The equity crowdfunding paradox: when investors do not need the wisdom of the crowd

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Abstract

Equity crowdfunding (ECF) is a new way to invest. ECF offers individuals the unique opportunity to screen new firms as venture capitalists or business angels do. Does this participation have an impact on the investment decision? Does this participative dimension boost the motivation of potential investors? In this article, we study the equity crowdfunding investment decision through the lens of consumption value theory. This provides a better understanding of what motivates crowd-investors than does the conflicting evidence in the prior literature on this subject. We conduct an empirical study based on 436 completed questionnaires collected on WiSEED, a French equity crowdfunding platform. PLS-SEM analysis shows that the perceived value of participation experience exerts a strong and positive influence on the perceived value of investment, but no influence on the investment decision. Our results highlight the crucial role of individual expertise on investment decisions (amount invested and number of investments), suggesting entrepreneurs and platforms could usefully segment digital investors according to their level of investment knowledge.

Keywords: equity crowdfunding; consumption value theory; expertise; investment

Introduction

The alternative finance market has experienced tremendous growth—at a rate of almost 10% per year—over the past few years, offering a new, alternative (or additional) source of funds for business projects (Hornuf and Schwienbacher, 2016). In this market, the subcategory of equity crowdfunding (ECF) — defined as a large group of strangers using an online platform in a funding process for SMEs (Tiberius and Hauptmeijer, 2021) — has been highly publicized by the media. Because ECF is considered an innovative and viable source of financing for new ventures (Younkin and Kashkooli, 2016; Estrin *et al.*, 2018; Hervé and Schwienbacher, 2018), the number of academic publications on ECF has increased sharply over the last ten years (Mochkabadi and Volkmann, 2020). However, not only does ECF represent only 2% of market share (*The Global Alternative Finance Market Benchmarking Report*, 2019), it is also far behind P2P lending or real estate crowdfunding in terms of annual amount raised. Bearing in mind that ECF seems particularly suited for financing small businesses and that it is expected to grow substantially in the near future (Tiberius and Hauptmeijer, 2021), it seems relevant to gain a better understanding of why ECF is currently less popular with investors compared to other forms of crowdfunding.

ECF differs from other forms of crowdfunding in that it involves greater risk (Bapna and Ganco, 2020), requires a high level of expertise, is subject to a high level of information asymmetry (Ahlers *et al.,* 2015) and is subject to a heterogenous regulation framework (Mochkabadi and Volkmann, 2020).

Venture capital has similar characteristics to those of ECF and has grown significantly over the past years (Stevenson *et al.*, 2019). Thus, one can reasonably think that a clientele exists for such risky and complex financial products. The main explanation for ECF's small market share probably lies elsewhere. One aspect of ECF that has not been investigated is how people perceive the crowdsourcing aspect of ECF projects. Is crowdsourcing, the participative dimension of ECF, a sufficient argument for retail investors to invest? What motivates equity crowd-funders to invest, and at which stage in the investment process? The reasons why crowd-investors support ventures have been studied in the entrepreneurship literature, but there is no definitive evidence, and the debate is still ongoing (Mochkabadi and Volkmann, 2020). Based on self-determination theory, Cholakova and Clarysse (2015) find that financial motives lead investors to choose ECF. These results are confirmed by Moysidou and Spaeth (2016) and Kleinert and Volkmann (2019), who show that crowd-investors are extrinsically motivated by the prospect of a high financial return. In contrast, Bretschneider and Leimeister (2017) put

forward the importance of non-financial motives (recognition, liking, lobbying and image development) in ECF investing. These results are in line with Allen and McGoun (2002), who highlight the hedonic nature and symbolic value of investment.

In order to reconcile the differing conclusions reached about the motives behind ECF investment, this paper studies the decision-making process involved in crowd investment using a marketing theory framework as advocated by Mochkabadi and Volkmann (2020, p. 106): "Another promising approach to investigate the evaluation process and decision making in equity crowdfunding may originate from marketing research." To be more precise, we rely on the experiential lens of consumption proposed by Hirschman and Holbrook (1982). We (1) use perceived value as a tool to enhance our comprehension of individual investors' motivations (including identification of factors that would attract new investors), (2) distinguish the financial products and their attributes from the overall experience provided by ECF platforms and (3) study real investment decisions rather than simply intentions. In general, our approach examines the relevance of a purely rational decision-making process within the context of ECF.

We have obtained the following results. First, the participation experience in ECF had no significant impact on the investment decision. However, we have shown that participation in the selection process on an ECF platform raises the overall value associated with investment in ECF and consequently increases satisfaction. Finally, we have found that individual expertise in finance plays a core role as an antecedent of the investment decision (both in amounts and frequency). Our results highlight the necessity of distinguishing between experts and novices in future research on crowdfunding. To summarize one of this study's main results, participation in ECF does not drive people to invest, but it improves the satisfaction of those who have invested.

A major contribution of this paper lies in its empirical setting. To the best of our knowledge, other studies investigating the motivations of crowd-funders rely on surveys or experiments and do not use real investment data. Here, we directly observed the investments made by the investors surveyed, meaning that the measures of the invested amounts are not declarative but were provided by the platform. Hence, this unique setting allowed us to study the link between motivation and real investment. As highlighted by Cumming *et al.* (2020), there is a large gap between expected and realized investments in ECF (roughly 20% of the intended investment). Another contribution is that we identify the clients' expertise as a simple way to segment investors in ECF. Feola *et al.* (2019) propose segmenting crowds using six drivers, but they do not examine whether their criteria might predict crowd-funder behavior.

Here, we find a strong and predictive individual characteristic that is easy to assess with a short questionnaire: individual expertise with venture investment.

