

Crowdfunding as a Financing Alternative for Entrepreneurial Ventures

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Abstract

Entrepreneurs often use various sources of financing to finalise an entrepreneurial idea. Crowdfunding on specialised internet platforms is an alternative method for collecting funds from several small sources for business investments and projects. The biggest difference between crowdfunding and other forms of financing is that crowdfunding uses smaller amounts of money from many investors interested in a business idea. Crowdfunding has been globally known for over a decade, and in Croatia, the interest has been growing for several years. The paper aims to demonstrate the importance and potential of crowdfunding, which, as a collective micro-investment of citizens, can serve as an alternative funding source for entrepreneurial ventures. The paper presents the research results conducted in Croatia based on the data collected through survey research. The paper investigates the knowledge and familiarity with the term and motives for investing through crowdfunding platforms.

Keywords: financing; crowdfunding; micro-investment; internet platforms

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Introduction

In the initial phase of an entrepreneurial venture, entrepreneurs are often faced with a lack of financial resources, so they constantly look for new sources and ways of financing. Modern information and communication technologies enable alternative sources of company financing, with crowdfunding (CF) being one of them. It takes place online, intending to involve as many people as possible with different interests and motives. These people's small payments will, in turn, contribute to the realisation of projects. CF is a transparent, alternative form of entrepreneurial financing, providing real-time insight into the amount of money collected for a particular project and the number of participating investors (Rajn, 2022). CF collects money and serves as a marketing tool to motivate investors. The main motivational tools of CF are rewards of material value for the payer, such as finished project products or services, a digital certificate of appreciation, and free subscriptions to one of the project's channels. CF is important because it enables easier project financing to a geographically widespread group of investors. It is a win-win situation for project representatives and investors because it confirms the demand for the idea and the project before the realisation (Rajn, 2022).

The significant growth of CF over the last fifteen years is expected to continue with enviable results in the future. New technologies have enabled major business improvements related to rationalisation and innovation of business models (Tomičić Furjan et al., 2020), resulting in improved business performance. Due to these changes, industries must think and act differently, leading to the fundamental transformation from offline business models to digital ones (Gierczak et al., 2016).

The review of previous research results has shown that no market analysis was done to provide an overview of the familiarity of Croatian citizens with CF and their preferences in CF financing. The existing papers provide a systematic overview of CF without analysing the Croatian market. Therefore, the paper aims to determine the level of familiarity with CF in Croatia among the target group supporting the idea of CF and its business plan and to demonstrate the core of CF financing. The research survey has been designed for these purposes. The paper begins with the literature review of the previous relevant research. The work methodology is explained in the second part, and the research results are presented, followed by a discussion and conclusion.

Basic crowdfunding concepts

Digitisation and new technologies have led to the so-called "digital revolution" (Martinčević et al., 2020). As a method of entrepreneurial financing, CF is growing rapidly, following the great trend of internet tools. Companies face numerous challenges in keeping up with the competition due to the digital transformation of the economy (Tomičić Furjan et al., 2020; Hunady et al., 2022). Digital transformation is one of the main business trends that brings numerous opportunities, challenges, and changes for companies in terms of business processes and infrastructure,

improvements of products and services, organisational structure, and increased innovation (Hunady et al., 2022).

CF implies a public presentation of a venture, often via an internet platform, and enables citizens to invest money in it for altruistic reasons, profit, or gain some other benefit (Rajn, 2022). Entrepreneurs use Internet platforms to address the public by describing their project, thus wanting to reach a large audience that will provide a part of the requested amount to finance the new venture (Marchesani & Masciarelli, 2021).

CF is an opportunity for start-up entrepreneurs to collect the necessary resources and achieve the assumptions of growth and development of the entrepreneurial idea (Grčić Fabić, 2022). CF can be defined as an alternative way of financing projects in which monetary contributions, usually of very small value, are collected from many people via online platforms to support a chosen entrepreneurial idea (Čondić-Jurkić, 2015), i.e., as a meeting point of financing and exchange where the individuals looking for financing meet potential investors or financial donors (Novak et al., 2017).

Individuals invest in projects they consider promising and interesting directly, based on an open call mainly via the Internet, thus providing financial resources either in the form of a donation or replacements for a future product or some other form of reward and/or voting shares (Ninčević Pašalić & Pepur, 2022). Therefore, by using the Internet as its main resource, CF does not create additional organisational costs and offers safe publication of projects, thereby increasing the organisation's social influence, credibility, and legitimacy (Tsai & Wang, 2019).

Unlike traditional fundraising methods, CF uses modern technology much more actively, usually reaching potential investors faster. It also extensively uses network advantages, such as many interactions between investors and companies (Miglo, 2022). CF does not require a financial intermediary but relies on the intense use of online tools and services from a specialised CF platform to social networks and social media (Novak et al., 2017).

By using marketing tactics, CF can build trust in entrepreneurs because it offers financial resources and acts as a channel for intense two-way communication and promotion of entrepreneurial ventures to the potential market (Rajn, 2022). It is an opportunity to get product feedback and test product demand before the market launch. Organisations can explore new markets with CF and reduce their business risk while testing innovations. CF does not require large production expenditure, i.e., it reduces the risk of developing new products in case of a non-promising project (Forbes et al., 2020). In this way, CF transforms traditional investing using the Internet to communicate with thousands or millions of potential donors.

