycat imitations has now led to serious discussions regarding regulation of the sector. Despite these concerns, there is clearly huge potential for entrepreneurs. A case in point is that of Ireland. As a small open economy, Ireland relies heavily on entrepreneurial activity. Some 99.8% of all Irish businesses are in the small and medium category accounting for some 70% of employment here. New firm development and growth is still a major policy drive for the Irish economy. Over the last number of years, our entrepreneurial level has increased to approximately 11% comparable to that of the USA and

UK. However, a major stumbling block for entrepreneurs and start-ups in Ireland remains the cost of finance. A recent study conducted by the Central Bank of Ireland, found that Irish SMEs are paying in excess of 2% higher for new business loans than their European counterparts. This lack of access to funding is further compounded by evidence from the European Central Bank which shows that small firms and start-ups are likely to face crippling rejection rates from traditional funding sources; the rejection rates for start-up funding from banks in Ireland is close to 20%, compared to 3% for larger businesses in Ireland.

In the context of the above, crowdfunding offers huge potential for the Irish business community. Despite this, little is known in terms of adoption rates, uses and challenges in using crowdfunding by Irish entrepreneurs. While individual case studies have been compiled there is little empirical research to date.

Using both interviews, with key stakeholders working in the sector and survey results from 120 start-up entrepreneurs, across a range of sectors, this research suggest that there are significant gaps in Ireland in the use and uptake of crowdfunding. While over 90% of entrepreneurs surveyed have heard of crowdfunding, only 15% have actually participated in a crowdfunding campaign to date. The results suggest that a major gap exists in terms of knowledge and use of crowdfunding in Ireland. The reasons identified were lack of information and supports and training.

While the authors recognise that this is a small study, the evidence suggests that there are significant information asymmetries between entrepreneurs and the crowdfunding industry in Ireland. While the current discussion in Ireland on regulation is clearly warranted, the evidence presented in this study suggests that given the huge potential crowdfunding offers Ireland and other small economies, more needs to be done in terms of bridging the information gap between entrepreneurs and the crowdfunding industry. Policy makers and enterprise support agencies, charged with developing enterprise development in Ireland clearly have a crucial role to play in this.

### **Discussion and hypothesis development**

Crowdfunding is a relatively new term on the financial landscape. The first formal documented definition was cited as 2006. Since then numerous definitions have emerged. Within the literature, Schwienbacher and Larralde (2010) provide one of the first clear and definitions. The latter define crowdfunding as “the financing of a project or a venture by a group of individuals instead of professional parties (like, for instance, banks, venture capitalists or business angels)’ (p.4). Subsequently definitions by Raskerville and Cordery (2014) and Belleflamme *et al* (2013 p.8) view crowdfunding as an “open call, essentially through the internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiative for specific purposes’. From providing start-ups with a much needed capital injection to enabling community groups to access money, crowdfunding the public via the internet, offers huge appeal and opportunity for almost everything.

Since its conception, four different types of crowdfunding have emerged, namely rewards-based, donation-based, equity based and lending / debt crowdfunding. Each type comes with its own strengths as noted by Sassoon and Duggal, (2015). Among the most popular are Indiegogo developed in 2008 and Kickstarter in 2009. Since then there has been an explosion in crowdfunding platforms worldwide. It is estimated that there are in excess of 375 platforms in North America alone, and that the volume of crowdfunding platforms worldwide is in excess of US\$16.2 billion. According to a recent report by Technavio the

global crowdfunding market is expected to grow at a CAGR of approximately 17 percent from 2017 to 2021. Commentators, suggest that the industry is growing exponentially every year. It's potential to disrupt how money flows throughout economic systems is set to affect all major industries and markets. As noted by Raskerville and Cordery (2014, p.3) and Cohnen (2016) crowdfunding is a 'disruptive business model' and its impact is only emerging.

To date there is overwhelming evidence on the potential of crowdfunding for entrepreneurs across an array of industries in terms of raising funding, building confidence and skills development.