The paper is structured as follows: the first section presents the literature related to crowd-investors' motives. We build on perceived value theory in order to propose a research model linking the perceived value of participation in the pre-selection process of business projects with investment behavior (i.e., the number and amounts of investments on a platform). The second section discusses the results of a structural equations model based on 436 surveys collected on WiSEED, a leading French ECF platform, between 02/04/2017 to 03/31/2017. The final section draws conclusions of the study.

Theoretical background and hypothesis development

Related literature on crowdfunding

Crowdfunding has experienced tremendous growth over the past several years (Stevenson *et al.*, 2019). Equity crowdfunding is largely used by retail, non-institutional investors (Ziegler *et al.*, 2021; Shafi, 2019). ECF has been seen as a way to democratize emergent venture funding by allowing individual investors to finance early-stage firms. Rarely do venture capitalists provide funding to ventures in industries like leisure, retail and traditional media, or food and beverages; thus ECF encourages investments in underfunded sectors and participates in the provision of funds, as put forward by Stevenson *et al.* (2019), to sectors in which firms have easy-to-understand business models. This echoes what Colombo *et al.* (2016) highlight: firms with complex business models are subject to high uncertainty and require staged financing. This simplicity of crowdfunded firms suggests that investors may comprehend crowdfunding as a consumer good.

Related literature on crowd-investors' motives

Bapna and Ganco (2020) distinguish different motives in crowdfunding investment according to the type of crowdfunding. They advocate that reward-based CF (hereafter, crowdfunding) is motivated by non-pecuniary considerations, whereas debt-based and equity-based CF is driven mainly by financial return. In the literature, crowd-funders are generally treated as a homogeneous group of investors whose motivation differs according to the type of crowdfunding. Equity-based crowdfunding is a search for financial return, microlending is motivated by prosocial concerns (Burger and Kleinert, 2020) and reward-based crowd-funders are looking for a reward such as early access to a discounted product or some utility derived from commitment to a given community (Burger and Kleinert, 2020). Cholakova and Clarysse

(2015) were the first to propose distinct motives for ECF and reward-based CF. They surveyed 155 investors on a large Dutch ECF platform and found that non-financial motives do not play a significant role in equity investing. Their theoretical lens is grounded in the self-determination theory (hereafter, SDT) of Deci and Ryan (1985). This theory proposes that extrinsic and intrinsic motivations are at the origin of individual self-motivation, which in turn leads people to act for the purpose of well-being. Following Cholakova and Clarysse (2015), several papers about the sources of motivation to invest in CF build on SDT (Bretschneider and Leimeister, 2017; Bagheri *et al.*, 2019; Burger and Kleinert, 2020; Rodriguez-Ricardo *et al.*, 2019). Other papers on individuals' motivations do not have a clear theoretical framework in the sense that they borrow concepts from various theories. For instance, Zhang and Chen (2019) study reward-based CF using the SDT framework and cognitive psychology theories (cognitive representation). Feola *et al.* (2019) discuss intrinsic motivation (a concept embedded into SDT) and use signal theory to draw conclusions on a typology of investors. In the same vein, Goethner *et al.* (2020) empirically distinguish three types of equity crowd-funders (Casual Investors, Crowd Enthusiasts and Sophisticated Investors). These papers empirically make one major point: the crowd of investors is heterogeneous. Up to now, the only overarching model was based on self-determination theory (SDT), which is designed to study human motivation to act and has been used mainly to explain sport, health, education and workplace behaviors[1]. Moreover, SDT considers crowd-funders to be a heterogeneous group of people and provides an explanation of the different sources of motivation associated with the different types of crowdfunding. However, it does not explain why different motivations can occur within a given type of crowdfunding.

Here we adopt a different approach. We build on a well-established marketing theory proposed by Holbrook and Hirschman (1985) to better understand investment behavior in equity crowdfunding. Investment-based CF is, as its name suggests, focused on an investment perspective, but it also has strong ties with consumer behavior. Despite ECF being an investment, it is seldom led by professional investors like business angels or venture capitalists, but more often by retail investors (Shafi, 2019). Simply stated, ECF can be viewed as the consumption of a financial product. Following the recommendation of Mochkabadi and Volkman (2020), we attempt to refresh the perspective of ECF using a well-established marketing theory proposed by Holbrook and Hirschman (1985), given that equity crowdfunding platforms provide consumers with an experience. In a typical retail investment setting

[1] This website (https://selfdeterminationtheory.org/research/) lists the research on SDT.

intermediated by a broker or a bank, consumers do not experience anything new: they are buying a financial product by talking to their loan officer. On a CF platform, consumers undergo experiential consumption as they can interact with other investors or with the founder of the venture; they can even choose the project to be financed. ECF investing is similar to crowdsourcing (Harrison, 2013; Hervé and Schwienbacher, 2018) in that it fosters the development of partnerships with the common goal of obtaining shared benefits and ideas.

Hypothesis development

Consumer behavior research about crowdsourcing tends to concur in terms of participation antecedents (task clarity, individual expertise, individual motivations) (Banken et al. 2019; Acar 2019; Boons and Stam 2019) and on the effects of participation in the co-creation of value (engagement and loyalty). A subcategory of the experience of value co-creation is called "prosumption", in which co-constructed products/services are consumed by those who contributed to the products/services (Chen & Xie, 2008). Community participation during the fundraising process for start-ups in ECF have various features in common with a prosumption experience: individuals are not only consumers but also actors in the situation to the extent that they create meaning through their choices and the consumption is not limited to a one-time purchase (Carù and Cova, 2006).