The widespread use of information technology has resulted in intense business digitisation and the development of the digital economy (Milošević et al., 2018). Progressive digital technologies significantly influence social and cultural changes, primarily through the accelerated, flexible, and simplified use of information (Grčić Fabić, 2022). The development of Web 2.0 has spurred CF and its popularity, followed by the consequent development of online CF platforms, which made it simpler, more

profitable, more visible, and more attractive to investors (Bruton et al., 2015). Digital technologies can quickly obtain, produce, and distribute the right information at the right time, which is very important in CF. CF was created due to widespread digitised solutions, i.e., the need for a different, alternative search for capital to finance projects of interest for a wider community and providing a certain counterbalance to traditional sources of capital, banks, and credit institutions (Bruton et al., 2015; Ninčević Pašalić & Pepur, 2022).

Project holders can obtain capital through CF easily and safely and simultaneously test the market profitability of their product or service. In contrast, investors, i.e., citizens, can obtain the desired products and services, make a profit or some other benefit and significantly contribute to the country's economic development without suffering significant financial consequences (Rajn, 2022).

Crowdfunding process

The process (Figure 1) is shown below for a better understanding of CF financing. It begins when the bidder/entrepreneur develops a project idea they want to offer to the market and finance through a CF platform. CF benefits from accessing digital platforms by supporting entrepreneurs in overcoming financial constraints, especially in the initial stages (Mazzocchini & Lucarelli, 2023).

The initial idea is followed by developing the product prototype, if applicable to the project. If not, the product prototype development phase is skipped. The entrepreneur develops a prototype demonstrating the final product's appearance and functionalities to potential investors. Market research is then conducted to determine project demand and identify the target audience.

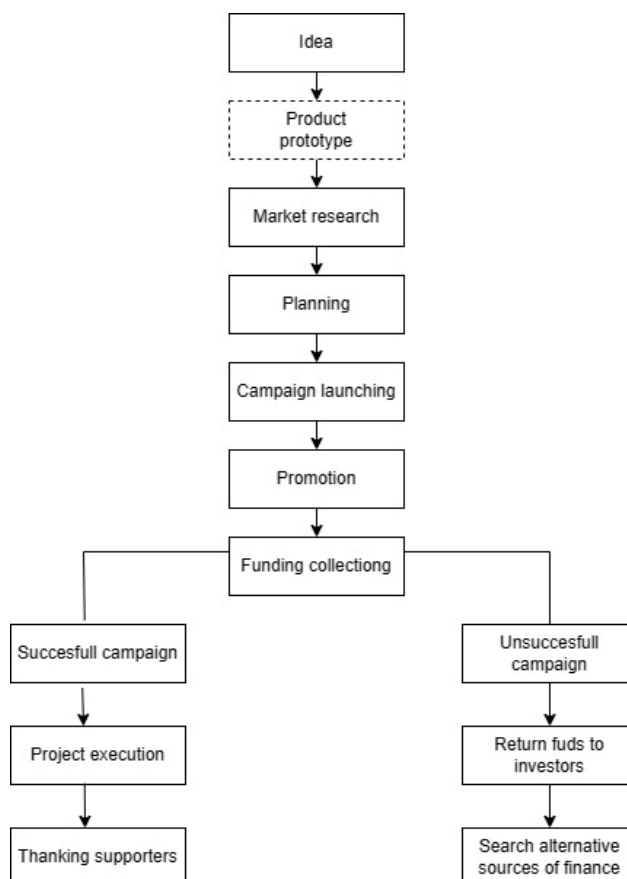
After researching the market and identifying potential investors, the next phase is planning, which includes setting financing goals, determining rewards or benefits for backers, and choosing a CF platform. After all these activities, the campaign will be launched on the selected CF platform. However, it is not enough to solely publish your campaign on the CF platform; you need to work towards the funding goal, which includes entering information about yourself, your project, and plans, updating the campaign with the latest information, answering questions/comments on the platform and renewing a possible offering of additional rewards or benefits (Mazzocchini & Lucarelli, 2023).

The basis of the campaign is the project site, which must use all modern tools to optimise the result and create a successful project. CF will not sell itself; it is necessary to motivate people with an innovative idea and a unique name that speaks for itself. It is recommended to show the necessity and importance of the ultimate project goal along with clear guidelines, that is, answering the questions on who/what started the project, why it started and why it requires financial funding.

Most importantly, the project must stand out to intrigue the public and potential clients. For CF to be as successful as possible, it requires certain marketing activity, that

is, promotion through different channels, such as social media, email, blogs, seminars, and other places where potential investors can be found. The project will be finalised with the collected funds if the campaign succeeds. If the campaign fails, meaning that collected funds are insufficient for project realisation, the initiator can start a new campaign or look for alternative financing methods such as traditional bank loans, venture capital (risk capital) or business angels (Rončević, 2008).