Raising funding remains among the most widely cited benefit of crowdfunding. Due to the difficulty facing entrepreneurs raising capital in the early stage of their projects (Agrawal *et al*, 2015; Rossi, 2014; Schwienbacher and Larralde, 2010; Gelfond and Foti, 2012) crowdfunding has been shown to offer a real alternative method for entrepreneurs seeking financial assistance (Sassoon and Duggal, 2015; Agrawal *et al*, 2015; Belleflamme *et al*; Moritz *et al*, 2015; Belleflamme and Lambert, 2014; Lehner, 2013; Ingram and Teigland, 2013). Moreover, studies suggest that crowdfunding can act as a conduit to enable entrepreneurs access additional funding methods such as angel investing, venture capital and bank loans (Sassoon and Duggal, 2015; Agrawal *et al*, 2015; Belleflamme *et al*, 2013; Moritz *et al*, 2015; Belleflamme and Lambert, 2014; Lehner, 2013; Ingram and Teigland, 2013). This is particularly advantageous for entrepreneurs in the creative and community sectors, crowdfunding offers huge advantages (Sassoon and Duggal, 2015; Agrawal *et al*, 2015; Yoo and Chan, 2014; Belleflamme *et al* 2013; Ingram and Teigland, 2013), Belleflamme *et al* (2013), who have often been outside the traditional funding arena.

While raising funds directly with crowdfunding is the most attractive motivation for entrepreneurs (Agrawal *et al*, 2015; Schwienbacher and Larralde, 2010; Roggan, 2015; Gedda *et al*, 2016), crowdfunding also provides other notable benefits. Using crowdfunding can ease the stress and restore hope when attracting external finance in the early stage of the project successfully (Gedda *et al*, 2016). Other benefits exist in terms of building confidence, gaining customer and investor feedback and crucially market validation (Gedda *et al*, 2016; Bretschneider *et al*, 2014; Sassoon and Duggal, 2015). According to the latter, 'by receiving validation, entrepreneurs' perception of ability can be raised and can be lead to increased confidence and therefore expanding capabilities' (2015, p13). Similarly as noted by Rossi (2014, p.16), 'crowdfunding offers an effective way to measure if an idea, a product or a service has appeal' prior to market launch. There is also evidence which suggests that managing a successful crowdfunding campaign helps entrepreneurs develops crucial skills set. According to Gerber *et al*, (2012) and Freedman and Nutting, (2015) the process of crowdfunding, requires entrepreneurs to develop a profile and clearly establish their monetary goals and to clearly manage and plan funding and goals. Skillsets that are crucial for successful business development.

However, there are challenges. Crowdfunding by its very nature can lead entrepreneurs to disclose business details or intellectual property to the public, thereby exposing them to competition and imitation (Agrawal *et al*, 2013)<sup>1</sup>. There is also concerns from studies (Agrawal *et al*, 2013; Belleflamme and Lambert, 2014; Cumming *et al*, 2015) which indicate that platforms often set fundraising targets and if the project cannot meet the target, funds will

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<sup>1</sup> In 2010, Scott Wilson launched TikTok Lunatik watch kit on Kickstarter. The campaign was successful. But the design and trade mark were not secured before launching the business. Consequently, there were many copycats with fake Lunatik watches (Smith, 2013).

return back to the crowd, thereby the project will be regarded as a failure. There is also the issue of time and resources involved and the skillset required for a successful campaign. For instance, Cumming *et al* explains (2014) that an entrepreneur can provide information related to his or her project (i.e. text, picture, video). The more entrepreneurs update information about the project, the greater the potential to attract investors (Cumming *et al*, 2014). ‘Although such interaction allows creators to collect feedback, it also diverts resources and time from execution’ (Agrawal *et al*, 2013, p.17). Finally, there is also some concern regarding a lack of knowledge of the various platforms. This has led to concerns regarding the regulating of crowdfunding. In UK crowdfunding is regulated and it provides tax concessions (Estrin *et al*, 2017), in order to reduce risk and fraud (Ingram and Teigland, 2013). This regulation and growing competition among different platforms (Belleflamme and Lambert, 2014; Cruz, 2015) has resulted in some entrepreneurs unsure of which platform to choose from.

### **Crowdfunding in Ireland**

Since its development in 2008, crowdfunding has gained significant growth across developed economies such as the USA, UK, Australia, Korea and Italy. Smaller economies, where entrepreneurs, face unique challenges due to limited financial markets and geographical distance have also been attracted to this new arena. A case in point is Ireland. As a small open economy, SMEs and new businesses provide the backbone for job creation and growth in Ireland. Some 70% of employment comes from the SME sector<sup>2</sup>. Yet the borrowing cost for Irish businesses remains higher than other Europe countries. (SME Market Report, 2017, p1) with crippling rejection rates from banks. The rejection rates for start-up funding from banks in Ireland is close to 20%, compared to 3% for larger businesses.

