

Informal institutions and Internet-based equity crowdfunding

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Abstract:

Equity-based crowdfunding is emerging as an increasingly important source of entrepreneurial financing. This paper examines the effects of informal institutions on entrepreneurs' ability and willingness to engage in efforts to raise equity crowdfunding. It also investigates how informal institutions are linked to investors' response to ECF. Also reviewed are the differences in the effects of informal institutions on equity crowdfunding vis-à-vis other forms of crowdfunding. The paper also delves into factors that are likely to lead to the development of favorable informal institutions from the standpoint of equity crowdfunding. It utilizes inductive theory-building approach.

Keywords: Crowdfunding | Equity crowdfunding | Informal institutions | Institutional evolution | Institutionalization | Market maturity | Philanthropy

Article:

1. Introduction

Equity-based crowdfunding (ECF)¹ is emerging as an increasingly important source of entrepreneurial financing. For instance, “business and entrepreneurship” category accounted for 27.4% of total CF volume in 2012, which increased to 41.3% in 2014 (Reuters.com, 2015). One estimate suggested that the Internet-based ECF (IECF) market was US\$400 million worldwide in 2013, which increased to US\$1.1 billion in 2014 (Feit, 2015). In 2014, ECF accounted for 30% of all seed capital in the U.K. (Exporter, 2015).

Nonetheless, economies worldwide vary greatly in entrepreneurs' efforts to raise and investors' propensity to invest in ECF. For instance, per capita ECF in 2015 was estimated at US\$0.003 in

¹ For a discussion of different types of crowdfunding: (1) crowdlending, (2) equity crowdfunding, (3) reward-based crowdfunding and (4) donation-based Crowdfunding, see Kshetri (2015).

Latin America and the Caribbean (LAC) region, US\$0.23 in Asia Pacific and US\$8.32 in the U.S. (Table 1).

Table 1. The sizes of ECF market in selected regions and associated informal institutions.

Economy	ECF	ECF per capita per year^a	Key characteristics of informal institutions from the standpoint of ECF
Asia Pacific region	2015: US\$948.3 million (csj.hkics.org, 2016).	2015: US\$0.23	China: incompatibility of “success-obsessed” culture with failures in startup ventures (ST, 2016). India: people care less about social causes and are less likely to offer money if there is no financial return (Chaudhary, 2013). China, Indonesia and other countries: less comfortable in trusting a stranger (Dan, 2013, ehipnews.com, 2013). Lack of trust in online transactions in China, Indonesia, Singapore and other countries (Dan, 2013, ehipnews.com, 2013, Soh, 2013). China and other countries: investment culture incompatible with ECF which is associated with an uncertain return, bank lending dominates corporate financing (Liang, 2015, Walter et al., 2003). Investment options more similar to ECF such as VC stock and bond are relatively new.
Canada	2014: US\$70 million (Henderson, 2015)	2014: US\$2	Reliance on banks for investment guidance, a “risk capital investment fatigue, lack of education, success stories and media attention on ECF (Conkin and Cormick, 2015).
LAC	2015: US\$2.05 million (Wardrop et al., 2016)	2015: US\$0.003	Low levels of trust (Canigueral, 2015). Trust mainly resides within the “jus sanguinis” (“the right of blood”) and not in strangers (Lagos, 2001).
The Netherlands	2015: US\$5.04 million (CrowdfundingHub, 2016)	2015: US\$0.29	Europe: social stigma attached to bankruptcy. Entrepreneurs going to bankrupt are viewed as “losers” (European Commission, 1998).
The Nordic Region (Denmark, Finland, Iceland, Norway and Sweden)	Mid-2012 to mid-2015: US\$7.8 million (Crowdfunders, 2016)	2012–2015: US\$0.09	
The U.K.	2015 (first 10 months): US\$219 million (Crowdfunders, 2016)	2015: US\$4.10	
The U.S.	2015Q1: US\$662 million; 2014Q4: US\$483 million (Crowdfunders, 2016)	2015: US\$8.32 2014: US\$6.07	Entrepreneurial failure considered to be part of the learning process (European Commission, 1998). Success stories and media attention related to ECF Investment culture that can easily be adapted to the context of ECF.

^a Some data have been extrapolated in order to compare per capita per year figures across economies.

It can be argued that like any economic phenomenon (Parto, 2005), ECF has institutional components and implications. Before proceeding, some clarifying definitions are offered. Institutions are “macro-level rules of the game” (North, 1990, p. 27), which include: a) formal

institutions such as rules, laws, constitutions; and b) informal institutions such as social norms, conventions and self-imposed codes (North, 1996). Informal institutions can also be viewed as normative and cultural-cognitive pillars in Scott's (2001) conceptualization of institutions. Legitimacy related to normative and cognitive institutions can be mapped to “morally governed behavior”, and “recognizable, taken-for-granted behavior” respectively (Scott et al., 2000, p. 238). Institutionalization is defined as the process by which a practice (e.g., ECF) acquires legitimacy and achieves a taken-for-granted status (Kshetri, 2009). For instance, ECF is said to be institutionalized if this practice is legitimated by regulators, investors, entrepreneurs and other relevant actors. Institutional field is “formed around the issues that become important to the interests and objectives of specific collectives of organizations” (Hoffman, 1999, p. 352). Institutional field members are entities that have a voice in influencing institutional norms regarding the issues involved and participate in the negotiation on these issues (Kshetri, 2009).

In the context of ECF, the first observation is that most economies have not yet enacted ECF legislation. This means that ECF-related formal institutions are not well developed in most countries. For instance, according to a 2015 report of the International Organization of Securities Commissions (IOSCO),² which was based on a survey in which twenty-three member countries participated, only eight—Canada, France, Germany, Italy, Japan, Spain, the U.K. and the U.S.—had “bespoke” ECF regulations. Four—Brazil, South Korea, India and Mexico—were planning to do so. The remaining economies relied on general securities and financial services laws to govern ECF (Torriss, 2016a). The countries participating in the IOSCO survey are big and/or rich. Indeed most small and/or developing nations lack ECF laws. For instance, as of 2015, Malaysia was the only Southeast Asian country to have ECF legislation.

Entrepreneurs are raising ECF even in countries without ECF regulations. For instance, as of September 2016, India lacked ECF laws (Crowdfunders, 2016) but had over half-a-dozen equity CF platforms (ECFPs). During *the eighteen months leading up to September 2016*, Indian ECFPs raised US\$ 52–67 million for about 200 companies (Menon, 2016). Likewise, as of early 2016, China lacked formal ECF legislation. Nonetheless ECF is a dominant segment in the Chinese CF landscape (Zhang, 2016). Barriers related to informal institutions are even more pronounced than formal institutions to raise ECF. Whereas the U.S. has an investment culture that can easily be adapted to ECF, China lacks such a culture. For instance, until the early 2000s, bank lending accounted for 90% of corporate financing in China, which reduced to 55% in 2012 (Walter et al., 2003). Due to the relative newness of individual investments, new channels such as ECF are viewed as high risk investments (Liang, 2015).

Three primary problems motivate this paper. First, prior researchers have found that while crowdfunding platforms (CFPs) eliminate most of the distance-related economic frictions such as monitoring progress, providing input, and gathering information, they do not eliminate social frictions (Agrawal et al., 2011). Such frictions are related to interpersonal relations, especially in early-stage funding in entrepreneurial ventures (Agrawal et al., 2013). Social frictions, which are related to informal institutions, thus have special relevance and implications for ECF. In this regard, prior research suggests that institutions play a major role in determining what might be regarded as a prudent decision (Ostrom, 2005). The literature is mostly silent regarding the

² The IOSCO sets standards for the securities sector. Its members are the world's securities regulators.

causes and consequences of such frictions. Also it is not clear if the degree of social frictions varies across countries.

Second, prior research (Kshetri, 2015) and anecdotal evidence (Conkin and Cormick, 2015) suggest that investors in different countries view ECF differently. Marcus News of Canada's ECF marketplace for retail investors, InvestX noted that Canadian investors are more reluctant than U.S. investors in investing in ECF. Among the causes of Canada's relative backwardness in ECF include historical reliance on national banking institutions for investment guidance, a "risk capital investment fatigue" caused by the crash in public company venture capital (VC) markets and the lack of education, success stories and media attention (Conkin and Cormick, 2015). ECF is more institutionalized in the U.S. than in Canada. However, little is known about factors that drive ECF's institutionalization.

Third ECF has important features that make it different from other forms of CF. An important way in which ECF differs concerns the direction and amount of the flow of money. For instance, whereas donation- and reward-based CF are characterized by a uni-directional flow of money (from the contributors to the project initiator), in an ECF the flow is bi-directional (from project initiators to crowdfunders and vice versa). In order to understand the possible differences in crowdfunders' behaviors across different types of CF, it is also important to understand investment motivations. Prior research suggests that people behave differently in situations involving money. For instance, in an experiment, Ellingsen and Johannesson (2009) found that about a third of the participants demanded no compensation for their investments of time, whereas almost all demanded compensation for equally costly monetary investments. This logic can be extended to argue that crowdfunders may behave differently in different types of CF. For instance, in most cases, donation- and reward-based CF involve insignificant amounts of money. ECF is different. On the ECFP, Crowdfunder.com, the average investment is about US\$25,000. On the other hand, the most common contribution rewards CFP Kickstarter is US\$25 (Barnett, 2014). Brzowska and Gałuszka (2015) analyzed relationships between project initiators (musicians) and contributors in an ECF. Their findings indicated that although contributors are not treated by artists as business partners and the artists wanted to be fully independent, crowdfunders thought about the commercial side and showed interests in profit of the ventures they funded. While some attempts have been made to study the effects of institutions on CF in general (Kshetri, 2015), there is little direct research about how various institutions are linked to ECF. We argue that this form of CF has important implications for entrepreneurial activities and thus needs more research attention.