Figure 1. Crowdfunding process



Source: Authors' work, based on Brown et al. (2017)

Finally, regardless of the campaign outcome, it is necessary to thank the backers and deliver the rewards agreed upon during the fundraising campaign. This will create a positive feeling and encourage investors for future investments. In donation-based CF, investors usually do not look for financial benefits, so no refund is expected in case of project failure. However, individual projects may offer different rewards for donors, which they must deliver in case of project failure. In the case of a CF loan, investors usually expect a financial benefit in the form of an interest rate that the loan holders must repay in case of failure. Investors wanting to invest in the desired project are also guided by specific rules and conditions of each project and CF platform.

The conclusion is that CF is one of the most common examples of digital transformation in financial mediation. As a new financing model, it refers to financing

projects, goals, or undertakings by collecting money from many people via the Internet, bypassing traditional financial intermediaries such as banks and business angels. The digital nature of communication forces entrepreneurs to adapt their attitude and branding techniques and find new ways of promoting and financing their business ideas and products (Mazzocchi & Lucarelli, 2023). CF is a process of asking for financial support from the public to start a new, innovative project. The project is successful when the collected funds meet the funding goal and the entrepreneur delivers the product or service to the backers. Otherwise, the project will be unsuccessful without further research and financing (Miglo, 2022).

Crowdfunding models

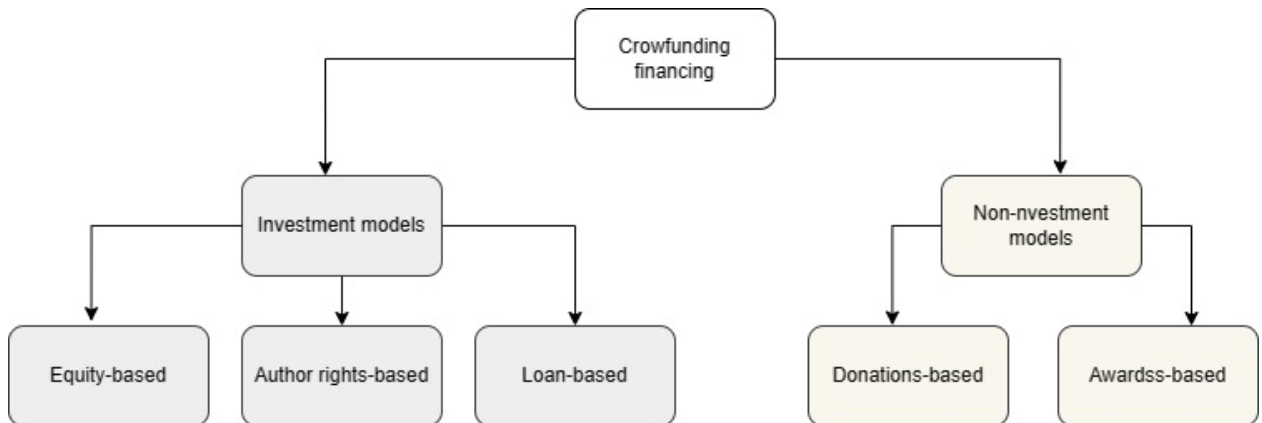
The existing literature cites various CF models, including numerous interested individuals financing projects and entrepreneurial ventures with relatively small amounts of money. Funding via online platforms excludes the traditional financial intermediaries (Ninčević Pašalić & Pepur, 2022). Platforms are websites that enable mediation between investors and fund collectors. Fundraising entities may include small-medium-size enterprises (SMEs), start-ups, micro-entrepreneurs, social entrepreneurs, self-employed persons, cultural and creative sectors, public authorities, innovative and environmental projects, public interest entities, scientists, consumers or the unemployed (Bago & Pilipović, 2016). CF investors directly fund the projects of their preference via an online-published open call. The investors choose promising projects based on their potential. The platform ensures safe and easy use; however, it often relies on the "all-or-nothing" principle, meaning that the person seeking financial resources receives the money only if it is collected in full. If the collected funds are insufficient for project realisation, the creator can start a new campaign or look for alternative ways of financing.

CF can be implemented differently but is usually divided into five models (Figure 2): CF based on donations, rewards, ownership shares, copyrights, and lending. The first two types of CF are non-investment CF, and the remaining three types are defined as investment CF, i.e., CF based on investments (Ninčević Pašalić & Pepur, 2022).

Certain authors differentiate between two basic models of financing: financing through investment platforms and financing through platforms based on rewards and donations (Čondić-Jurkić, 2015).

In the first financing model, investors benefit financially from investing in CF campaigns. Platforms are differentiated based on equity investment, debt investment or copyright. The second model of financing does not offer investors monetary benefit from the investment; investors participate in a campaign to gain a product or support an idea, and most often, it is the combination of both.

Figure 2. Crowdfunding models



Source: Authors' work, based on Ninčević Pašalić & Pepur (2022)

Other authors emphasise the four main categories or models of CF platforms, differing in the project author's incentive to potential investors in exchange for financing (Šain et al., 2018). Platforms can, therefore, be based on donations, rewards, lending, and ownership shares. The donation model based on voluntary contributions for public benefit is often used in humanitarian campaigns. The donors do not expect financial or non-financial rewards for their contribution apart from social recognition (Čondić-Jurkić, 2015). In the reward model, the project owner will offer investors (tangible rewards in the form of products or services or product prototypes. On loan-based platforms, investors give a loan to a person or company and, in return, receive a certain interest if the project succeeds. This model is similar to the banking system, but instead of a bank loan, money is borrowed from many individual investors (Beber et al., 2019). The model based on ownership shares is limited exclusively to legal entities, and the investor becomes the co-owner of the company they financially support (Beber et al., 2019).