That being said, policy makers have begun to recognise the potential of crowdfunding for Ireland. In 2018, Inter Trade Ireland reports that equity crowdfunding could support high growth potential start-up and growth stage businesses in the Ireland to raise capital, as an effective and alternative financial method. Yet despite this there is limited evidence to date on the extent to which Irish entrepreneurs are using crowdfunding. While research suggests that the two main crowdfunding platforms in Ireland, FundIt and iDonate raised 2-3 million euros each in 2017, the extent to which entrepreneurs are assessing these platforms is still largely unknown. With the exception of recent work by Gleasure and Feller (2015) who provide insightful research into the use of crowdfunding among community and on-line groups. In their 2016 study they examined resistance levels among 20 entrepreneurs and identified fears of disclosure and failure as important barriers. By way of extending this research, this study seeks to address three research questions: (a) to what extent is crowdfunding currently a viable option for start-ups? (b) What are main motivations or challenges for Irish start-ups accessing crowdfunding? (c) Which policy initiatives can better support the growth of crowdfunding in Ireland?

### **Procedure for Collecting Data**

Given the aims and objectives of the research, the researchers combined a qualitative and quantitative research approach consisting of the in-depth interviews and an online survey. The interviews were conducted over the course of three weeks with four key stakeholders; namely a crowdfunding consultant working with start-up entrepreneurs<sup>3</sup>, a entrepreneur who is

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<sup>2</sup> Figures as of 2015.

<sup>3</sup> A crowdfunding consultant who for the last four years, working with various clients relating to crowdfunding projects.

currently preparing a crowdfunding campaign<sup>4</sup>, an entrepreneur had had launches their project on a crowdfunding platform and an Incubation Centre Manager, who has worked for some ten years as an Enterprise Development Manager, for some 300 plus start-ups entrepreneur's. All interviews were recorded and transcribed.

Following interviews, an on-line survey was developed and using various email and social media platforms was circulated to various entrepreneurial groups throughout Ireland. There were 123 completed responses.

## **Results**

Consistent with the approach adopted by Norton (2017) the data from the interviews was analysed along the key core research questions. The results of the interviews revealed a number of important insights as follows.

### **Continued reliance on traditional funding methods.**

The interviews revealed a continued reliance on traditional funding methods by Irish Entrepreneurs. All interviewees consistently mentioned that the primary source of funding for entrepreneurs remains family and friends, saving and grant funding. According to the Incubation Manager,

*'Well the vast majority of early stage businesses would look at either maybe their own funds, if they have savings they put together or they would use a lot of early stage funding sources like the Louth Enterprise office, the LEO's, Grants Local Enterprise offices and other ones'.*

Similarly, both entrepreneurs focused on the grant funding structure. "Here in Ireland the funding structure is based on new frontier programme." (Entrepreneur A). In addition, entrepreneur B explained that...

*'Bank loans can be difficult to get if the company has no customers, it's harder to get, credit issues as well and ability to repay would be some of the issues.'* (Incubation manager)

and

*'Here in Ireland I found the bank is unfriendly to start-ups.'* (Entrepreneur B)

### **There is often a lack of understanding of crowdfunding platforms.**

The interviews suggested that while entrepreneurs know about crowdfunding most recognise one or two types of crowdfunding. According to the industry consultant, 'most entrepreneurs only know one typical type of crowdfunding.' The reason for this is not clear but it may have something to do with the fact that the crowdfunding market in Ireland is still in its infancy.

### **Challenges**

A major theme within the interviews were the challenges in undertaking a successful campaign and the attention and time involved. Entrepreneur A mentioned that '...so you must

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<sup>4</sup> The researcher recognised that his role as a new comer to using crowdfunding would deliver authentic information in the investigation of this research.

be able to write frequently, be able to make a video to support your project, you have to be able to create a showcase of your product...' Similarly entrepreneur B noted that 'I think it's a big amount of work to keep on top of that.' The industry consultant noted that 'If companies want to use crowdfunding, they must be digital companies.' He suggested that

*'They should have a website about their businesses at the beginning. Everything should be posted online. They should interact with people constantly, which means 'live'. Then companies can achieve successfully by using crowdfunding. Otherwise, companies won't be successful, when they only want to use crowdfunding as a simple method.'*

Another theme to emerge from the discussions was the skillset required in managing the crowd and communicating with them effectively. As noted by entrepreneur A 'I think it's a big amount of work to keep on top of that.' All interviewees clearly saw gaps in the update and knowledge of accessing crowdfunding. According to the Incubation Centre manager, "only 3 or 4 projects in the Incubation Development Centre are crowdfunded" This point was also highlighted by the entrepreneurs who suggested that there is a need for some policy invention. As entrepreneur B noted 'I do think in Ireland you should have One-Stop-Shop or at least have advisors relating to this area.'