In contrast to modern finance and its risk-return arbitrage approach, marketing researchers propose that the consumption experience and its effects on consumption behavior can be evaluated through the perceived value generated by the experience. In other words, the value perceived by the individuals reflects the experience associated with their consumption (Filser, 2002). The analysis of perceived value allows the feelings and emotions that arise during the consumption to be considered, which enriches classical decision-making models (Hirschman & Holbrook, 1982) by proposing that value can come from various sources emerging at different times during the consumption experience. For example, Merle, Chandon and Roux (2008) studied the influence of the value perceived by the customer during a shoe customization process on the value associated with the final product. Based on the theoretical approach to value by Aurier *et al.* (2004), Merle *et al.* (2008) advocate for a distinction between the value linked to a specific phase of the experience (i.e., customers' participation in shoe design) and the value linked to the final product purchased (i.e., the customized shoes).

Even if there is no full consensus in the research on value (Leclercq *et al.*, 2016), there is consensus about the high managerial value of such a concept. Indeed, the value created gives

birth to satisfaction (Cronin *et al.* 2004) and engagement (Lichlté and Plichon, 2008). More generally, perceived value is expected to have an impact on purchase intention (Gan and Wang, 2017).

In the ECF context, we consider that participating in a startup selection process on an ECF platform should be studied as one phase of a larger investment experience leading to the purchase of financial products that have been co-created (i.e., investing). We test whether the perceived value of participation experience on an ECF platform exerts a positive effect on the ECF investment decision. Hence, we formulate the following hypothesis:

H1: Individual investment decisions will be positively influenced by the perceived value of participating in an ECF community.

As discussed above, the perceived value of the participation experience has a direct influence on the overall value associated with the product's consumption (Aurier *et al.,* 2004; Merle *et al.* 2008). Consequently, we posit:

H2: The perceived value of the participation experience will have a positive influence on the overall value of ECF investment.

One of the outcomes of overall perceived value, if not the most important one, is satisfaction (Fornell *et al.*, 1996). This concept can be defined as a psychological state: a post-consumption evaluation (Oliver, 2000) resulting from the personal comparison between expectations, desires and standards and the consumption experience of a product (Philippe and Ngobo, 1999). Several studies show a positive linear relationship between overall value and satisfaction (Yoon *et al.*, 2010). This can be expressed in the following hypothesis:

H3: The overall value of ECF investment will have a positive impact on satisfaction.

A consumer's subjective expertise has an influence on perceived value (Passebois-Ducros and Aurier, 2004). According to these authors, "*the more the individual is an expert, the more his/her experience is rewarding*". Subjective expertise can be defined as what consumers think they know (Flynn and Goldsmith, 1999), i.e., "*the consumer's perception of [the] quantity of information he has registered in his mind*". Expertise and ability are key factors for co-production efficiency (Bettencourt *et al.*, 2002). Many researchers have confirmed the positive link between experience and value in various contexts (Aurier and Guintcheva, 2014), a hypothesis that has been confirmed by Auh *et al.* (2007) for financial services crowdsourcing. Entrepreneurial finance and venture capital are very specialized, and individual expertise should play an important role in the perceived value of participation in such activities. Thus, we posit:

H4: Subjective expertise will have a positive influence on the perceived value of the participation experience.

According to research in finance, expertise can also affect the decision to invest (Lambert *et al.*, 2012). To the best of our knowledge, the ECF literature does not study this link directly. Kim and Viswanathan (2018) show that the higher the level of expertise of early investors in a given campaign, the higher the herd behavior of later investors. Riar *et al.* (2017) have studied the behavior of beginner and expert crowd-investors. Wallmeroth *et al.* (2018) segment their investors into experts and beginners and into small-amount and large-amount investors. None of these papers, however, directly investigate the effect of expertise on the decision to invest. We propose that subjective expertise has a positive influence on individuals' investment behavior.

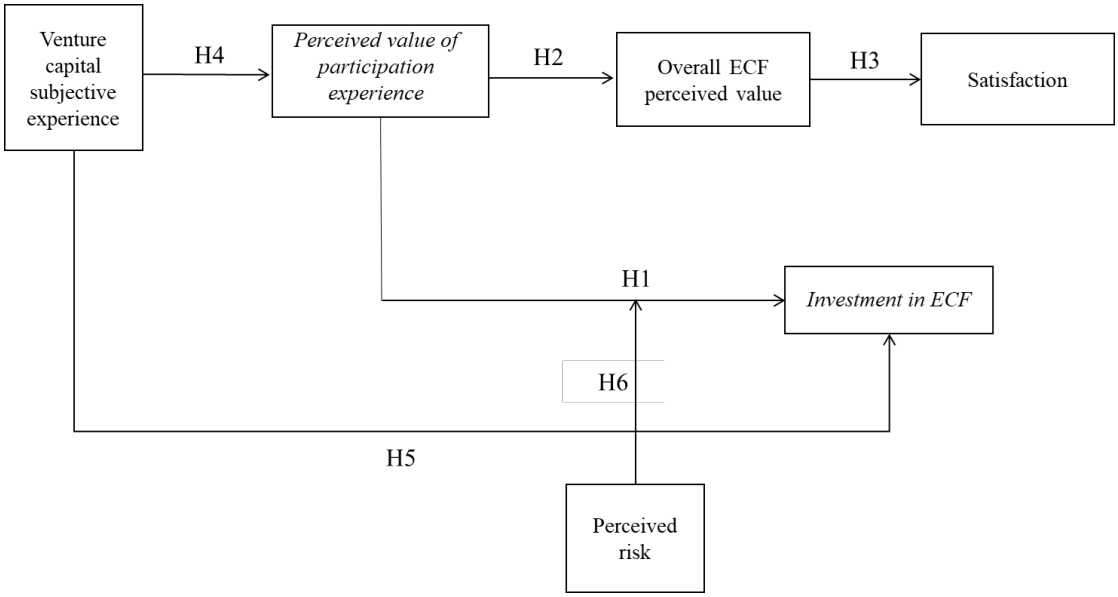
H5: Subjective expertise will have a positive influence on the decision to invest.