Entrepreneurs most often search for financing at a very early stage of the development of an entrepreneurial idea so that proprietary CF investing can be seen as a substitute for other forms of start-up financing, e.g., business angels, venture capital funds and similar (Čondić-Jurkić, 2015; Rončević, 2021). The combined financing model is exemplified by the hybrid model, which is most often used for products needing pre-financing before development (Beber et al., 2019). This type of CF demonstrates the product's potential to attract business angels or other investors.

Advantages and disadvantages of crowdfunding

CF has been growing for several years and is mostly used by SMEs and start-ups. It is a two-sided market connecting the bidder of an entrepreneurial project proposal and potential investors or backers, i.e., numerous people who are prepared to allocate funds to support project realisation and development (Belleflamme et al., 2015). CF is

an alternative type of financing characterised by flexibility, active social participation, and versatility (Bago & Pilipović, 2016). It can, therefore, be said that CF reaches every individual directly due to information and communication technology.

The communication between the two sides of the market is exclusively digital (Grčić Fabić, 2022) through the digital platform interface using numerous social media tools and icons. The project proposal icons stand out, most often as images, videos, and texts. Among many other advantages, CF provides a market outlet for young and creative entrepreneurs whose innovative ideas and projects can ultimately attract serious investors.

The advantage of this financing method is that the funds are collected from several people, not just one investor, which divides the project risk among several parties and consequently mitigates it. In simple terms, no one suffers significant financial consequences if the project fails. Project initiators' greatest advantages and motives are the need for financial resources, attracting public interest, quick feedback about the product or service, creating connections, achieving legitimacy, and sharing experience (Bago & Pilipović, 2016). Retaining control over the project is cited as the biggest motive for CF financing (Čondić-Jurkić, 2015).

In traditional financing, investors receive a share of the equity capital and decision-making power in exchange for their funds, while in CF financing, control is retained. The investors' motives are usually related to instrumental efficiency, quality guarantee, expectations, campaign positioning and earnings or rewards (Bago & Pilipović, 2016). The most important motives of CF campaign participants are the intrinsic need to participate or extrinsic motivation, which refers to the feelings of pleasure and fun, while extrinsic motivation is conditioned by monetary or non-monetary rewards (Čondić-Jurkić, 2015).

The main disadvantage of CF is the investors' lack of interest, i.e., an uninteresting story/idea, which can lead to failure and wrong estimation of the necessary project financial funding. In extreme cases, investors can sue the project initiator for non-compliance with the rules and non-fulfilment of promises regarding deliveries, the so-called rewards. CF financing lacks the mentoring and additional advice of the traditional forms of financing, which is an additional disadvantage.

Unlike the entrepreneurial capital of traditional investing or business angels, in CF, the investors lack personal contact or greater knowledge about the project. They are only familiarised with the content published on the project's website on a platform. This can lead to fraud and money laundering, the absence of a secondary market, increased responsibility, and an approach differing from the traditional one (Bago & Pilipović, 2016). Other CF-associated risks include limited liquidity and dilution of equity capital with the risk of venture or start-up business failure (Rabbani et al., 2022). Given that CF occurs on the Internet, knowledge and expertise are required to market the project on a platform. Marketing promotion, social media and constant interaction with investors are also very important to make the project as successful as possible because there is an increasing responsibility towards a group of investors. Likewise, the founding project idea becomes public and thus inevitably exposed to the risk of creating

competition (Bago & Pilipović, 2016). The overview of CF's advantages and disadvantages is presented in Table 1.

Table 1. The overview of CF's advantages and disadvantages

CF advantages	CF disadvantages
Enabling entrepreneurs to bring their innovative ideas and projects into the market	Investors' lack of interest, i.e., an uninteresting project
Flexibility and active social participation	Exclusively digital communication
Fundraising from multiple people which disperses project risk and mitigates the financial consequences in case of project failure	Limited amount of funds that can be raised
The possibility for the project initiator to retain control over the project	Dependence on the marketing campaign's success
Quickly attracting public interest and quick feedback about the product or service.	High transaction fees
Rewards to campaign backers/investors	Risk of non-fulfilment of promises by the project initiator
Quick and easy communication between project proposal bidders and potential investors via digital platforms and social media	Lack of legal protection for investors, i.e., lack of mentoring and additional advice as with traditional forms of financing
	Limited regulation in some countries
	Competition

Source: Authors' work

Crowdfunding platforms

There are over 2,500 CF platforms in the world today. The value of CF transactions is predicted to reach USD 1.14 billion in 2023, with an average funding per campaign of USD 7.75 thousand (Alda, 2023). As for CF in Croatia, it is predicted that the value of transactions will reach EUR 0.41 million in 2023, with an average funding per campaign of EUR 4.62 thousand (Alda, 2023).