Taken together the results from the interviews suggest that crowdfunding is clearly a new and hugely beneficial funding source for entrepreneurs in Ireland. However, there is clearly challenges. The evidence from industry interviews reveals a continued reliance on personal funding or grant finance and that crowdfunding requiring considerable time and effort and skillset that may appear daunting to entrepreneurs. Clearly there is a sense from the interviews that as yet crowdfunding among Irish entrepreneurs is still in its infancy.

## Survey Results

To supplement the data, survey data from 131 entrepreneurs was collected and analysed. Of the 131 respondents, the analysis showed that the majority of respondents were men (76% male / 23% women) with the majority based in Ireland (93%). A significant number, nearly half, indicated they were at start-up/launch stage (48%), while 23% were a scaling stage, and a further 15% were at development stage. A small number (10%) were at idea or market validation stage. The entrepreneurs surveyed were drawn from a wide range of sectors such as engineering, retail, education, technology and food. In total over 15 different sectors were represented. Some 57% were identified as a service while 34% were identified as product based business<sup>5</sup>.

In terms of the key themes to emerge from the survey, the results suggest the following:

- While approx. 94% of the entrepreneurs surveyed had heard of the term crowdfunding prior to the survey<sup>6</sup>. Of those entrepreneurs who had heard of the terms (n= 106) only 15% of entrepreneurs had actually participated in a crowdfunding campaign seeking funding. Some 52% had never participated in any crowdfunding campaign. Interestingly, over a third (33%) have participated as someone funding a campaign.
- When asked what were the reasons behind their decision NOT TO use crowdfunding, the most common reasons cited were, unsuitable for my industry (30% ), wouldn't know where to start (22%) and have concerns about imitation and copyright. (19%). Some 40% identified a range of other reasons, many of which included the lack of knowledge and unsure of how to get started.

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<sup>5</sup> 10% were identified as both.

<sup>6</sup> 6% had never heard of the term.

- Of those that had participated in a crowdfunding campaign, (n=15) the most widely used platforms were Kickstarter and Indiegogo (50% and 60% respectively), only 20% indicated that they had used the two Irish platforms, Fundit and Pateron.
- Those entrepreneurs who had used crowdfunding, were asked would you consider using crowdfunding to fund your business in the future, some 62% indicated yes, 22% were unsure and approx. 15% indicated. No.
- When asked how would you rate your experience of using crowdfunding some 60% rated crowdfunding as good/very good /excellent in terms of raising finance and as a means of PR and raising awareness of the business idea. Approx. 40% of respondents rated crowdfunding as a good/very good / excellent way of testing the market. Getting feedback from potential customers was identified by 30% of respondents. It is important to remember that this is based on a very small sample size.
- Finally when asked which of the following supports do you think would be useful to encourage you to participate in using crowdfunding in the future, nearly 60% identified access to training and mentoring and the use of case studies as the two most important initiatives. Some 40% rated regulation as an important next step. Interestingly approx.. a third (33%) identified a need for an accredited training programme as a useful tool.
- The final question in the survey asked for any additional comments and suggestion from entrepreneurs. This was an open ended question and over 50% of respondents took the time to make specific comments. When these comments were reviewed, the two striking themes were that crowdfunding offers huge potential, but that many entrepreneurs are unsure and reluctant for various reasons to being involved in a crowdfunding campaign.

### **Conclusion**

This research study sought to examine the extent to which crowdfunding is part of the entrepreneurial landscape in Ireland. The evidence from industry players and from an online survey of 120 entrepreneurs is that the use of crowdfunding in Ireland is extremely low. Of the entrepreneurs' survey, only 15% had participated in a crowdfunding campaign to raise money. This despite the fact that over 90% of entrepreneurs are aware of crowdfunding. Reasons cited appear to indicate that entrepreneurs believe crowdfunding is not suitable for their industry and that entrepreneurs are unsure of where to start. Interview evidence from four industry participants supports this viewpoint that the potential offered by crowdfunding is not being utilized in Ireland.

In terms of supports, access to more training and mentoring and the use of case studies to highlight and show practical examples will be important steps in increasing the use of crowdfunding among entrepreneurs in Ireland.

### **International and managerial implications**

The implications for this study are twofold. Notwithstanding the fact that this is a relatively small sample, the results suggest that the use of crowdfunding among Irish entrepreneur as a funding method is extremely low. The main implication of this study is that there is an urgent need among policy makers to provide training and mentoring support in this area to bridge the information gap surrounding crowdfunding. Entrepreneurs are either unsure about how to access crowdfunding successfully. Second, there is a need to undertake a more comprehensive review of this issue in Ireland. This study is an initial study. The potential is huge, but as yet untapped.

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### **Acknowledgements**

We acknowledge the time and insights from the interviewees and survey respondents involved in this study. Without their help this research would not have been possible.