The participative dimension of ECF that we proxy through the participation experience could also play a role in alleviating the perceived risk of an investment. Indeed, during the pre-investment and participation phases, crowd-investors can chat within a community, ask questions, find information and observe peers' behavior, all of which reduce uncertainty (Roselius, 1971). Yet, in the investment context, the opinions of others are essential to the investment decision (Vismara, 2018), and this need increases when information is lacking (Bikhchandani *et al.,* 1992). Thus, we posit the following hypothesis:

H6: For individuals who perceive a high level of risk, the positive influence of perceived value on their investment decisions will be higher than it is for individuals perceiving a low level of risk.

This set of hypotheses allows the investment decision-making process to be represented as follows (cf. Figure 1 below).

Figure 1: The investment decision-making process



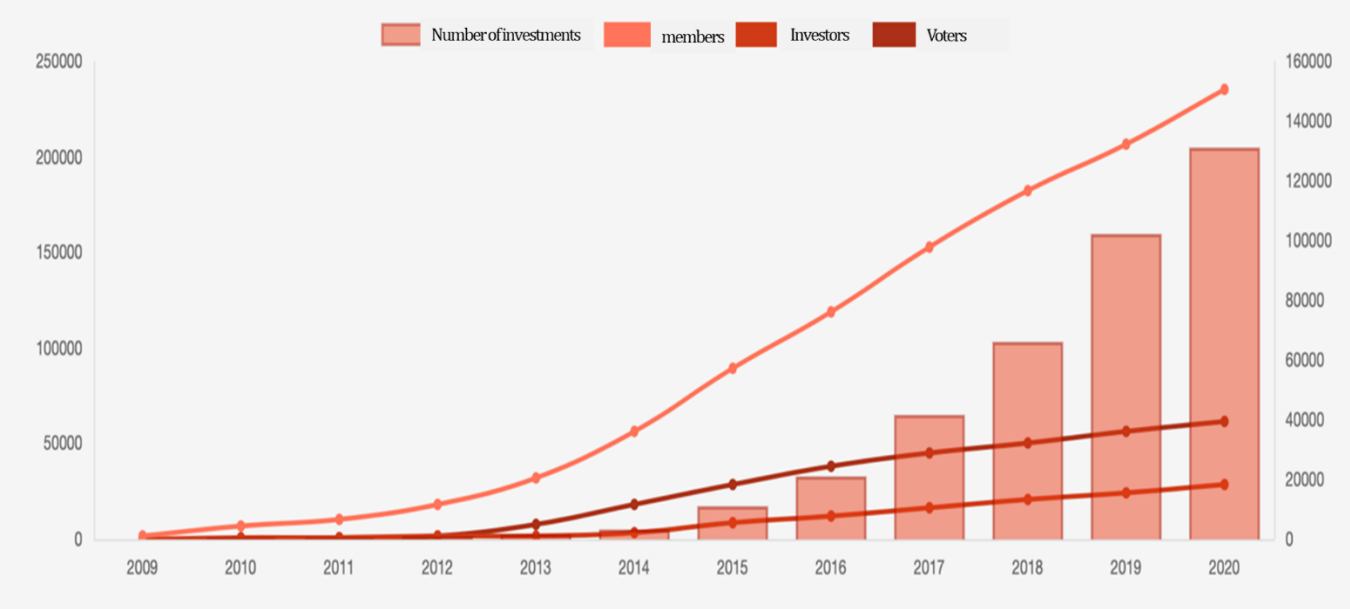
Settings, data and measurement of variables

Empirical setting: WiSEED

To carry out the survey, we chose WiSEED, one of the leading France-based ECF platforms, founded in 2008. This platform is particularly interesting to our study for the following reasons. First, WiSEED is one of the leading ECF platforms in Europe: it has 150,500 members and has raised €245m and invested in 581 projects since 2009 (as of 12 January 2020). This track record limits any perceived risk associated with the platform itself. Second, WiSEED allows its members to invest in equity or bonds with a minimum value of €100. This low cost of participation ensures that there are plenty of retail investors on this platform. Third, WiSEED enables its members to participate actively in the pre-selection of start-ups during the pre-investment stage, called the "e-vote" phase, which lasts one month. During this period, members can chat with the entrepreneurs, access due diligence documents and interact with other members. Each member (registered via email and required to provide a scan of an official form of ID) can rate a project on a scale from one to five stars (the vote). They can post comments on a forum and declare the amount they intend to invest. Only projects registering more than 100 votes and at least €100K of investment intentions at the end of the e-vote phase can enter the deep due diligence process led by the WiSEED analysts. This e-vote phase is grounded in crowdsourcing and helps people to extract information about the firms in which they may invest. Lastly, whereas the WiSEED platform community is large (150,500 members),

only 26.2% (39,400) have taken part in the e-vote phase and only 12.16% (18,300) have funded a business project. Only a small fraction of the community contributes actively, and this phenomenon is not new, as illustrated in Figure 2 below. This intriguing fact raises concern about why some individuals decide to participate but not invest. This suggests some people enjoy being a part of a community of investors, but are not proactive.