Crowdfunding platforms worldwide

ArtistShare is the first online CF "Fan Funding" platform founded in 2001. ArtistShare connects artists with fans to share the excitement and beauty of the creative process, document the work of the most exciting creators, and allow fans to participate directly by funding and watching the creation of new artwork. Consequently, ArtistShare

became the blueprint for other contemporary CF platforms such as Kickstarter, IndieGoGo, and PledgeMusic.

The GoFundMe platform was founded in 2009 in California by Andrew Ballester and Brad Damphousse, and it has raised over USD 9 billion. The platform is known for its humanitarian and charity campaigns. On this platform, funding is based on donations without additional rewards for donors. The platform's business model supports cause-related campaigns for the common good of the population, such as paying medical expenses and school fees, supporting social goals, and fostering a sense of community. Campaigns on the GoFundMe platform do not have a time limit, and it is possible to pay funds as long as the campaign is active. It is important to note that all funds are transferred to the campaign creator regardless of the funding goal achievement, and no money is returned to investors.

Kickstarter is one of the most popular CF campaigns in the world. It was founded by Perry Chen, Yancey Stickler and Charles Adler on April 28, 2009, in New York. Since its launch, Kickstarter has gathered a community of 22 million people who have backed 233,011 different projects for USD 7,061,329,143. The platform is based on the "all or nothing" model, meaning that if the set goal is achieved and sufficient funds are collected, the entire amount is paid to the platform initiator. However, the money is returned to the investors if the goal is not met. In March 2022, Brandon Sanderson, the author of many science fiction novels, launched the most-funded Kickstarter project ever. The author has raised USD 41,754,153 from 185,341 backers in exchange for publishing four novels throughout 2023. Kickstarter states that the most successful projects create a snowball effect, gaining friends and early backers who then share the idea with their networks of people and signal their support to the wider Kickstarter community.

The Indiegogo platform was founded in San Francisco by Danae Ringelmann and Eric Schell in 2008. The platform is very similar to Kickstarter and is also based on rewards, but in addition to the "all-or-nothing" financing model, it also supports the "keep-it-all" model, favouring campaigns that need a small amount of funds, or those in the final phase of the project. The Indiegogo platform also supports equity-based financing. Indiegogo is a popular platform for entrepreneurs who want to launch new products. Contracts with companies like Amazon and Brookstone greatly help manufacturing and bringing products to market. Since its beginning in 2008, the Indiegogo community has helped bring more than 800,000 innovative ideas to life, raising USD 1.6 billion. Today, the platform has more than 9 million investors worldwide. Every month, 19,000 are launched on the Indiegogo platform.

Crowdfunding Initiatives in Croatia

The biggest CF weaknesses in Croatia are a small number of inhabitants, low IT literacy, poor development, mistrust of electronic business, expensive postal services, non-encouraging legislative framework, and impoverished citizens. As stated earlier, CF is based on funding models, donations, rewards, equity, lending, and copyright. The

financing model determines the choice of platform. Therefore, the best choice for donations is GoFundMe, while Kickstarter and Indiegogo are the best for a reward-based model.

Croinvest is the first Croatian CF platform for financing entrepreneurial, infrastructural, and socially relevant projects, with special emphasis on projects competing for EU funds. It was started by Zoran Rajn, founder of the Center for Social Innovation and Sustainable Development. The platform combines five financing models: donations, prizes, loans, ownership shares and profit shares, so it is possible to donate money, pay money in exchange for an item or service, borrow money in the form of an interest-free or interest-bearing investment loan over a specific period, invest money in exchange for an ownership share in a limited liability company or cooperative, invest money in exchange for a share in profits by signing a confidentiality agreement in a silent company. The platform can be used by all legal and natural persons wanting to invest in Croatia. Croinvest was created as a response to the current economic situation in Croatia, especially regarding the withdrawal of EU funds, one of Croatia's strategic interests. Given that an individual can find it difficult to secure significant funds for EU project implementation, Croinvest believes that citizens' micro-investments are a valuable alternative for the benefit of all social stakeholders. Some successfully implemented projects within the Croinvest platform include Croatia for the Maasai, where the fundraising goal was EUR 20,000.00, but EUR 29,760.00 was collected, and Via Adriatica - Trails are people! in which the goal was EUR 85,000.00, with EUR 86,690.00 collected.

Funderbeam SEE is a global platform for financing and trading shares. It enables investment in Croatian and regional companies cooperating with the Zagreb Stock Exchange. It was founded by Kaidi Ruusalepp and Urmas Peiker, who connect a heterogeneous network of investors with growing companies on the international market. The Marketplace enables private investment trading. Funderbeam's mission is to improve traditional equity financing models and provide investors with support and security during and after fundraising. It gives investors control over investments by offering them the choice of when and where to invest. Funderbeam's business policy states that each client must consider all the risks associated with the investments available on the Funderbeam platform before using the platform's services and making investment decisions. It is also important that the client chooses projects carefully, considering that start-up investments often fail, and investors should only invest the funds they can afford to lose. There is no guarantee of return of invested funds unless specifically stated. Funds are raised, invested and trade orders placed through three investment company service providers: Funderbeam Markets AS (FBAS) authorised and regulated by the Estonian Financial Supervisory Authority under permit 4.1-1/212, Funderbeam Markets Limited (FML approved and regulated by the UK Financial Conduct Authority under FRN 794918) and Funderbeam Markets Pte. Ltd., (FB Pte), authorised and regulated by the Monetary Authority of Singapore under Capital Markets Services (CMS) license CMS100863. Among the most successful campaigns on the Funderbeam platform is the Zagreb brewery Medvedgrad, which managed to raise

more than one million euros in ten days, attracting 292 investors from 26 countries worldwide.