In addition to research gaps noted above, CF has a potential to bring significant changes in social practices and political processes. Especially ECF makes it possible for broad groups of investors to fund startup companies and small and medium-sized enterprises (SMEs) in return for equity. That is, investors provide money to a business *in return of ownership of a part of the company*. Founders and entrepreneurs can build their brand's loyalty via customer stock ownership (Alois, 2016c). ECF thus can be considered to be a *substitute of VC*. ECF is especially important for entrepreneurs looking for early-stage investments. This is because established VC firms focus more on expansion stage ventures. In the U.S., for instance, in 2015, VC investment in seed stage companies accounted for 3% all VC investments and 5% of all deals (nvca.org, 2016). It is thus important and timely for regulators, investors, entrepreneurs and other stakeholders to observe

this rapidly evolving phenomenon and share insights, reflections and observations with each other. It is also important for these stakeholders to recognize the forces that are shaping ECF.

The goal of this paper is to fill gaps in the sparse literature on ECF and help relevant stakeholders (e.g., regulatory authorities, entrepreneurs, investors, trade associations) take timely and informed decisions related to ECF. Specifically it examines the following research questions: RQ1: How do informal institutions affect project initiators' willingness to go for an ECF instead of other sources of financing?; RQ2: How do informal institutions affect crowdfunders' willingness to invest in an ECF project?; RQ3: How do such effects differ across ECF and other forms of CF?; RQ4: What factors drive the institutionalization of ECF that may lead to an increase in project initiators' willingness to go for an ECF and crowdfunders' propensity to engage in ECF?

The paper is structured as follows. We proceed by first discussing the approach to informal institutions used in this paper. Then we discuss the methods employed in the paper. Next, we present the findings. It is followed by a section on discussion and implications. The final section provides concluding comments.

2. The approach to informal institutions

As defined above institutions are “macro-level rules of the game” (North, 1990, p. 27). An earliest scholar to write about rules was Black (1962), who identified four different ways rules are used: regulations, instructions, precepts, and principles. The rules proposed by North (1990) can be viewed as consisting of regulations and precepts. In this way, institutions can be considered to be a conceptual subset of the rules defined by Black (1962). Regulations and precepts can be broadly mapped to formal and informal institutions respectively.

Ostrom (2005, p. 824) defines institutions as “the rules, norms, ... used by humans in repetitive situations”. When used as regulation, rules are something that are “laid down by an authority (e.g., a legislature, judge, magistrate, board of directors, university president) as required of certain persons (or, alternatively, forbidden or permitted)” (Black, 1962, p. 115). Ostrom (2005, p. 831) describes rules as used in the precept sense as “generally accepted moral fabric of a community” and “cultural prescriptions”. These are “shared prescriptions known and accepted by most of the participants themselves involving intrinsic costs and benefits rather than material sanctions or inducements” (Ostrom, 2005, p. 831). Norms encompass a wide range of meanings and operate at various levels of the social system. For instance, social norms govern or reflect people's expectations of behavior in the entire society (Gouldner, 1960, Williamson, 1993). Differentiating from use of rules in the regulation sense, Ostrom (2005, p. 831) notes that “one would not speak of enforcing, rescinding, or reinstating a rule in the precept sense”. A precept can also be understood as a “maxim for prudential or moral behavior” (Ostrom, 2005, p. 831). Certain ECF-related decisions (e.g., engaging in online transaction and helping a stranger) can be considered to be practical precepts and are viewed as prudent and/or moral according to a particular criterion of success defined in a given cultural setting.

3. Methods

This study utilizes inductive analysis, which involves “approaches that primarily use detailed readings of raw data to derive concepts, themes, or a model through interpretations made from the raw data by an evaluator or researcher” (Thomas, 2006, p. 238). We took this approach because there is a relatively small amount of research involving ECF. Prior researchers have suggested that in areas like this, much initial research needs to be qualitative, concept- and theory-building in character (Eisenhardt, 1989).

The goal of this study is to summarize raw data and capture key themes, processes, and patterns. Thus, the product of the inductive process consists of a model of the ECF phenomenon intended to be helpful in organizing further investigation of its components and holistic behaviors.

3.1. Raw data

The data for this study mainly involved articles, blogs (from popular media), reports (e.g., Massolution, www.massolution.com/ and consultants (e.g., KPMG, 2014), policy documents (e.g., from the World Bank (infoDev)/The World Bank, 2013) and *video* and audio clips. Archival data are among a variety of recognized data sources for academic research (Ansari et al., 2015, Eisenhardt and Graebner, 2007).

In order to locate the relevant data, we searched using various combinations of keywords such as “equity crowdfunding”, “equity-based crowdfunding”, “culture”, “norms”, etc. Our *search started with LexisNexis database and Google News. We also included materials from sources cited in the news from these two databases such as blogs, news and other online content sites. We limited our search to materials published in the English language. At least one direct quote from a practitioner in the field was used as a criterion for inclusion.* Prior researchers have noted that knowledge that is derived from practice or experience is an important source for reasoning in the theory-development process (Webster and Watson, 2002). Experiences and practices of organizations such as the Brazilian CFP, Kickante, the Latin American CFP, Idea.Me, the Japanese CFP, ReadyFor? and India-based CFP Ketto have been used. *Blogs, interviews and public statements* of key decision-makers, policy-makers and related stakeholders involved at CF such as Chandan Joshi, Partner at Oliver Wyman, two Vietnamese entrepreneurs who crowdfunded the cartoon series, Long Than Tuong, Pauliina Seppälä of the Finnish CFP Mesenaatti.me, Sandi Gilbert, Founder & CEO for SeedsUps Canada, Mandy Marahimin, CEO of the Indonesian CFP, Wujudkan.com, Gaidar Magdanurov, Investment Director of Russia's Runa Capital's Renyung Ho, co-organizer of CreativeMornings Singapore and co-founder of Kennel, a co-working space and Italy's Culture, the U.K.-based Internet entrepreneur Paul Birch and Tourism Minister Dario Franceschini were also analyzed.

As suggested by prior researchers (Golder, 2000, Mason et al., 1997), we analyzed the sources of evidence as well as the evidence by using the criteria suggested by Gottschalk (1969) such as time elapsed between events and reporting, openness to corrections, range of knowledge and expertise of the person reporting the events, and corroboration from multiple sources. For instance, in order to elucidate the relationship between thin trust and propensity to engage in CF in Asian economies, we *triangulated information* from multiple sources (e.g., Dan, 2013, ehipnews.com, 2013). Likewise, for arguments related to trust in online transactions in these

economies, data were matched from Dan (2013) ehipnews.com (2013) and Soh (2013) and cross-checked.

The relevant materials from various sources resulted in 150 pages of text. *The raw data also included video* and audio recordings of *interviews* with people experienced in CF. Four videos (about 73 min) and 1 audio (about 8 min long) found on news media websites were also used. Text-, audio- and video-related materials were included only if they contained at least one example that illustrated how CF is affected by informal institutions as defined by Ostrom (2005), North (1990) and Scott (2001).

3.2. Data analysis

Miles and Huberman (1994) suggested that three broad tasks for qualitative data analysis include data reduction, data display, and drawing conclusions. Regarding the first step- data reduction-- in the inductive approach, Thomas (2006) suggested that researchers describe procedures to create meaning in complex raw data by developing summary themes or categories. The categories which emerge from the coding of raw data have five key features (Thomas, 2006): a) category label: a word or a phrase that refers to the category; b) category description (meaning of the category, key characteristics, scope, limitations); c) texts that are associated with the category (examples illustrating meanings, associations, and perspectives), d) links (how each category is related with other categories); e) the model which embeds the category.

The category labels are represented by the boxes in Fig. 1. We followed the coding process suggested by Thomas (2006). We read and reread the text data in order to generate the most important categories. Thomas (2006) suggested to create between three and eight categories.



Fig. 1. Informal institutions and IECF.

We continuously revised and refined the category system. Under each category, we searched for subtopics and conceptual themes within the sub-topics that could provide new insights. As suggested by Thomas (2006, p. 242), categories with similar meanings were combined under a “superordinate” category. For instance, precepts shared by entrepreneurs and precepts shared by investors are “superordinate” categories which include two and three categories respectively as presented in Fig. 1.

3.3. Writing the findings

In writing the findings, it is important to include detailed descriptions of the categories that emerge from the data and appropriate quotations, which illustrate the categories' meanings (Thomas, 2006). To this end, *meaning and characteristics of the categories* have been explained in Table 2. In Table 3, we have provided examples that illustrate particular meanings of the categories in specific contexts. This Table presents views of practitioners involved with ECF. They have been categorized based on various components of informal institutions.

Table 2. Key categories that emerged from analysis of data and their meanings.

Category	Meaning/explanation
Stigmatization of entrepreneurial failure	• The act/process of negatively labelling or characterizing entrepreneurial failure.
Existence of CF-related trade association	• A CF-related trade association is an organization founded by businesses that operate in the CF industry.
Thin trust	• Trust between (or confidence placed in) strangers
Trust in the Internet	• The degree of confidence placed in the Internet's effectiveness <i>as a medium to conduct</i> transactions
The degree of philanthropic involvement	• <i>A society's altruistic activities that are carried out</i> to improve human welfare and advancement. Such <i>activities are often reflected</i> in donations of money and work or use of time to help needy persons.
The existence of regulatory framework for ECF	• Taxes, regulations, rules and institutions that define rights and obligations of parties involved in ECF
ECF market maturity	• The <i>state of development</i> of the ECF market.

The final outcome was a model incorporating the most important categories as represented in Fig. 1. The constructs and relationships embedded in the model, which are based on insights that emerged from raw data themes, together with the testable propositions represent a theory³ regarding the relationships among key CF concepts. The letter N and C in parentheses represent what Scott (2001) refers to as normative and cognitive institutions respectively.