Figure 2 – Evolution of the WiSEED community (source: WiSEED website, accessed 12/18/2020)



Development of the survey and exploratory study

Considering the exploratory nature of our study and the highly context-dependent nature of the sources of valuation, we carried out 13 semi-structured interviews with members of the WiSEED platform (see Appendix, Table A4, for respondents' profiles) to construct a measurement scale of our variables. Each interview lasted thirty minutes and was carried out on Zoom. An interview guide was used to structure the discussion, but allowed unexpected subjects to arise (Yin, 2003). We tried to address various themes linked to our model variables: participation in the community, personal expertise, the role of the community in the decision-making process, pleasure associated with ECF and platform experience. We conducted a systematic thematic analysis that led to the identification of two distinct experiences: the participation experience and the overall ECF investment experience. These results call for a better understanding of the ECF investment decision-making process and the role of the individual's experience within it. The verbatims captured in this analysis were used to adapt the measurement scales for the variables to the ECF context and translate it into French.

Sample

The initial questionnaire was submitted to 5 practitioners and researchers in ECF and marketing to test it for face validity and clarity. We then pre-tested the survey on 52 WiSEED members (out of 100 members contacted randomly by email). Cronbach's alphas helped us to improve the constructs' reliability and led to our keeping only one item to measure *satisfaction* ("Overall, I'm very satisfied with the projects I've invested in thanks to ECF") and 8 items for the *perceived value of the participation experience.* The final version of the questionnaire, in French, was posted on the WiSEED website (pop-up window on the website and permanent banner for members logged on to their account) between 4 February and 31 March 2017. A total of 436 complete surveys filled in by registered and logged-on WiSEED members were collected. Considering the exploratory nature of the study and the sensitivity of accessing individual data on ECF platforms, the size of the sample is substantial and offers the possibility of statistically reliable results.

Measures

As discussed during the introduction, one of the contributions of this article is to study the effect of various independent variables on *investment decision* through a direct measure of individuals' decisions. Thus, *investment decision* is the dependent variable of our model. It is coded as a dummy variable that takes a value of 1 if individuals have invested and 0 if they have not invested. This data was extracted directly from WiSEED's database using the members' individual ID linking the questionnaires to the individual profile. This allowed us to observe respondents' behavior with no declaration bias.

To measure the independent variables, we adapted existing scales to our subject. For *perceived value of the participation experience (PV participation),* we adapted Holbrook's (1999) typology to the ECF participation experience with additions from Aurier *et al.* (2004). From a theoretical point of view, perceived value includes various types of value and can be indexed according to three dimensions: intrinsic versus extrinsic, self-oriented versus other-oriented and active versus reactive. Value is active if individuals can act upon the object and is reactive if the object acts upon them (Holbrook, 1999). In the context of ECF and for the purpose of this study, we focus on the active dimension of value, i.e., on value arising from consumers' active participation in the consumption process (here, the ECF investment decision process). In fact, members actively contribute to the experience and, by doing this, "act upon the object", according to the Holbrook (1999) definition. Thus, we propose to only use

Holbrook's value dimensions linked to the active role of individuals. Table 1 below details the different dimensions of the sources of perceived customer value according to Holbrook (1999).

Table 1: Holbrook (1999) typology of perceived value

		Extrinsic	Intrinsic
Self-oriented	***Active***	***Efficiency***	***Play***
	Reactive	Excellence	Aesthetics
Others-oriented	***Active***	***Status***	***Ethics***
	Reactive	Esteem	Spirituality

Efficiency is the utilitarian value linked to consumption. The *Play* dimension reflects the activity as a source of pleasure in itself. The *Status* value appears when consumption enables individuals to increase their social status and enhance their self-esteem. Finally, the *Ethics* value appears when consumption is done to procure benefits for others.

Based on Holbrook's (1999) typology and an exploratory qualitative study, the following active value types have been retained for this construct: utility, playfulness, social link, ethics and knowledge.

Subjective personal expertise (*expertise*) was measured with the Flynn and Goldsmith (1999) 9-item scale and adapted to the early-stage finance context. This scale obtains a good simplicity-quality ratio. *ECF overall value (overall value)* is a 3-item construct based on Aurier *et al.* (2004). Similarly, the measure of *cumulative satisfaction* (*satisfaction*) comes from Aurier *et al.* (2004) and contains 3 items adapted to our context. Finally, we measured *perceived risk* from a consumer research perspective, i.e., as a sum of various dimensions such as financial, performance, physical, psychological, social and time-waste risks (Cunningham 1967; Jacoby and Kaplan 1972; Roselius 1971), using Jacoby and Kaplan's (1972) scale.

Two control variables (age and gender) accounting for individual characteristics were added and are detailed in Appendix 1 with the construction of our measurement scales. Table 2 presents the variables and their measurement.

Table 2: Definition of variables

Variable	Concept measured	Source	Number of *items* (Number of dimensions)	Format
PV_participation	Perceived value of the participation experience (e-vote)	Survey	*19* (5)	7-point Likert scale
Expertise_invest	Subjective expertise in venture capital	Survey	*9* (1)	7-point Likert scale
Overall_value	Overall value associated with ECF investment	Survey	3 (1)	7-point Likert scale
Satisfaction	Satisfaction	Survey	3 (1)	7-point Likert scale
Perceived_risk	Perceived risk of investing in ECF	Survey	*5* (5)	9-point scale
Investment	Decision to invest in ECF	WiSEED database	-	Binary variable (0/1)

Descriptive statistics

Table 3 shows the descriptive statistics. The median age is 48 years old, and 90.6% of respondents are men, which is consistent with statistics on the WISEED community gathered by Cumming *et al.* (2020). The sample is composed of three member types: those who have voted but never invested (11.7%), those who have never voted but have invested at least once (18.6%) and members who have done both (68.7%).