Capital.hr platform invests in a real estate construction portfolio for resale. The platform aims to build attractive locations with top-quality materials so investors' earnings grow steadily. Capital.hr refers to CF as an investment partnership in which a few investors gather a project implementation budget and earn money from it when selling or renting. Capital.hr has facilitated investment in commercial real estate for investors who can diversify their investment portfolios with a different kinds of investment available to most people.

Croenergy campaign promotes and encourages regional sustainable development in the implementation of energy projects by using renewable energy sources and increasing energy efficiency. Croenergy is managed by the Regional Energy Agency of Northwestern Croatia (REGEA). The Agency was founded in 2008 by the Counties of Zagreb, Karlovac Krapina-Zagorje and the City of Zagreb as part of the Intelligent Energy for Europe EU program. REGEA has become the leading energy centre of Southeastern Europe and beyond and received more than HRK 300 million from EU funds, making it one of Europe's most successful energy agencies. It also won the Energy Globe award, one of the world's most prestigious awards in the field of ecology, referred to as the Oscar for environmental protection. Among the successfully implemented projects on this platform, the following can be singled out: Children Deserve the Best!, where the fundraising goal was HRK 30,000.00, while HRK 31,194.00 was collected. Smart boards for a smart school! The fundraising goal was HRK 200,000.00, with HRK 212,870.00 collected.

It can be concluded that CF is an increasingly popular global way of financing. However, it has not reached its maximum in Croatia due to weak purchasing power, few inhabitants, lack of trust in this financing method, insufficient information, and numerous other legal and private issues. However, this does not mean that CF is not active in Croatia; it operates through several platforms that implement successful projects and collect significant funds while simultaneously promoting the work of innovative initiators and introducing citizens to a new type of financing.

Summary of Crowdfunding Platforms

CF platforms allow individuals, groups, or organisations to present their ideas to a wide audience and ask for financial support from people with common interests and visions. These platforms come in different forms and are adapted to different projects and initiatives. The CF platforms shown in the table represent only a few examples, each with unique characteristics and objectives to attract specific target groups. Table 2 presents the summary of CF platforms presented in this paper.

Table 2. The most established CF platforms

Platform name	Users	Target audience	Link
Global CF platforms			
ArtistShare	Artists	Art enthusiasts	https://www.artistshare.com/
GoFundMe	People inclined to humanitarian and charitable work	General public	https://www.gofundme.com/
Kickstarter	Creative people, innovators	Creative culture and robotics enthusiasts	https://www.kickstarter.com/
Indiegogo	Innovators	New technology enthusiasts	https://www.indiegogo.com
Platforms aiming at the Croatian market			
Croinvest	Legal and natural persons	Individuals interested in financing entrepreneurial, infrastructural, and socially beneficial projects	https://croinvest.eu/o-croinvestu/
Funderbeam SEE	Shareholders	Investors willing to invest in high-growing companies	https://www.funderbeam.com/see
Capital	Real estate investors	Individuals interested in investing in commercial real estate	https://capital.hr/
Croenergy	Legal and natural persons	Individuals interested in using renewable energy sources and increasing energy efficiency	http://www.croenergy.eu/

Source: Authors' work

ArtistShare platform is intended for artists seeking support for projects from art enthusiasts. GoFundMe brings together people who want to support humanitarian and charitable actions and contribute to positive social change. Creatives and innovators use the Kickstarter platform to gather stakeholder funds for creative project initiatives. Indiegogo supports innovators of new technologies whose target audience is followers of new technological trends. The Croinvest platform enables legal and natural persons to support entrepreneurial, infrastructural, and socially beneficial projects. Shareholders use the Funderbeam SEE platform to invest in high-growing companies whose target audience is investors prepared to invest in growing business opportunities. Real estate investors gather on the Capital platform to invest in commercial real estate. Legal and natural persons interested in using renewable energy sources and increasing energy efficiency can actively participate on the Croenergy platform. Users can realise their creative and innovative projects through

these and many other CF platforms while establishing a closer relationship with their audience or project backers.

Research on crowdfunding use in Croatia

Methodology

The research aims to collect information and attitudes about CF, that is, collective financing, to better understand their knowledge of and attitudes towards this concept. CF attracts different groups of investors depending on the type of campaign and project. In this work, the target groups were all citizens, i.e. people looking for funds to start a business, artists and creatives, scientists and many others interested in investing in CF projects.