3.4. The nature of theory developed

Rivard (2014) observed that a theory paper puts less emphasis on the synthesis of prior literature and focuses more on theory development. We follow Bacharach's (1989, p. 496) definition of theory as a “statement of relations among concepts within a boundary set of assumptions and constraints”. Among the five ways identified by Gregor (2006) regarding the use of “theory”, the approach of this paper can be described as Type IV—theory for explanation and prediction. We explain constructs related to dependent and independent variables, their associations and the states covered. Such an approach would help develop a more refined understanding of the relationships between informal institutions and ECF and enable reliable and accurate prediction. Empirical testing may partly or fully support or refute the theory.

³ Following Anderson (1993), we distinguish between theory and a framework in this paper's context as follows: Frameworks consist of a set of constructs that define key aspects of and make general claims about ECF and other types of CF. Frameworks, however, are not specified sufficiently to enable predictions. Framework do not involve a hypothesis-testing research agenda. By adding a series of propositions and the underlying assumptions, we propose a theory regarding the relationships among key crowdfunding concepts in order to illuminate the world of crowdfunding in a useful way.

Table 3. Views of some practitioners involved with ECF and other forms of CF.

Stigmatization of entrepreneurial failure	
The U.K.-based Internet entrepreneur Paul Birch Marcus News, Founder & Chief Entrepreneur from InvestX	“In the UK, there is a stigma against business failure among the general public, whereas in the US it's almost a badge of honor” (Singleton, 2008). “Entrepreneurship is not celebrated in Canada the way it is in other countries especially the US where there is an ecosystem that supports (it)” (Conkin and Cormick, 2015)
Khanh Duong, who initiated the idea of crowdfunding the cartoon series, Long Than Tuong and set up the CFP for the project	Commenting on Phong: “At the beginning my main challenge was talking Phong into the idea.” The cartoonist [Thanh Phong] was concerned that if the project failed then it would affect his reputation (Le, 2015). “You need to get over the fear of losing” (Le, 2015).
Maturity of the ECF market	
Sandi Gilbert, Founder & CEO for SeedsUps Canada	Canadian investor's reluctance to invest in equity CF can be attributed to the relative newness of the concept in Canada. More deals are likely to increase investor interest (Conkin and Cormick, 2015).
Chandan Joshi, Partner at Oliver Wyman	“When it comes to Asia, the concept of crowdfunding is very new and visionary. It also might require some business model innovations” (Tan, 2014).
ECF legislation	
An official of South Korean CFP, Wadiz	“The biggest complaint we get from our [ECF] investors is that they can't invest in another venture because they maxed out on their limits. This must be resolved by modifying the related regulations” (Jang, 2017).
Philanthropy	
Italy's Culture and Tourism Minister Dario Franceschini	“Bringing the culture of patronage here [in Italy] will take time” (Williams, 2015).
Pauliina Seppälä of the Finnish CFP Mesenaatti.me	“We want to make sure we benefit the Finnish culture, society and economy. We don't take on projects that do not somehow add to the common good, like a new innovation or work of art. Our social system already funds culture, social projects and also innovations, so it is already a sort of crowdfunding system, where people put money together to fund important things”. (David, 2013)
Chandan Joshi, Partner at Oliver Wyman	“... a purely rewards based crowdfunding model, which is the name of the game today, in the future might give way to equity-based models, which may be more in line with the investor expectation of returns in Asia.” (Tan, 2014)
Trust in online transactions	
Mandy Marahimin, CEO of the Indonesian CFP, Wujudkan.com	“... a lot of Indonesians still have yet to trust the Internet to facilitate financial transactions” (ehipnews.com, 2013, para. 2).
Renyung Ho, co-organizer of CreativeMornings Singapore and co-founder of Kennel, a co-working space	“One problem we faced as project creators was that some of our pledge supporters were not comfortable with providing credit card details to an unknown site. Many were also not familiar with using PayPal. Instead, we got more supporters pledging money through bank transfers and cheque deposits” (Soh, 2013, para. 18).
Thin trust	
Gaidar Magdanurov, Russia-based Runa Capital's Investment Director	“People want to be part of something constructive and have the money to do it. But the level of mutual mistrust here is higher, so crowdfunding will take longer to gain a foothold in Russia” (Avshalumova, 2013, para. 4).
Ma Jinxin, a businessman from Beijing, China	“... we tend to become suspicious about any stranger who asks for help because we were taught to do so at school and at home. When we see people begging on the street, the first thought that occurs to us is that they are cheaters” (Dan, 2013).
CF-related trade associations	
The German Crowdfunding Association	Commenting on the law regulating CF in Germany, Kleinanlegerschutzgesetz (Small Investor Protection Act): “We want that investors with larger disposable income be able to freely use crowdfunding platforms in Germany, as they can already do in other countries” (Torriss, 2016c)
NCFA Canada	Commenting on the effect of CF on the economy and society: CF is “creating jobs, spurring growth in start-ups and scale-ups, and providing investment opportunities for those who were previously shut out from such ventures. We're witnessing the dawn of a new economic phenomenon that is rapidly changing how consumers and businesses aggregate, transfer, store and invest capital privately” (Alois, 2017)

As noted above, the purpose of this paper is to develop a theory for explaining the relationship between informal institutions and ECF. Specifically, we are concerned with the relationships that exist between various concepts associated with ECF and informal institutions. When the goal of a theory is *explaining*, *concepts are at the center of the literature review*. That is, the literature review moves away from paper-centric or author-centric approaches (Rowe, 2014, Webster and Watson, 2002).

The focus of the literature review in this paper is on *understanding* ECF (related to dependent variables), through related concepts (independent variables). In such a situation, a narrative style is desirable to make sense of the contents of the literature (Rowe, 2014).

It is important to specify the boundary conditions related to a theory's assumptions (Bacharach, 1989, Rivard, 2014). Whetten (2002) suggested to consider two types of assumptions: conceptual and contextual. Conceptual assumptions or “second order explanations” are the “implicit whys underlying an explicit answer to a specific why question” (p. 58). A foundational theory in this paper is institutional theory. A key assumption institutional theorists make is that institutional actors seek legitimacy instead of efficiency (Campbell, 2004) and that they “accept and follow social norms” (Tolbert and Zucker, 1996, p. 176).

Contextual assumptions specify a theory's boundary. These assumptions determine the conditions that circumscribe the explanation proposed by the theory (Whetten, 2002). The idea is that a theory covers only a particular class or state of things (Weber, 2012). According to Sutton and Staw (1995, p. 376), in a strong theory, it is possible to “discern conditions in which the major proposition or hypothesis is most and least likely to hold”. Contextual assumptions explain when, where, and for whom the theory holds (Whetten, 2002). The contextual boundary of the model presented in this paper comprises the IECF, the processes of raising and investing in IECF, and the informal institutions in which the fundraisers and investors are embedded. The context does not include other types of fundraising activities or raising funds offline. Moreover, the proposed associations among the various constructs are expected to be positive or negative on a *ceteris paribus* basis. This means that for each proposed relationship, other forces may be at work that might neutralize or overturn the otherwise expected positive or negative relationship.

4. Findings

The findings are organized in three sections. First, we provide an analysis of the precepts shared by entrepreneurs that may serve to guide their engagement in efforts to raise IECF. Then, we discuss the precepts that are likely to be embodied in potential investors' norms and values. Finally, we look at the factors that drive the institutionalization of IECF.

4.1. Factors shaping the precepts shared by entrepreneurs

4.1.1. Social interpretation of business failure and ECF

The project initiators, Thanh Phong, a popular Vietnamese cartoonist and illustrator, and his friend Khanh Duong, who successfully raised CF to the new cartoon series, Long Than Tuong (The Dragon General) noted that crowdfunders who funded their project showed a high level of

interest and curiosity in the project (Table 3). Why would this be the case? Extrinsic and intrinsic motivations impact behaviors of ECF investors. They may track the progress, status and outcomes of the projects. This means that crowdfunders are likely to notice success as well as failure more keenly and comment in social media and other channels. The more a failure is visible, the higher the level of perceived humiliation for an entrepreneur whose project has received ECF. The “intrinsic costs” (Ostrom, 2005, p. 831) of failure are high for entrepreneurs.

Societies differ in their orientation toward failure. According to the EY G20 Entrepreneurship Barometer 2013, in the G20 economies, only about a quarter viewed business failure as an opportunity to learn compared to 43% in U.S. (Ey.com, 2013).

An important point about entrepreneurial failure needs to be made here. In most other financing models, only a few experienced investors know about the failure and a failed entrepreneur's social dignity will not be threatened. Whereas in most other financing model, it is typically the corporation's money, crowdfunders typically include private individuals, who invest their personal money. A success or failure is thus publicly observed. It is argued that the public exposure of crowdfunding is likely to discourage “humiliation-averse entrepreneurs” from participating (ST, 2016). For instance, some describe China's culture as “success-obsessed” which is incompatible with the prevalence of failure in startup ventures (ST, 2016). Thus intrinsic costs of failures vary across societies with different degree of stigmatization of failure.

Brzowska and Gałuszka (2015) found that relations among artists and users were characterized by equality, and that the user community had a collective influence on artists. Their findings also indicated that although contributors are not treated by artists as business partners and the artists wanted to be fully independent, crowdfunders thought about the commercial side and showed interests in profit of the ventures they funded. This phenomenon can be better examined and understood by looking at crowdfunders' extrinsic and intrinsic motivations. Each type of CF would prompt potential crowdfunders to respond with their individual combinations of motivations. An individual's combination of motivations is an interaction of the individual and CF. Each CF type thus may tend to attract those of different combinations of motivations unequally but systematically.