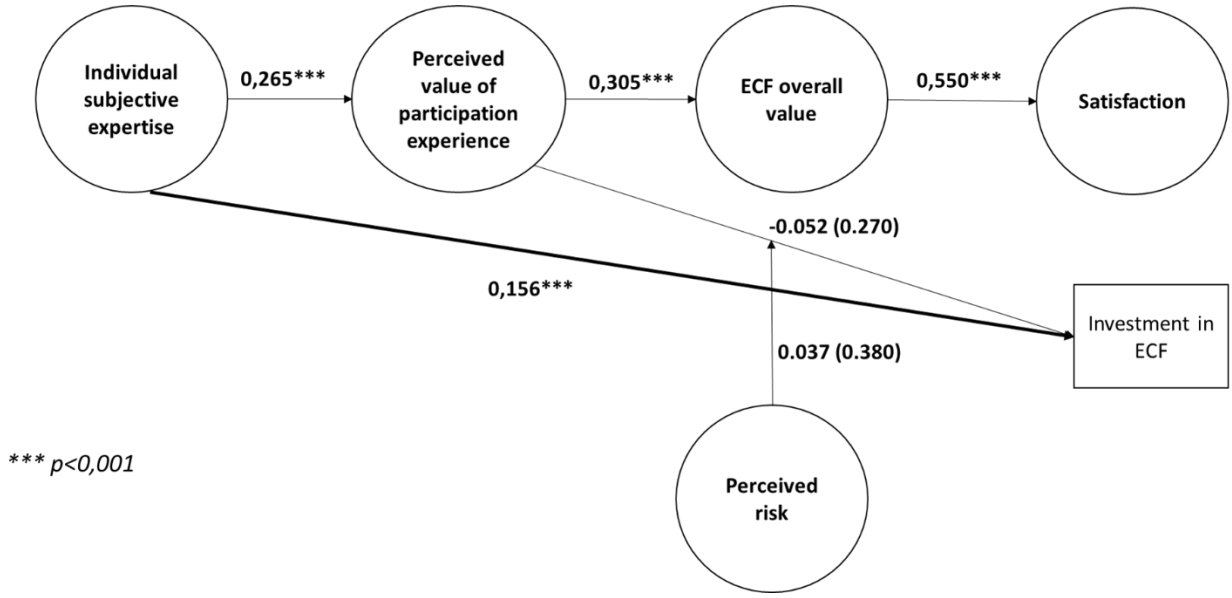
Table 3: Descriptive statistics

Member profile	Characteristics	N	%
Voters	Vote = 1 / Investment = 0	51	11.7
Investors	Vote = 0/ Investment = 1	81	18.6
Voting investors	Vote = 1/ Investment = 1	304	68.7
TOTAL		**436**	**100 %**
CONTROL VARIABLE			
Age	Mean	48.3	
	Median	48	
	Min./Max.	*21/84*	
Gender	Men	90.6%	
	Women	9.4%	

PLS-SEM estimation

We now turn to testing our hypotheses. We test our model using the PLS (Partial Least Square) method. PLS-SEM provides good results even with small sample sizes (Hair *et al.*, 2012). Figure 3 depicts our PLS-SEM estimation.

Figure 3: Results of the PLS-SEM estimation



Contrary to our expectations, the *perceived value of participation* does not have a significant effect on the investment decision (λ = -0.059; p = 0.179). This leads to the rejection of H1. The *perceived value of the participation experience* has a positive, direct and significant impact on the *overall value of ECF* (λ = 0.305; *p* = 0.000). This allows us to accept our H2 hypothesis. In the same vein, *crowd-investing overall value* exerts a direct and strong effect on *satisfaction* (λ = 0.550; p = 0.000). This corroborates H3. *Individual subjective expertise* exerts a strong positive effect (λ = 0.265; p = 0.000) on the *perceived value of the participation experience*. This supports H4. *Individual subjective expertise* has a positive effect on investment decision as well (λ = 0.156, *p* = 0.001). This means that expertise, which is individual-specific and built before the participation experience (Flynn and Goldsmith, 1999), is an explanatory variable of investment decisions. Hypothesis H5 is not rejected.

Finally, we tested whether perceived risk moderates the relation between the *perceived value of the participation experience* and the *investment decision* (H6). We conducted a multi-group analysis (see Table 4 below) and found no significant differences between groups with a

low perceived risk and a high perceived risk, for neither the relationship between *perceived value* and *investments* nor that between *expertise of investment* and *investment*.

Table 4: Multi-group analysis of the moderating effect of risk on expertise

	Low perceived risk (<= 5/9)	High perceived risk (> 5/9)		
N	121	315		
	Paths coefficient	*Paths coefficient*	*Difference*	*p-value*
PV participation → invest	**0.046**	**-0.091**	**0.137**	**0.086**
Expertise_invest → invest	**0.052**	**0.188**	**0.136**	**0.894**

To check the robustness of our theoretical model, we tested the effects of the control variables *gender* and *age* through a multi-group analysis. We looked specifically at the relationship between *individual expertise* and *investment decision*. It could differ between men and women (the latter have been found to be more risk averse) (Charness and Gneezy, 2012; Byrnes *et al.*, 1999), and between younger and older crowd-investors because the former are more prone to making risky investment decisions (Agarwal *et al.*, 2009). The results are shown in Tables 5 and 6 below.

We did not find any significant differences between a group of "young" crowd-investors (younger than the median age of 48, n=170) and a group of "older" crowd-investors (older than the median age of 48, n=178). We deepened the analysis by subdividing the sample into 4 age groups and comparing the more distant classes (group 1 (n=64) [18-35]/group 2 (n=89) [35-45]/group 3 (n=91) [45-55]/group 4 (n=102) [55+]). (90 individuals did not provide their age on the form). We still obtained no significant differences between either the oldest (group 4) and the youngest (group 1) or the youngest (group 1) and the "median age" group (group 3). The results of the multi-group analysis for age are summarized in Table 5. Similarly, there are no significant differences in the relationship between *individual expertise* and *investment decision* for men (n=395) and women (n=41), as shown in Table 6.