The data was collected using a survey questionnaire via a Google form publicly posted on the social networks Facebook and Reddit, with the target groups of specific interests related to CF. The data collection period lasted from December 5, 2022, to January 1, 2023. The survey questionnaire contains the questions presented below and was completed by 82 respondents. The first group of questions is related to the demographic characteristics of the respondents (gender, age, education). The second group of questions is related to knowledge and attitudes about CF:

- Level of familiarity with the term CF.
- Experience in participating in CF campaigns.
- Knowledge and use of CF platforms.
- Attitudes about the risk associated with investing in CF.
- Opinion on whether CF is a good solution for projects that do not have sufficient financial support and are important for the community's well-being.
- The priority that would be given to such projects when investing in CF.
- Preferences regarding project holders when investing in CF.
- Predictions of CF platforms' competition with classic financing models (bank loans, leasing, strategic partners).

Two research propositions (RP1 and RP2) were set to conduct the survey to determine the familiarity and motives of CF financing in Croatia.

- **RP1 – CF is not recognised as an attractive investment method in Croatia.**

Considering the familiarity with the CF concept, the Croatian population is not inclined to support and finance projects through the CF platform. The reasons for this may be insufficient information and negative experiences with other alternative forms of financing, such as goodwill scams, investment funds and similar.

- **RP2 – CF platforms will increasingly compete with traditional financing models.**

It is presumed that due to high-interest rates, risk aversion, mistrust of traditional financing models, and the ever-increasing internet availability, people will search for new ways of financing as well as financial support, resulting in CF replacing the traditional financing models.

The sample includes 57.30% male and 42.70% female respondents, aged from 18 to 65 years of age. The largest number of respondents, 41.50%, belong to the age group of 26 to 35. Regarding the educational structure of the respondents, most respondents, 35.40%, have completed secondary education, while 63.40% have completed university, i.e., two-year post-secondary education or university degree (Table 3).

Table 3 Structure of respondents

Structure of respondents by gender	
Male	42.70%
Female	57.30%
Structure of respondents by age group	
18-25	25.60%
26-35	41.50%
36-45	18.30%
46-55	11%
56-65	3.70%
65+	0.00%
Structure of respondents by level of education	
unskilled worker	0.00%
skilled worker	1.20%
completed secondary education	35.40%
completed two-year post-secondary school	29.30%
university degree	34.10%
doctoral degree	0.00%

Source: Authors' work

Results

RP1 – CF is not recognised as an attractive investment method in Croatia.

Results show that a significant part of the respondents is familiar with the concept of CF. A large percentage of respondents, 87.80%, stated that they were familiar with the concept of CF, while the remaining 12.20% were unsure or had not heard of the term. However, the sample does not represent a population large enough to determine the overall result for Croatia.

Likewise, a significant part of the respondents did not participate in a CF campaign. This confirms that the respondents did not recognise CF as an attractive method of financing, regardless of their familiarity with CF. The data show that 84.10% of

respondents have never participated in a CF campaign, while 15.90% have tried this financing type. It can, therefore, be concluded that RP1 is confirmed.

RP2 – CF platforms will increasingly compete with traditional financing models.

Many respondents are However, most respondents, 29.30%, do not agree with this statement, while the smallest percentage of the respondents, 18.30%, agree. It can be observed that the respondents are still sceptical of alternative financing methods. It is therefore necessary to inform the public and adequately prove all the advantages of CF and other alternative financing methods. The conclusion is that RP2 is rejected.

According to the survey results, the finalised sample includes 57.30% of male respondents and 42.70% of female respondents. Many respondents almost 88%, are familiar with the concept of CF, while only 16% of respondents participated in CF financing. This may be due to a lack of trust in this type of funding or the organisation behind the CF campaign. Risk aversion is another important factor since investing in a CF campaign can be risky due to the non-fulfilment of promises by the project initiator or doubts about the project's potential success. Lack of interest, fear of fraud, individual financial limitations, limited rewards, or too small rewards are considered unworthy of investment. Likewise, a possible reason for not investing in CF can be oversaturation, i.e., too many similar campaigns, which turn people away because they cannot decide which campaign to support financially.

On the other hand, possible reasons for participating in CF include supporting a specific project offering potential and financial profitability. Mass investments start the CF process and affect the final project value. Individuals invest in a promising project, spread information about it, and generate further public support. CF allows people to be among the first to support new innovative ideas, which can be exciting and personally satisfying. Also, CF provides social proof because people like to participate in widely supported campaigns confirming their good deeds. The respondents still lack trust in alternative financing methods and are not inclined to take risks and support ideas through CF platforms. RP2 is not confirmed, stating that regardless of their familiarity with CF, the Croatian population is not inclined to back and finance CF projects, concluding that a significant part of the respondents did not participate in a CF campaign and are therefore not inclined to support it.