The theory of intrinsic motivation is based on the premise that human need for competence and self-determination are linked with interest and enjoyment (Deci and Ryan, 1985). According to Ryan and Deci (2000), intrinsically motivated individuals do activities for “inherent satisfactions rather than for some separable consequence”. There is no external pressures or rewards involved. For instance, in donation-based CF, donors are mostly intrinsically motivated and make payments to the causes *they* are passionate about.

On the other hand, while some crowdfunders investing in ECF may have some degree of intrinsic motivation (e.g., helping entrepreneurs), they are mostly extrinsically or financially motivated. Extrinsic motivations can be better explained by economic theory, which suggests that human behavior is a result of “incentives applied from outside the person (Frey, 1997, p. 13). The benefits accruing to the individual may be immediate or delayed.

The amount of financial incentives and the strength of motivation driving an investor's behavior co-vary positively. ECF often involves higher amount of money compared to other forms of CF. For instance, during 2012–2014, the *average fund size* in Kickstarter (reward-based CFP) was US\$7825 compared to US\$500,000 in SeedInvest (ECFP) (Feit, 2015). Individuals who invest in ECF are thus likely to be extrinsically/financially motivated and a higher investment leads to stronger motivation.

In sum, prior research suggests that the stigma of failure is tightly linked to entrepreneurial activities (Landier, 2005). The mechanisms are of particular importance in ECF because entrepreneurs who receive ECF and fail are likely to face a higher degree of humiliation than those that receive funding from other sources. It is thus proposed that:

P1. *Ceteris paribus, the degree of stigmatization of entrepreneurial failure in a society is negatively related to entrepreneurs' willingness to raise funds via IECFPs compared to other financing sources.*

4.1.2. CF-related trade associations

As direct quotes from CF-related associations indicate, these associations are helping relevant stakeholders understand the impact of ECF and pushing regulators to adopt more ECF-friendly policies (Table 3). These associations do not lay down rules that entrepreneurs are required to follow. They, however, actively *engage in training and coaching* to ensure that entrepreneurs understand ECF. Such activities may increase entrepreneurs' “intrinsic benefits” (Ostrom, 2005, p. 831) *of engaging* in ECF.

Table 4. Some examples of CF-related associations and samples of activities to stimulate ECF.

CF association	Sample of activities
The U.K. Crowdfunding Association (UKCFA)	Partnered with Crowdfest, a “multi-streamed forum” to address topics such as blending CF with VC and angel investment, exploiting cross-national opportunities and making a successful exit. Topics covered also included combining ECF with Islamic finance (Alois, 2016a).
The African Crowdfunding Association (ACFA)	Lobbies for legislation and increase public awareness on CF. its goal is to educate the public, policymakers about the benefits of CF (Jackson, 2015). It also aims to protect investors and democratize access to capital (Gilbert, 2015).
The Association of French crowdfunding platforms, Financement Participatif France	Organizes events in which participants from traditional and alternative finance attend. The 3rd annual meeting held in March 2016 had about 500 participants, in which the French Minister of Economy was the main speaker. The Minister announced several improvements in French ECF regulations (Torriss, 2016b).
Nordic Crowdfunding Alliance (NCA)	It helps potential investors and donors to identify opportunities beyond national borders and across the whole Nordic area. Project owners can decide whether to focus campaigns nationally or broaden to the Nordic region (Clawson, 2014).
Danish crowdfunding Association (DCA)	Lobbies for regulatory changes in Danish law to properly legalize ECF (NCA, 2016). It aims to promote ECF as a financing form for entrepreneurs in Denmark (De Stefano, 2016). It has been working with relevant stakeholders to reproduce best practices and successes from the U.K. and other European countries (Alois, 2014).

Table 4 provides additional details from CF-related trade associations in other economies that are instructive regarding the diverse mechanisms and approaches used to overcome various barriers and to stimulate the growth of the ECF industry and market. They include dealing with issues of CF-related etiquette and ethics, boosting the confidence of entrepreneurs, increasing awareness

and education (UKCFA) and cross-border opportunities (e.g., NCA) and helping to reproduce best practices and successes from foreign countries (e.g., DCA).

The National Crowdfunding Association of Canada educates entrepreneurs and other fundraisers in proper etiquette and ethics related to CF (CBCNews, 2016). The NCAC helps set fundraisers expectations correctly. If expectations are met or exceeded, entrepreneurs will be inclined to use ECF for future fundraising.

As noted earlier, national legal systems related to ECF are not well developed in most countries. In general in nascent and formative sectors such as ECF, there is no developed network of regulatory agencies comparable to those in established sectors (Kshetri and Dholakia, 2009). As a consequence, there is no stipulated template developed for organizing institutional actors' behaviors (Greenwood and Hinings, 1996). Trade associations are in a position to provide some degree of institutional co-ordination in order to overcome the existing regulatory gap in ECF and initiated steps to improve the ECF ecosystem.

While prior research has shown that trade associations play a key role in the development of the CF industry and market in general (Kshetri, 2015), they are more motivated and interested in stimulating the growth of ECF and supporting entrepreneurial activities. For instance, one of the goals of the European Crowdfunding Network is to support entrepreneurship (Kshetri, 2015). Similarly, the National Crowdfunding Association of the U.S. represents the interests of investor as well as the entrepreneur in ECF. In the same vein, membership in the National Crowdfunding Association of India is open to entrepreneurs.

Especially in emerging economies, trade associations replace the roles that are often played by consultancy firms in filling the institutional voids (Back et al., 2014). Several mechanisms can be proposed regarding the roles of trade associations in enriching the ECF ecosystem (Table 4). For instance, they can find ways to develop the talents and special abilities needed for the ECF. They can train entrepreneurs to write quality proposals, which can pass all the steps successfully and raise the targeted funds. They can help entrepreneurs develop and implement effective advertising campaigns for CF projects.

As is the case of the ACFA (Table 4), trade associations may engage in lobbying to convince policy makers to introduce ECF legislations. Influencing ECF regulations has been a major goal of National Crowdfunding Association of India as well (Alois, 2013).

Prior researchers have noted that such associations constitute the “most elaborate and intricate organizational arrangements” (Scott, 1992, p. 253) and play a significant role in legitimating institutional changes (Greenwood et al., 2002). The examples above provide mechanisms that are specific to ECF. The discussion in this section is summarized as:

P₂. *Ceteris paribus, the existence of CF-related trade associations is positively related to entrepreneurs' (a) ability and (b) willingness to raise IECF.*

4.2. Factors shaping the precepts shared by investors

4.2.1. Thin trust

Online ECF involves fundraising efforts often initiated by a stranger. What is important here is thin trust between strangers rather than thick trust between people that know each other. In Latin America trust mainly resides within the "jus sanguinis" ("the right of blood"). Latin Americans thus lack trust in unknown people (Lagos, 2001).

The CEO of the Indonesian CFP, Wujudkan.com noted that Indonesians are less comfortable in trusting a stranger (ehipnews.com, 2013). This phenomenon can be explained with thin trust (Table 2). Issues related to thin trust arise as we look at some of the concerns expressed by other practitioners such as Gaidar Magdanurov, Runa Capital's Investment Director makes it clear that the lack of thin trust has been a major obstacle facing ECF in Russia (Table 3). Note that trust indices for Indonesia and Russia are 16.9 and 55.4 respectively compared to Norway's 148 (Medrano, 2016). In the same vein, Arab consumers arguably are suspicious and convincing them to invest in an ECF project is not easy (Khalil, 2013).

Prior research suggests that economic decisions are shaped by social behaviors (Lai et al., 2014). A related concept is social capital as defined by Putnam (1993, p. 167) as "features of social organization, such as trust, norms, and networks, that can improve the efficiency of society by facilitating coordinated actions". The degree of social trust among community members is a key component of social capital (Coleman, 1988).

As Table 1 shows, ECF per capita in the LAC is among the lowest. One key observation regarding the slow takeoff of ECF in LAC is that the liberalization of markets and economic modernization led to the disbandment of social networks. Whereas these disappearing networks have been replaced by new forms of support systems (e.g., voluntary associations in the U.S.) such systems have not yet emerged in Latin America. Latin American economies thus consist of "lonely populations" who lack social support and links (Lagos, 2001). The trust index of Brazil was 17.5 compared to Norway's 148 (Medrano, 2016).⁴

A low social trust has hindered the development of ECF in China. According to a study of the Institute of Sociology of the Chinese Academy of Social Sciences, family members are viewed as the most trustworthy in China, which is followed by close friends and acquaintances. Only 30% of participants in the study trusted strangers on the street and only 24% trusted strangers online (Dan, 2013). We propose that:

P3. *Ceteris paribus, a high degree of thin trust between strangers is positively related to individuals' propensity to invest in IECF.*

4.2.2. Trust in online transactions

As Renyung Ho, co-organizer of CreativeMornings Singapore and co-founder of Kennel, a co-working space has noted problems related to credit cards use online has been a barrier faced by the ECF industry and market in Singapore (Table 3). This factor has arguably slowed down ECF's take off in Singapore. The CEO of the Indonesian CFP, Wujudkan.com, Mandy

⁴ Trust index = 100 + % (Most people can be trusted) – % (You can never be too careful when dealing with others).

Marahimin echoed this sentiment (Table 3). Many researchers (e.g., Kshetri, 2015) as well as practitioners have emphasized the roles of trust in online transaction on the success of ECF.

It is important to understand cognitive programs that are built on mental maps of potential crowdfunders and project initiators. Put differently, cognitive systems influence the lens through which crowdfunders and project initiators view ECF (Scott, 2001). An important aspect of potential CF investors' mental maps concerns attitudes toward CFPs, especially the degree of trust that potential investors place on CFPs. For instance, consumers in many Asian economies are characterized by an unfavorable attitude toward online transactions. One of the explanations put forward for this attitude is that in Asian economies such as Vietnam personal business relationships play an important role. Potential investors are thus less likely to invest online in a stranger's business (Fintechnews, 2016). In these economies, the lack of a sizable market of early adopters comfortable with supporting IECF has hindered the growth of the market.