Table 5 – Multi-group analysis for age

	Coefficient differences (group 1 vs group 3)	Coefficient differences (group 1 vs group 4)	P-*value* (group 1 vs group 3)	P-*value* (group 1 vs group 4)
Expertise_invest→ invest	0.001	0.125	0.467	0.709
VP_participation →invest	0.006	0.241	0.560	0.941

Table 6: Multi-group analysis for gender

	Coefficient differences "men" group – "women" group	P-value "men" group vs. "women" group
Expertise_invest→invest	0.076	0.726
PV participation →invest	0.099	0.719

Discussion and limitations

Theoretical contributions

By building on traditional decision-making models, we shed fresh light on conflicting results about crowd-investors' motives (Bretschneider and Leimeister, 2017; Cholakova and Clarysse, 2015; Estrin *et al.*, 2018). These differing results can be explained by considering the different steps during the investment experience (hedonistic and social when voting, utilitarian when investing). We suggest viewing the investment decision as a dynamic process rather than as an isolated and sporadic decision.

Individual investors do not focus on information search and utility maximization, but they "look for a hedonistic reward in a social context" (Carù and Cova, 2006). Thus, the participation experience appears to be appreciated for what it is, with no significant influence on the investment decision (in either number or amount). Crowd-investors are involved in a collective experience, but they invest alone.

Our setting is particularly interesting because we studied real investments. We did not draw conclusions based on a hypothetical situation as in Cholakova and Clarysse (2015). This setting gives us the possibility of investigating crowd-funders' motivations with no bias resulting from a hypothetical situation (Cumming *et al.*, 2020).

We also highlighted the crucial role of expertise as an antecedent during the investment decision-making process. This raises questions about the central role of risk in investment choice models and about the ECF regulatory focus on individuals' risk profile (Ganzach, 2000). Our results show that the more expertise crowd-investors have, the more they invest. Experts are more persuasive (Tractinsky and Srinivasan Rao, 2001) and greatly influence crowd decisions (Kim and Viswanathan, 2018). We call for a distinction between experts and novices in future research on crowdfunding.

Managerial contributions

Our results emphasize the importance of the individual's expertise in ECF. The more expertise investors have, the more they invest and perceive value in participating within the online community. ECF platforms may thus have a strong interest in improving the participation experience by educating individuals and thus raising the individual level of expertise. This factor exerts a significant effect on pleasure and perceived value and an indirect effect on satisfaction, which is known to be correlated to re-purchase (Evrard and Aurier, 1996), i.e., reinvestment. Following learning-by-doing theories, we suggest that gamification (Kapp, 2012), especially serious games, could enrich the participation experience on ECF platforms while improving their members' knowledge of finance. Moreover, we showed that experts and novices have different behavior. The former invest larger amounts of money and perceive more value in participating than do the latter. Segmentation of a platform community by level of expertise seems more appropriate than segmentation by risk.

An important finding is that the participation in a community does not impact the investment decision but has indirect effects on the overall perceived value and satisfaction of investors. Entrepreneurs should consider this weak effect of community activity on individual investment decisions: they will gain greater benefits from recruiting and convincing experts to stick with their project. Not only do experts invest more, but they will also have an influence on novices' choices (Kim and Viswanathan, 2018) through a herd phenomenon (Vismara, 2018) — defined as "any social process through which a group's behavior influences an individual's one" (Ward and Ramachandran, 2010). Moreover, we found that the bigger investors show a higher level of expertise. Meoli and Vismara (2020) show that when bids are visible online, investment decisions influence campaign dynamics. Thus, finding expert investors should be a good strategy for funding a project. The focus on a few experts will create a signal of quality for low-expert or hesitant investors.

Finally, we used the concept of satisfaction as a post-investment evaluation in the theoretical model. This variable is interesting because it has a confirmed mediating role in the value-loyalty relationship (Cronin *et al.*, 2000). In other words, if individuals are satisfied with their consumption experience, they will be more loyal to the product (or brand) and more prone to repeat their purchase, i.e., to reinvest. This finding highlights the importance of the participation dimension in ECF for the potential re-investment decision, rather than in the initial investment decision.

Regulatory contributions

Due to the strong growth of crowdfunding, national regulations have emerged around the world. Their goal is to protect individual investors against fraud and the possible incompetence of platforms (Agrawal *et al*., 2013; Griffin, 2012). However, overprotecting investors could limit ECF development and the financing of projects (Hornuf and Schwienbacher, 2017). Our results open a new possibility for policymakers by highlighting the importance of individual expertise in the crowd-investment decision-making process. Friesz (2015) advocates for the development of financial education programs in order to "empower investors to identify risks, take smart decisions and detect fraudulent offers".

Limitations

This study provides academics and practitioners with insights into the role of the ECF participation experience on individual investment decisions. As ever, it has some limitations. First, while it offered a deeper understanding of investors' behavior, the perceived value scale from the marketing literature required many adaptations to be used in the ECF context. It follows that the measure of perceived value in ECF has lost a part of its explanatory power (confirmed by a low AVE). Second, while we distinguish the participation experience from the investment decision-making process, there is a distinct possibility that the omission of some variables influenced the perceived value of the investment decision. A promising field for future research lies in the role of the platform in the ECF experience. Does the platform "brand" influence the perceived value and investment decision? As in delegated portfolio management, questions can also be raised about the advisory role of the platform in the investment process (Chalmers and Reuter, 2020).