When determining the level of knowledge of certain CF platforms, almost 93% of respondents are familiar with Kickstarter, Croinvest, Indiegogo, GoFundMe and Croenergy.eu platform. The largest number of respondents, 59%, are familiar with the most famous CF platform, Kickstarter. This result is not surprising because Kickstarter's community of 22 million people has supported 233,011 different projects for USD 7,061,329,143. The second most famous platform is the Croatian Croinvest, which is a clear sign that the respondents who participated in CF campaigns found potential projects on this platform. In CF, using all the available motivational tools to increase people's investments in the project is very important. It is necessary to gain many people's trust because the research results suggest that 44% of respondents consider

CF a medium-risk investment. Almost 64% of respondents give an average rating to whether CF is a good solution for financing projects that do not have sufficient financial support, i.e., sufficient own funds, the possibility of taking loans, leasing and similar. The most common motivation for participating in a CF campaign stems from the feeling that individuals, as supporters of ideas, are responsible for the success of other people's initiatives with the goal of a joint social initiative. Other common sources of motivation are the rewards after a successful campaign, such as certificates of appreciation, money, products and more.

CF is based on different funding models, such as donations, rewards, equity, lending, or royalties. The financing model determines the choice of platform. When asked about funding priorities, most respondents confirmed that they would prefer to finance projects that serve the general community, with projects in healthcare, humanitarian programmes, environmental protection, and similar receiving the highest ratings. People may believe financing such projects will have a positive social impact, which could explain their survey responses. In turn, there is a sense of personal responsibility for community improvement in the future. In the last question, regarding CF's future and competitive advantage, almost 53% of respondents are unsure whether CF will replace traditional financing models such as banks and leasing, while almost 30% of respondents believe that it will not. Therefore, IP2 is rejected, stating that due to high interest rates, risk aversion, mistrust of traditional financing models, and the increasing internet availability, people will look for new ways of financing and financial support, resulting in CF replacing the traditional financing models, proving that a statistically significant part of respondents is not sure whether CF platforms will become more competitive with traditional financing models in the future.

Compared to the steadily growing global CF industry, the transaction value of the global CF market is expected to reach US\$ 1.14 billion in 2023. The transaction value is expected to exceed the compound annual growth rate (CAGR 2023-2027) of 2.11%, resulting in a projected total of USD 1.23 billion by 2027. In 2023, the average funding per campaign in the CF market is USD 7.75 thousand. From a global perspective, the highest transaction value in the United States was USD 451.30 million in 2023 (Alda, 2023).

According to the research, CF's status in Croatia differs from the global trend. Although a larger number of survey respondents are familiar with the concept of CF, only a smaller percentage participates in CF financing. Respondents express mistrust and riskiness of CF campaigns. On the contrary, the global CF industry is experiencing growth and increasing interest in these forms of financing.

The acceptance, trust, and impact of CF on project financing still vary depending on the location, level of awareness, financial preferences, and cultural factors.

Conclusion

Survey summary

CF is a method of collecting money to finance projects and businesses. It allows fund users to collect money from many people through online platforms. Start-up or growing companies often use it as an alternative and innovative way of financing new projects, jobs, or ideas. Users get money more easily by using small amounts of capital from many individuals. CF uses a large network of people through social networks and web-based CF platforms to connect investors and entrepreneurs with the potential to scale up entrepreneurship, expanding the pool of investors beyond the traditional circle of owners, families, and venture capitalists. In this way, CF allows entrepreneurs to verify their ideas and assess interest in a product or service before investing significant money in development and production. It is increasingly popular worldwide where people fund campaigns because they believe in the proposed idea and want to support its creation and success.

However, according to the data obtained from the survey questionnaire, the respondents are still not inclined to invest in CF, which differs from the global situation. The presented research achieved the goal and proved the stated propositions, according to which people in Croatia are still not inclined to invest in CF, although CF provides information about products and services needing financial resources.

Practical implications

It can be assumed that possible risks discourage potential investors. These risks include mistrust, weak purchasing power, and lack of transparency, making it difficult for a potential investor to assess possible risks. There is a lack of legal protection to safeguard investors and their rights in case of fraud or project failure, as well as an insufficient guarantee of project success and product or service delivery to the investor as promised. Lack of experience can also be noted because some people have no knowledge of investing and the financing process and, therefore, do not engage in such an undertaking.

It is important to emphasise that the popularity of CF campaigns can vary depending on the location and type of platform. However, according to the survey results, it was observed that the respondents would like to finance projects for the general benefit of the community, i.e., social and charitable purposes. Many authors often consider that CF can be used to support social needs to solve social and environmental challenges, such as climate change or poverty (Anglin & Pidduck, 2022; Moser et al., 2017; Rejeb et al., 2023). Investing in these projects can significantly help to solve important social and existential issues and improve the lives of individuals and communities. It can also help in creating a fairer and more sustainable world. In addition, supporting social causes and charities through CF can enable individuals to make a difference and contribute to

the common good with a small financial contribution meaningful to the larger community.

Education, health care, and environmental protection are often popular among investors, which tells much about society and preferences. Therefore, in this age of increasing digitisation, CF will surely gain more popularity with citizens' efforts to help projects beneficial to both their founders and the entire society.

Limitations and recommendations for further research

The research was conducted on a relatively small sample of 82 respondents, so the research results limit the possibility of establishing the position of potential investors in CF financing in Croatia. However, this is a preliminary study, one of the first in Croatia on CF, which is a useful starting point for future research. The research results of this paper lay the foundations for future research that will focus on the analysis of collective financing campaigns for the needs of different cultures and markets. Also, future research can consider the importance of marketing for the success of crowdfunding campaigns and explore the key factors that influence their success.

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