A further challenge in China is that commercial organizations such as CFPs are less trusted. According to the study of the Institute of Sociology of the Chinese Academy of Social Sciences discussed above, when the respondents were asked to name institutions that they trusted, 69% said government, 64% chose public media, 58% selected non-governmental organizations, only 52% named commercial organizations (Dan, 2013). The line of argument developed above leads us to the suggestion that for people in many Asian economies, transacting online is against their principles of prudent behavior.

A final point that should be stressed is that while there is some overlapping between trust in online transactions and thin trust because both involve dealing primarily with strangers, prior research suggests that some differences between these two concepts exist. Trust is tightly linked to perceived risk (Mayer et al., 1995). Platform enabling online transactions such as CFPs involve risks that are unique to such platforms. For instance, consumers may be concerned about functionalities of a website to provide the services that the site claims to provide or it may require more time, efforts, money and other resources (Gefen et al., 2008). Consumers may also be concerned about potential misuse of information involved in an e-commerce transaction (Kshetri, 2014a). In sum, we argue that:

P4. *Ceteris paribus, the degree of trust in online transactions is positively related to individuals' propensity to invest in IECF.*

4.2.3. Philanthropy

From the quotes of Italy's Culture and Tourism Minister and Oliver Wyman Partner Chandan Joshi, it is clear that the lack of philanthropic support has hindered the growth of some forms of non-ECF, especially donation-based CF in Italy and some Asian economies. On the other hand, the quote from Pauliina Seppälä of Mesenaatti.me indicates a *favorable philanthropic* environment in Finland.

We noted above that different types of CF are related to different combinations of motivations. It is important to look at factors that lead to motivation and commitment to contributing and

investing in different types of CF. In this regard, a point to be noted will be that social capital has far broader implications than just the production of thin trust.

Different elements of social capital have different social, political and economic outcomes. Especially the social norm component of social capital, which is related to obligations and expectations of support among community members, normally outside the family and ethnic group, deserves emphasis (Coleman, 1988, Coleman, 1993).

Social norm is a key determinant of whether, and how much people give (Radley and Kennedy, 1995). A relevant concept is philanthropy, which can be viewed as a social relationship in which donors and recipients engage in projects that have mutual and shared interests (Ostrander, 2007). Philanthropic involvement, which is defined as the degree to which people voluntarily allocate time, money and other resources to charitable, social and humanitarian initiatives and activities (Ricks and Williams, 2005) is linked to the success of a donation- or reward-based CF project.

A CF project involving social or philanthropic purpose such as donations for charity is more likely to be successful in societies with a sense of social obligation. Also in a reward-based CF, crowdfunders may be more interested in social or psychological benefits rather than monetary return. Philanthropy and benevolence are more likely to affect reward- and donation-based CF projects than those motivated by economic returns such as ECF (Kshetri, 2015).

People in some societies demonstrate a weak socio-cultural orientation toward CF projects. For instance, the lack of civic and psychological orientations and the lack of training have hindered the development of the Arab CF industry (Khalil, 2013). Compared to the West, the Arab society is characterized by a low degree of social capital (Atiyyah, 1992).

Fig. 2 presents differences in the distribution of ECF and non-ECF (NECF) in the U.K., France and China. ECF's relative share in China is higher than in France or the U.K. Why might this be the case? Note that compared to other CF types, investing in ECF is often more about expecting a future return on investment. A country characterized by a lower degree of philanthropic involvement is likely to exhibit a higher relative preference for ECF than NCEF.

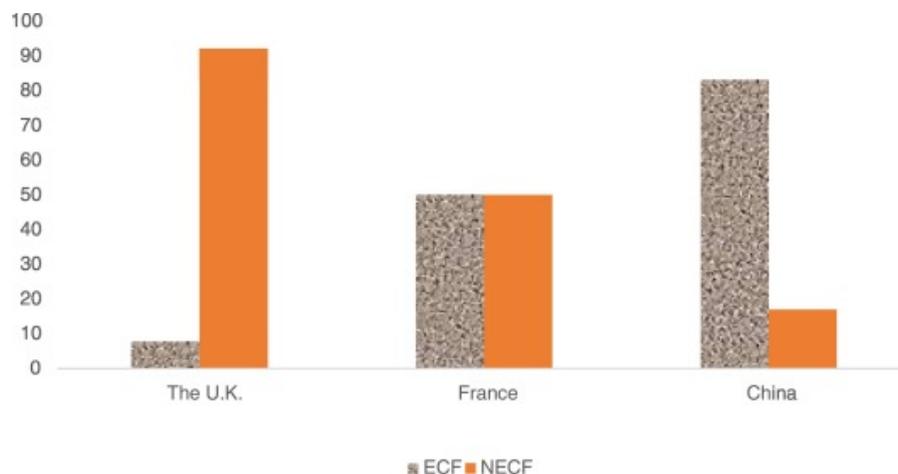


Fig. 2. An illustration of the distribution (%) of non-loan CF in the U.K., France and China.

It is a common practice for the cultural heritage sector to raise funds through donations, philanthropy and sponsorship, which are not associated with an expected financial return. In the cultural heritage sector, crowdfunders invest due to their “personal desire to support the development and realization of a project that in some way is meaningful to the contributor” (CMF, 2012). CF in cultural heritage is relatively new outside North America and Europe. One indicator to understand the cross-cultural heterogeneity in generosity and propensity to help a stranger or volunteer time is the Charities Aid Foundation's World Giving Index (WGI). WGI for 2014 was based on Gallup survey of 135 nations. The survey asked whether the respondents had given money to charity, volunteered or helped a stranger. The WGI for 2014 varied from the lowest of 14% for Yemen to the highest of 64% for the U.S. and Myanmar (CAF, 2014).

Consider India, which ranked at 69 (WGI: 29%). According to the survey, only 39% of Indians gave money to charities, 21% volunteered time and 38% helped a stranger (CAF, 2014). Some observers note that people in India care less about social causes and are less likely to offer money if there is no financial or monetary return (Chaudhary, 2013). For instance, Mumbai-based CFP for social, personal and creative projects, Ketto was reported to raise US\$700,000 in funding. Most funders, however, were celebrities and corporations (Sainul, 2015). Likewise, India's ice hockey players wanted to take part in an International Ice Hockey tournament Challenge Cup held in Kuwait in April 2015. The 25-member team raised about US\$32,000, of which 80% was contributed by three business groups (bbc.com, 2015). Thus, the funds are not coming from the crowd in the real sense.

Individuals' engagement in philanthropic activities especially determine the success of donation-based CF. For instance, a study conducted in Poland indicated that a higher proportion of respondents were motivated by helping artists rather than return on investment (Galuszka and Bystro, 2012). Moreover, the degree to which people support a reward-based CF may be driven predominantly by a philanthropic motive rather than an interest in the reward (Kshetri, 2015).

Overall, societies characterized by a high tendency to voluntarily allocate time, money and other resources to charitable, social and humanitarian initiatives provide a supportive environment for the success of reward- and donation-based CF projects.

EU-Eastern Partnership Culture and Creativity Program lists several European CFPs working for the development of culture projects (Culturepartnership.eu, 2015). It is, however, reported that attempts to raise CF to renovate dozens of cultural sites damaged throughout Italy have been unsuccessful. The lower success rate can be attributed to a lower patrimony and philanthropic support among Italians compared to other EU countries (Williams, 2015).

To illustrate the above argument with real-world examples, in Table 5, we compare different types of CF in three countries with different WGI ranks: China, France and the U.K. Note that we compare ECF as a proportion of total non-loan CF instead of absolute amounts of different types of CF. While the *data correspond* to different years for the three countries, the differences in years do not matter as much for the proportion as they do for absolute amounts of CF. As it is clear from Table 5, *a country that performs poorer in the WGI is likely to have a higher ECF as a proportion of total non-loan CF.*

Table 5. A comparison of IECF and Internet-based NECF in the U.K., France and China.

	The U.K. (2013)	France (2015)	China (2014H1)
ECF (million, US\$)	45	55.83	25.4
Rewards + Donation CF (million, US\$)	529	55.72	5.2
Total non-loan CF (million, US\$)	574	111.56	30.6
ECF as a proportion of total non-loan CF (%)	7.84	50.05	83.01
WGI rank (2015) (a lower number indicates a higher propensity of giving)	6	74	144

Data sources: France (Alois, 2016b), China Zhang et al. (2014), the U.K. (Kshetri, 2015).

In sum, in a society characterized by a low degree of philanthropic involvement, there is likely to be a higher relative propensity to engage in ECF compared to other forms of CF. The above leads to the following:

P5. *Ceteris paribus, the degree of philanthropic involvement is positively related to the ratio of Internet-based NECF to IECF.*

4.3. Institutionalization of IECF

4.3.1. ECF legislation and enforcement

As reported by an official of the South Korean CFP, Wadiz, potential ECF investors express a negative orientation toward ECF due to unfavorable ECF legislation. The existence of a clear ECF-related regulations and their enforcement can thus reduce uncertainty, and increase the predictability that entrepreneurs and other actors in the ECF ecosystem face. Clear regulations can help an entrepreneur get supports from investors and other key players. For instance, players in the value chain are less constrained by concerns about breaking the law. A related point is that well-developed regulative institutions can help improve the quality of CF proposals. An ECF proposal that contains clear articulation regarding the compliance with CF-related regulatory requirements can be more convincing and trustworthy and attract investors and funders (Kshetri, 2014b, Kshetri, 2015). Overall ECF laws can increase trust in the value chain.