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APPENDIX

TABLE A1 – Measurement scales and item details (retained items are identified by an asterisk, *)

Perceived value of participation experience	**Utilitarian value**
	Uti1. Voting gives me acces to others'opinion on a project.* Uti2. By voting for a project, I give it a chance to be selected and give myself more chance to invest in it.* Uti3. When I declare a non-binding investment intention, it is always close to what I really intend to do.
	Plaufulness value
	Play1. I vote systematically when a new project is presented on the platform. Play2. I vote only when I fall for a project. Play3. It is fun to select projects that will later be opened to investment.* Play5. During the voting phase, I enjoy the interactions with the other community members.*
	Social Link
	Solink1. I vote only when I want to support an entrepreneur I know personally.* Solink2. Voting allows me to assert myself as a investor.* Solink3. I believe that voting for a project is something important. Solink4. Voting for various projects is a way for me to be involved in the platform community.
	Knowledge
	Know1. Thanks to the voting phase, I can discover innovative start-ups and disrupting projects. Know2. At times, I have voted only by pure curiosity. Know3.Voting is a way to get acquainted with projects I don't know yet.* Know4.Voting is a way to learn new things on certain lines of business.* Know5. Voting is a way to be recipient of news about the project.
	Ethical value
	Ethics1. I only vote for projects with a positive impact on society or environment. * Ethics2. There is an important ethical dimension in each project I support.* Ethics3. I only vote for projects geographically close to me. Ethics4. I only vote for projects with a subject I am interested in.
Venture capital subjective experience	Exp1. I know pretty much about capital-risk investment.* Exp2. I know how to judge the quality of a start-up.* Exp3. I think I know enough about start-up to feel pretty confident when I make a purchase.* Exp4. I do not feel very knowledgeable about capital-risk investment. Exp5. Among my circle of friends, I'm one of the "experts" on capital-risk.* Exp6. Compared to most other people, I know less about capital-risk. (reverse scored) Exp7. I have heard of most of the new start-ups that are around. Exp8. When it comes to start-ups, I really don't know a lot (reverse scored). Exp9. I can tell if a startup is worth the investment or not.*
Overall ECF perceived value	overallvalue1. On the whole, I consider that investing in ECF is worth the energy I dedicate to it.* overallvalue2. On the whole, I consider that investing in ECF is worth the sacrifices I accept on it.* overallvalue3. On the whole, I consider that investing in a project *via* ECF is worth the time and the money I spend on it.*

Details about the construction of the measurement scales

The internal consistency and reliability of the constructs were checked using Cronbach's alphas and Joreskog's rho coefficients. Our measures of alpha and rho fell within the usual acceptable thresholds (0.6), which implies that the constructs have good internal reliability. We also computed the explained variance of each construct and obtained satisfactory values above 0.5 (Chin and Newsted, 1999). The Average Variance Extracted (AVE) estimates are above the recommended threshold of 0.5 (Chin and Newsted, 1999). The results of this analysis appear in Table A2 below.

Table A2: Validity and reliability of constructs

	RELIABILITY		**VALIDITY**	
Constructs	**Cronbach's alpha**	**Joreskog's Rho**	**% AVE**	***Loadings***
Perceived value of participation	**0.791**	**0.820**	**63.2**	
Social link_value				0.743
Playfulness_value				0.829
Knowledge_value				0.743
Utilitarian_value				0.726
Ethics_value				~~withdrawn (0.214)~~
Overall value of ECF	**0.914**	**0.933**	**94.6**	
Overallvalue1				0.927
Overallvalue2				0.902
Overallvalue3				0.942
Subjective expertise of investment	**0.927**	**0.918**	**71**	
Expertise_invest1				0.876
Expertise_invest2				0.836
Expertise_invest3				0.892
Expertise_invest5				0.932
Expertise_invest9				0.860
Perceived risk	**0.844**	**0.901**	**75.4**	
Perceived risk1				0.898
Perceived risk2				0.905
Perceived risk4				0.798

Following Fornell & Larcker (1981), a confirmatory factor analysis was performed to assess the convergent and discriminant validity. All the factors met the composite reliability expected value of 0.7 (Hair *et al.*, 2006) except for the ethical dimension of perceived value (0.197) (cf. Table A3 below). This implies that the ethical dimension exhibits a low correlation with the *participation experience perceived value*. A possible explanation is that WiSEED usually supports start-ups with social or ecological concerns, which renders participation in the WiSEED consumption experience ethical *per se*. To invest using this platform does not appear to be a particularly "ethical" action to respondents. As a consequence, we left this dimension out.

Table A3: Table of correlations of the items with the constructs

Independent variables			
	Expertise	Overall value	Perceived value
Expertise_invest1	0.878		
Expertise_invest2	0.847		
Expertise_invest3	0.884		
Expertise_invest5	0.935		
Expertise_invest9	0.853		
Overallvalue1		0.927	
Overallvalue2		0.902	
Overallvalue3		0.942	
Ethics_value			0.197
Utilitarian_value			0.739
Social_value			0.832
Knowledge_value			0.758
Playfulness_value			0.845

A4 – Exploratory study respondents' profiles

No.	Code	Gender	Age	Profession	Number of investments	Number of votes
1	AA	M	-	Retired from a high technology industry	0	1
2	JM	M	-	Program director of an entrepreneurship MBA	0	1
3	FR	M	-	Project manager in railway industry	0	1
4	BB	M	25	In charge of web in a small business	0	1
5	SC	M	38	Project manager consultant in a software company	1	0
6	AK	M	30	Certified accountant	2	1
7	PC	M	50	Investment advisor	3	3
8	EC	F	41	Systems engineer	4	0
9	EB	M	35	Individual contractor in biology	5	2
10	RP	M	28	Not available	6	31
11	CL	M	33	Investment advisor	6	16
12	CM	M	52	Management controller	13	24
13	MW	M	45	Physiotherapist	16	15