Nonetheless, a point to be noted is that ECF-related regulative institutions consist of much more than relevant laws. A key problem that may limit the development of the ECF market, especially in many developing countries, is the substantial gap between the law on the books and the law in action. Indeed, unenforced laws may even have the opposite effect. Thus the establishment of effective enforcement mechanisms should be a major priority for policy makers.

Prior researchers have suggested that formal and informal institutions affect each other (Axelrod, 1997, Hayek, 1979). Axelrod (1997, p. 61) comments: “Social norms and laws are often mutually supporting. This is true because social norms can become formalized into laws and because laws provide external validation of norms”. To put things in context, legislations can bring changes through which entrepreneurs gradually place increasing importance on ECF and potential crowdfunders develop favorable attitudes toward investing in ECF.

To better understand the associated mechanisms by which formal institutions impact informal institutions, we can look at thin trust. If ECF laws exist, potential investors are less likely to feel the need to be careful when dealing with project initiators. Investors are less likely to be

concerned that fundraisers will take advantage of them and run away with their money. That is, investors can feel confident that their money will be safe (Britton, 2016).

Some countries with ECF regulations have also established specific legislative mechanisms to ensure that investors are protected. For instance, following the ECF legislation in Malaysia, businesses that raise ECF are required to appoint a licensed trustee, who holds and administers the funds during the CF offer period (Chan, 2015). Overall ECF laws at least partly compensate for the lack of thin trust.

A caveat must be included regarding the effects of formal institutions on informal institutions. Although ECF legislation affects ECF, practitioners have emphasized the time lag. That is, ECF legislation may take time to bring its fruit. In countries outside North America, it reportedly took at least two years to have an impact after ECF legislation was adopted (Conkin and Cormick, 2015). The above leads to the following:

P6. The Existence of ECF friendly legislation and enforcement leads to a higher degree of institutionalization of IECF, which increases: a) entrepreneurs' ability and willingness to engage in efforts to raise IECF compared to other types of entrepreneurial financing; b) investors' propensity to invest in IECF.

4.3.2. The amount of ECF-related activities

Sandi Gilbert of SeedsUps Canada and Chandan Joshi of Oliver Wyman noted that due to newness ECF-related norms have not been established. Prior research has shown that in a mature market, investors have a clear understanding of the nature and evolution of the markets, and related economic and institutional conditions (Chin et al., 2006). A mature ECF market in which more activities related to ECF have taken place, diverse participants with different views and motivations and different types of links among them are likely to exist.

In some countries CFPs are taking measures that can deter a party from engaging in opportunistic behaviors. In March 2015, JD, China's second-biggest e-commerce company, launched an ECF platform. JD.com ensures that potential investors meet its strict requirements, which include real-name registration (Bischoff, 2015). In mature ECF markets, alternative trust-producing mechanisms are likely to evolve.

The maturity CF is positively related to the existence of successful ECF projects. They are likely to attract media attention and energize entrepreneurs. These features may not exist in an immature market. For instance, as noted earlier, in Canada, the lack of education, success stories and media attention on ECF is related to Canadian investors' lower willingness to participate in ECF (Conkin and Cormick, 2015).

To take an example, in Belgium, a lack of high quality projects has been emphasized as the main barrier to the growth of ECF (KPMG, 2014). A significant proportion of entrepreneurs lacked awareness of ECF. A large proportion of those who were aware of this financing option considered ECF to be “unrealistic, complex with a small chance of success” (KPMG, 2014, p. 9).

Likewise, most potential investors lacked awareness or knowledge of ECF to consider it to be an attractive investment option (KPMG, 2014).

When the ECF market becomes more mature, the challenges can be overcome. In a mature market, CFPs also play an instrumental role in providing training and education pertinent to the successful launch of ECF. For instance, in Brazil, the CFP Kickante provides coaching and guidance to help potential entrepreneurs market a CF campaign. It provides personalized training in CF techniques and marketing ideas before and after the launch of a CF project. The company has set up a YouTube channel for CF campaign videos. The company also hosts webinars on fundraising and CF topics. It also provides administrative help (Davis, 2015).

Seo and Creed (2002) observed that “legitimacy that undermines functional inefficiency” leads to institutional changes. If there are some examples of successful ECF projects with high payoff and rewards (functional/economic efficiency of ECF), potential investors may consider trusting strangers as prudent and legitimate behaviors. Likewise, training, education, coaching and other types of support (e.g., initiated by CFPs such as Kickante and trade associations such as NCAC) increase potential entrepreneurs' self-confidence, and develop skills to engage in ECF. Individuals with a higher degree of self-confidence are likely to perceive ECF environment more favorably (higher degree of functional efficiency of ECF) and consider ECF to be legitimate and effective.

The above phenomenon can be explained with institutional field. For the ECF, relevant field members include national governments, industry bodies, trade and professional associations, CFPs, entrepreneurs, investors and other sources of funding, these actors and interactions among them are thickening the institutional field formed around ECF. These members and other components of the ECF ecosystem (e.g., laws, regulations) are shaped and affected by various elements of informal institutions. For instance, there is a significant trend toward collaboration, coordination and communication among various ECF-related actors. There is thus a formation of a dense network of relationships among various actors in the institutional field formed around ECF. By facilitating the exchange of ideas and experience and other mechanisms, such networks reduce incentives for opportunism (Axelrod and Cohen, 2001, Kshetri, 2013). In line with these arguments, the following proposition is presented:

P7. A higher amount of IECF-related activities in a market leads to a higher degree of institutionalization of IECF, which increases: a) entrepreneurs' ability and willingness to engage in efforts to raise IECF compared to other types of entrepreneurial financing; b) investors' propensity to invest in IECF.

5. Discussion and implications

While prior research emphasized the importance of formal institutions in shaping the development of ECF, suggesting that this form of CF tends to be more regulated by the governments (Kshetri, 2015), the above discussion suggests that informal institutions are also tightly linked to the development of ECF. Let us start this section with the research questions that we wanted to address (Table 6).

Table 6. Revisiting the research questions.

Research question	Findings and associated propositions	Implications
RQ1: Informal institutions' effect on project initiators' willingness to engage in ECF.	<ul style="list-style-type: none"> • Perceptions of stigma and humiliation associated with business failure lead to project initiators' low degree of willingness to go for CF compared to other forms of conventional financing (P₁) • Trade associations can enrich the ECF ecosystem by facilitating the development of talents and special abilities, training entrepreneurs to write quality ECF proposals, and developing/implementing effective advertising campaigns. Efforts are continuously being made by these associations to increase awareness and provide education to entrepreneurs and investors (P₂). 	<ul style="list-style-type: none"> • Governments need to encourage trade associations and similar collective bodies to organize the development of ECF. • Governments, CFPs and other relevant actors need to initiate efforts against the stigma of business failure (e.g., education to change negative perceptions of entrepreneurial failures) and to address the sources of business failure. • CFPs, in collaboration with other relevant actors, should engage in broader efforts to educate, train, inform, promote and raise awareness of ECF among entrepreneurs and investors. They should also encourage entrepreneurs to engage and individuals to invest in ECF.
RQ2: Effect on crowdfunders' willingness to invest in ECF	<ul style="list-style-type: none"> • Institutions characterized by the lack of thin trust and the lack of trust in online transactions lead to potential crowdfunders' unwillingness to invest in ECF (P₃ and P₄). 	<ul style="list-style-type: none"> • ECF legislation and its enforcement can compensate for and minimize the effects of thin trust. Governments can increase the level of social trust by punishing people who are engaged in scams. A well-regulated online marketplace can strengthen investor protections.
RQ3: Difference of effects across ECF and other forms of CF	<ul style="list-style-type: none"> • Institutions that do not promote philanthropic involvement lead to a higher ratio of ECF to other forms of CF compared to institutions that promote philanthropy. Individuals are more likely to be driven by economic and financial considerations rather than <i>altruistic and philanthropic</i> motives (P₅). 	<ul style="list-style-type: none"> • In such markets more focus and attention need to be directed toward the development of ECF market rather than other those for donation- or reward-based CF.
RQ4: Factors driving the institutionalization of ECF	<ul style="list-style-type: none"> • In markets that are more mature (P₇) and have ECF legislation (P₆), project initiators are more willing to engage in ECF and crowdfunders are likely to exhibit higher propensity to invest in ECF. 	<ul style="list-style-type: none"> • Enactment and enforcement of ECF laws can stimulate the development of the ECF market. • ECF market maturity can be further enhanced relevant institutional actors' efforts and initiatives noted above in RQ1.

Regarding RQ1, the perceptions of stigma and humiliation associated with business failure reduce project initiators' willingness engaged in ECF. The failure of an ECF-funded business is more visible and more likely to be noticed. In the U.S., in addition to the fact that business failure rate is lower than most other parts of the world, failure is not regarded as a stigma. This has been a favorable condition for the ECF.

The existence of CF-related trade associations is likely to lead to conditions that would result in entrepreneurs' higher degree of ability and willingness to engage in ECF. Trade associations can enrich the ECF ecosystem by helping to develop the talents and special abilities, train entrepreneurs to write quality ECF proposals and develop and implement effective advertising

campaigns. Efforts are continuously being made by such bodies to increase awareness and provide education to entrepreneurs and investors. A related point is that strong individual entrepreneurs may be necessary for strong CF-related trade associations that provide support and guidance to entrepreneurs and investors by offering specialized training, education, know-how and information related to CF. These mechanisms are likely to strengthen entrepreneurial skills, attitudes and competencies and thus form a virtuous cycle of ECF ecosystem. A deterioration in any of the components, on the other hand, is likely to lead to a vicious cycle.

As to RQ2, the lack of thin trust and the lack of trust in online transactions are some of the key factors that explain potential crowdfunders' unwillingness to invest in ECF. For instance, inadequate and unsupportive informal institutions can be attributed to the underdeveloped ECF markets in some economies. LAC economies have among the lowest trust indices, which explains their underperformance in ECF. Despite Asia's economic and technological leadership, CF has been slow to take off in the region. Informal institutions are likely to play a more prominent role in the absence of CF-related regulations.

Regarding RQ3, in a society characterized by a low degree of philanthropic involvement, potential crowdfunders exhibit a higher relative propensity to engage in ECF compared to other forms of CF. Individuals in such societies are more likely to be driven by economic and financial considerations rather than *altruistic and philanthropic* motives.

Related to RQ4, the above discussion indicates that in an ECF market characterized by the existence of ECF legislation and a high degree of maturity, project initiators are more willing to pursue ECF and crowdfunders are likely to have a higher relative propensity to engage in ECF. ECF legislation can compensate for and minimize the effect of thin trust. Likewise, in a mature market dense networks of organizations are likely to develop a higher degree of trust between CFPs, entrepreneurs and investors.

The environment shapes the expectations, norms and assumptions of entrepreneurs and investors. Especially entrepreneurial failure deserves further discussion. In this regard, the number of global business failures, as measured by the D&B Global Insolvency Index (GSI) was 91.9 worldwide in Q4 2011. The proportions varied widely across the world, however. The GSI was 80.3 for North America and 114.6 for Eastern Europe. Economies with higher failure rates are characterized by the existence of inherent institutional barriers and rigidities that might prevent entrepreneurial activities and innovation. For instance, such economies may lack entrepreneurial success stories irrespective of the sources of financing. Due to the lack of sufficient role models, ECF promoters find it difficult to demonstrate the superiority of the ECF model in terms of the performance and functional efficiency.

It is also worth emphasizing that notwithstanding their connotation of inertia and resistance to change (Hoffman, 1999), persistence (Parto, 2005) and stability (Scott, 2001), institutions are subject to change. This means that more supportive ECF-related institutions are likely to emerge in countries that are characterized by institutions that are unsupportive to ECF. A related point is that some initiating events or triggers also known as disruptive events or jolts (Meyer, 1982) can overcome institutional inertia. There is some anecdotal evidence of a similar mechanism in the ECF market. Some argue that the 2011 earthquake acted as a jolt for Japan's CF landscape.

Haruka Mera, who founded the ReadyFor? put the issue this way: “Compared with the US or UK, the whole concept of crowdfunding does not come naturally to the Japanese. But I think that things have changed a lot since the [2011] earthquake. Japanese society was given a very big reminder that it needs to work together to make things happen and to take the country forward” (Lewis, 2016). In Japan, many people are making CF investments in businesses in Northern part which was affected by the 2011 earthquake and tsunami. They do so to “sympathize with the companies and their efforts” (bloomberg.com, 2015).

The CF movement is the result of the Internet, which makes it possible to reach a wider group of people. While some of the factors noted above may also be applicable and important in the context of non-electronic crowdfunding, most of the independent variables (e.g., thin trust, trust in Internet, and benevolence) implicitly or explicitly deal with issues involving fundraising with strangers. Likewise, some of the associated mechanisms are more likely to be present in the context of Internet-based CF. For instance, crowdfunders are more likely to notice success as well as failure due to reviews and comments in social media sites, which is likely to lead to higher degree of perceived humiliation. Similarly, some trade associations provide training to entrepreneurs and project initiators on the management of advertising campaign on the Internet.

We noted above that formal institutions related to ECF affect informal institutions. Equally interesting and important are the effects of informal institutions on formal institutions. North (1994) observes that informal rules provide legitimacy to formal rules. Likewise, Axelrod (1997, p. 61) commented that “social norms can become formalized into laws”. When ECF becomes an increasingly accepted source of entrepreneurial financing and an investment option, regulators may face pressures to new ECF-related policies laws. Likewise, lobbying by CF-related trade associations may lead to new ECF laws.

Finally, it is erroneous and misleading to imply that more ECF is always a good thing. In the presence of clear ECF legislations and effective enforcement mechanisms, ECF received by entrepreneurs with appropriate skills, expertise, experience and training that are inclined to contribute to the greater good can lead to positive economic and social outcomes. In the absence of one or more of these, substantial benefits of ECF cannot be anticipated and the risks may even outweigh the benefits.

5.1. Interactions among various factors

Interaction effects among the variables noted above mean that they may move together as a whole. At the same time evaluating the independent effect of an individual variable has value in the sense that it provides a mechanism to influence the whole by influencing a particular unit. In this way, we can see how it is possible to create virtuous or vicious circles of ECF.

An understanding of the degree and nature of the interaction among various factors thus would provide a valuable way to influence the ECF market. For instance, we may expect to see differential effects of informal institutions examined above (boxes in gray in Fig. 1) on entrepreneurs' propensity to engage in efforts to raise IECF and investors' propensity to invest in IECF in societies characterized by different degrees of institutionalization of ECF. For instance,

a higher negative effect of the lack of thin trust on investors' propensity to invest in IECF may be seen in a market characterized by a low degree of institutionalization of CF.

Based on the prior research in institutionalization (Axelrod and Cohen, 2001), it can be expected that in economies that exhibit a high degree of institutionalization of ECF, there is likelihood of the formation of a dense network of relationships among various actors in the institutional field formed around ECF. Such a condition is likely to reduce incentives for opportunism. Dense relationships and interactions are also likely to generate a lot of “gossips”, which would help enhance trust.

It can also be argued that the degree of trust placed in online transactions will be of reduced importance when the important values and norms are institutionalized in the ECF market. Entrepreneurs may experiment with alternative solutions that can be used to overcome the limitations of online payment methods. The search for alternative means and methods of payment that can take over in part the role of the Internet as a payment channel.

Likewise, potential entrepreneurs are less likely to worry about failure and hence being stigmatized if other conditions in the gray boxes are favorable to ECF. For instance, entrepreneurs are likely to feel more confident about their success if CF-related trade associations exist to provide help and support, people have a high level of thin trust, consumers are experienced and comfortable in online transactions and the society has a long experience with philanthropic institutions.

5.2. Managerial and policy implications

Governments and private sector actors (e.g., trade associations and CFPs) that want to stimulate the growth of the ECF market should consider the key features of the institutional environment. To be effective, their roles need to take account of the informal institutional factors. Actions, initiatives, and measures taken to develop the ECF market need to address specific challenges related to such institutions.

Especially in countries characterized by a low degree of thin trust, ECF legislation is among the most critical needs. If formal mechanisms are created to provide trust on ECF, entrepreneurs and crowdfunders do not have to depend on personal or organizational characteristics or past exchange history. Zucker (1986) refers to this phenomenon as institutionally based trust, ECF legislation should not only be enacted but must also be enforced.

Potential crowdfunders may not have pre-existing relationship with the project initiator. In such cases, the required trust may flow through some form of community such as those based on geography, culture, ethnicity, or shared interests (e.g., diaspora communities) (Information for Development Program (infoDev)/The World Bank, 2013). This mechanism is especially relevant in societies characterized by a low degree of thin trust. In such societies, CF campaigns may also benefit by moving away from online to offline mechanisms.

Different interventional approaches may be needed in societies characterized by a low degree of trust in online transactions. For instance, governments can increase trust by punishing people

who are engaged in scams. A well-regulated online marketplace can strengthen investor protections.

The paper provides a description of the scope and degree of challenges that are experienced by entrepreneurs that want to pursue ECF. Most CF campaigns fail. One estimate suggested that over 63% projects funded by Kickstarter and 90% on Indiegogo failed. Observers have noted an increase in failure rates over time (Volmut, 2016). Communications may help to close the gap between hope and realistic expectation and enable potential entrepreneurs to make informed decisions regarding ECF. Such measures can also increase preparedness to deal with a failure.

Institutional actors interested in promoting ECF must fight on two fronts. Governments, CFPs and other actors can initiate efforts against the stigma of business failure. Studies conducted in other areas (e.g., mental illness) indicate that education plays a key role in changing negative perceptions of entrepreneurial failures (Gaebel and Baumann, 2003). For instance, first hand interactions with entrepreneurs from countries with conducive entrepreneurial culture, who initially failed but subsequently succeeded, can change the way individuals view business failure. It is also important to address the sources of business failure. For instance, key sources of failure emphasized in the entrepreneurship literature include the lack of professional advisors, education, and marketing (Lussier, 1995). Major efforts and initiatives will be needed to improve access to education and training related to entrepreneurship, management and marketing skills.

Measures can be taken to accelerate the maturity of the CF market. Especially education and training of potential crowdfunders need to be strengthened. Especially In less mature CF markets, CFPs need to invest more time, efforts, attention and resources in creating awareness among potential investors and training entrepreneurs. Interfirm linkages, resource mobilization structures and economic interest groups such as trade associations play key roles in developing ECF-friendly informal institutions. For instance, through trade associations, CFPs can work with the relevant authorities in developing self-regulation and voluntary codes. CFPs also need to engage advocacy and lobbying activities to influence governments in enacting ECF friendly regulations. It is also important to work with international and inter-governmental institutions such as the UN and the World Bank to harmonize cross-national ECF-related institutions.

The above discussion suggests that informal institutions in a country determine the relative success of CFPs with different foci and purposes. The relative probability of raising ECF vis-à-vis other types of CF (e.g., donation and reward) varies across countries with different types of institutions. For instance, ECFPs are likely to be relatively more successful than reward- or donation-based platforms in countries with low degrees of philanthropy.

One implication of Proposition 5 is that CFPs can encourage philanthropy by more effectively demonstrating the *impact of philanthropic* contributions made by crowdfunders. For instance, a *first-hand account from the beneficiaries of philanthropic* actions may provide more convincing information for potential funders regarding the impacts of such actions, which is likely to motivate them to invest in such projects. ECFPs may also consider allocating some proportion of the proceeds to *of philanthropic* contributions.

CFPs, singly and collectively, can take measures to create an entrepreneurial environment that encourages crowdfunders to invest in ECF. For instance, efforts such as providing potential crowdfunders with more education, publicizing success stories and increasing media attention on ECF is likely to increase investors' willingness to participate in ECF. This strategy can help change the perceptions and attitudes of investors that consider ECF as illegitimate, and imprudent. Such a strategy has been employed to promote entrepreneurship in some economies. For instance, to support and encourage local entrepreneurship, Puerto Rico's largest daily newspaper, *El Nuevo Día*, devoted a weekly page of start-up success stories. The stories promoted new forms of social dialogue and created awareness about the ingredients and effects of entrepreneurship. Collaboration with entrepreneurial events and key entrepreneurial actors may provide a channel to build a culture of trust (Information for Development Program (infoDev/The World Bank, 2013).

In order to successfully launch an ECF project in a country, it may require changing or adapting business models to fit the local institutional conditions. For instance, due to the lack of trust in online transactions in Vietnam, the project initiators of the cartoon series, Long Than Tuong provided backers with a wide range of payment options such as transferring through banks, ATM payments, Mobiphone credits. They also hired a service called *giahangnhanh.vn* to collect money from homes. Likewise, a key aspect of Idea.Me's localization involved the use of various payment options acceptable in the LAC region including cash and other methods to account for the region's risk aversion. It became the region's first CFP to support Bitcoins. Paypal, MercadoPago (a popular mode of payment for local consumers and businesses in Argentina, Colombia and Mexico), DineroMail (a mode for local payments in Chile) and Moip (which is used for local payments in Brazil). Idea.Me's websites are in Spanish, Portuguese and English. Crowdfunders can pay with almost all regional currencies such as Argentine and Mexican Pesos, Brazilian Real and US\$ (Brkan, 2015). These examples make it clear that when entrepreneurs or investors cross borders, they should be aware of local differences in CF-related institutions and do what they can to compensate for these differences.

The issue related to the lack of online trust could be easier to address than the lack of thin trust. For instance, a vast body of evidence has shown that online customer trust is likely to develop between customers and companies over time and after repeated transactions (Koufaris and Hampton-Sosa, 2004). Prior research has suggested that direct physical experiences with a company's store and/or its salespeople is likely to lead to the development of trust (Doney and Cannon, 1997).

5.3. Future research implications

Before concluding, we suggest several potentially fruitful avenues for future research. First, future researchers are encouraged to empirically test the propositions presented in this paper. The dependent variables—an entrepreneur's willingness to engage in and ability to raise ECF and an investor's propensity to invest in ECF-- can be measured by means of surveys or behavioral data obtained from CFPs. For instance, surveys can be conducted to measure stated or revealed preferences to ECF over other financing and investment options. An entrepreneur's ability to raise ECF can be measured by her/his performance (e.g., probability of success for those who tried) in raising such funds. While constructs related to the trust in online transactions (P₄) could

be difficult to measure, in Table 7, we offer some ideas as to how independent variables related to the remaining six propositions can be measured.

Table 7. Measuring the independent variables.

Variable and related proposition(s)	Explanation
Stigmatization of entrepreneurial failure (P ₁)	<ul style="list-style-type: none"> • Ernst & Young's barometer score in the G20 Entrepreneurship Barometer 2013, can be used which measures entrepreneurs' attitudes toward failure. The scores measure the degree of tolerance and penalties associated with business failure (Ey.com, 2013) • Some studies have compared economies and regions in terms of the degree of societal stigma associated with entrepreneurial failure (e.g., Cave et al., 2001, European Commission, 1998). Ordinal scale measures can be used to compare economies covered by these studies.
Existence of CF-related trade associations (P ₂)	<ul style="list-style-type: none"> • A dichotomous variable: existence/non-existence of a CF-related trade associations.
Thin trust (P ₃)	<ul style="list-style-type: none"> • Trust index (Medrano, 2016).
The degree of philanthropic involvement (P ₅)	<ul style="list-style-type: none"> • Charities Aid foundation's WGI score, which is based on three indicators of giving behavior: proportion of people donating money to charity, volunteering time, and helping a stranger in a typical month (CAF, 2014).
The existence of regulatory framework for ECF (P ₆)	<ul style="list-style-type: none"> • A dichotomous variable: Existence or non-existence of ECF laws.
The amount of ECF-related activities (P ₇)	<ul style="list-style-type: none"> • ECF as a proportion of total investment or GDP • A count of the number of activities undertaken by different actors related to ECF

To measure the stigmatization of failure, Ernst & Young's barometer score in the G20 Entrepreneurship Barometer 2013, can be used which measures entrepreneurs' attitudes toward failure. The scores measure the degree of tolerance and penalties associated with business failure (Ey.com, 2013). In addition, some studies have examined cross-national differences in the stigmatization of failure. For instance, Cave et al. (2001) found that entrepreneurs in the U.K. perceived a higher societal stigma of failure compared to those in the U.S. *Such a stigma* attached to business failure is arguably *deeply ingrained in the British culture* (Cope, 2011). Likewise, the European Commission (1998) notes: “In Europe, a serious social stigma is attached to bankruptcy. In the USA bankruptcy laws allow entrepreneurs who fail to start again relatively quickly and failure is considered to be part of the learning process. In Europe those who go bankrupt tend to be considered as “losers”. They face great difficulty in obtaining finance for a new venture” (European Commission, 1998). Ordinal scale measures can be used to compare economies covered by these studies.

A dichotomous variable representing the existence/non-existence of a CF-related trade associations can be used for P₂. Thin trust can be measured with trust index. Data from various sources such as World Values Survey, Latinobarómetro, Globalbarometer and East-Asian barometer have been compiled by Medrano (2016). Likewise, WGI can be used to measure independent variable related to P₅: the degree of philanthropic involvement. During the early stage of the development of the CF industry, a dichotomous variable (existence/nonexistence) of bespoke ECF regulation can be used to measure independent variable related to P₆. ECF as a proportion of total investment or GDP can be used as a measure of ECF market maturity. It can also be measured with the time elapsed since the launch of the first ECF project.

Another potentially interesting future research topic would be to explore the development of the CF market in an economy characterized by extreme values of some of the independent variables.

One interesting case to analyze, for instance, would be Myanmar which ranked #1 in terms of the WGI in 2014. While there have been some CF campaigns initiated by foreigners that have focused on charity and social projects in Myanmar, the country's CF market is in infant state of development (Supetran, 2016). An in-depth case study of the CF market in economies such as Myanmar can be used in analyzing contexts that matter for the development of this market.

Third, while we limited our analysis to the roles of informal institutions, formal institutions are no less important. Indeed, formal institutions affect ECF more than other forms of CF. In this regard, one issue that was raised in this article but not fully developed was the evolution of ECF-related legislations. In future work scholars need to compare and contrast the evolution of formal institutions affecting ECF. For instance, future researchers can investigate the characteristics that differentiate countries that enact ECF legislation from those that do not.

Another research agenda would be to compare the existence of and differences between ECF laws in countries with different investment cultures. For instance, in Japan, over half of the US\$15.7 trillion household assets are in cash or at banks. Only 11% of the assets are in stocks or bonds in Japan compared with 42% in the U.S. and 23% in Europe (Warnock, 2014). Likewise, as noted above, bank lending accounted for 55% of corporate financing in China in 2012 (Walter et al., 2003). There are reasons to believe that investment culture that promotes financial assets such as stocks and bonds can easily be adapted to the ECF. As noted above, informal institutions affect formal institutions (Axelrod, 1997, Hayek, 1979). In this regard, future researchers might investigate how the pattern of ECF legislation varies across countries with different propensities to *invest in securities such as stocks and bonds*.

Fifth, future research might also explore how entrepreneurs with different socioeconomic status and demographic characteristics differ in their willingness to engage in ECF. Especially there has been an interest in promoting women's entrepreneurship in recent years. In this regard, researchers could also look at how the effects of various factors in Fig. 1 on entrepreneurs' willingness to engage in entrepreneurial activities differ for men and women.

Another interesting future research direction would be to study the nature of a jolt and its interaction with the institutional setting that may cause ECF to grow. For instance, as noted above, the 2011 earthquake acted as a trigger that led the Japanese to contribute to ECF initiatives. On the other hand, some other recent major earthquakes such as those that hit Haiti in 2010, Nepal in 2015 and Ecuador and Italy in 2016 were not reported to have any visible impact on ECF in the affected countries. In the future, researchers may want to examine the natures of informal institutions that might be affected by environmental jolts.

Seventh, future research might examine the differences in profiles of entrepreneurs that prefer ECF versus crowdloans. Various factors discussed above are likely to have differential effects on ECF and crowdloans. For instance, compared to crowdloans, ECF investors often want more information and like to have active presence in the company's day to day running. In case of failure, an entrepreneur supported by a crowdloan may experience a lower degree of humiliation compared to one backed by ECF.

Finally, researchers could analyze the possible interaction effects among various combinations of independent variables noted above. For instance, future researchers might want to investigate whether the effects of CF-related trade associations on entrepreneurs' propensity to engage in efforts to raise IECF varies across different levels of stigmatization of business failure. Likewise, researchers could examine whether the effect of the degree of trust in online transactions on investors' propensity to invest in IECF varies across societies characterized by different degree of thin trust.

6. Concluding comments

Supportive informal institutions are a key to the development of the ECF industry and market. The above discussion makes it clear that building a climate of trust and high-quality relationships between entrepreneurs and crowdfunders is an important prerequisite to the development of the ECF market. The creation of trust in online transaction is also crucial.

One important observation relevant to countries that are characterized by less supportive informal institutions is that such institutions change. Among the mechanisms by which more supportive informal institutions can be developed include the enactment and enforcement of ECF legislation and development of high quality relationship among key actors. More supportive institutions are also likely to evolve as ECF markets become more mature and attract diverse participants.

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