Crowdfunding: Exploration of what influences campaign success

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Abstract: Crowdfunding is a fairly new phenomenon that allows ventures, established businesses, and ordinary people that have a project in mind to gain funding from individuals via the internet. Before the rise of crowdfunding in 2008, the only external financing options apart from family and friends for entrepreneurs and small businesses were banks, business angels, or venture capitalists. To attain funding from these sources requires quite a lot from newly started businesses, and even if the financial situation of a startup is in good condition the traditional external financing sources will always have their preferences of how much they can fund and at what risk level. These preferences on investment size and risk level creates funding gaps, especially in startup financing, and why not also small projects that are aspired by individuals. Crowdfunding alone may have the potential to fill these funding gaps. Crowdfunding has enabled individuals to be a part of exciting startups, projects, or established businesses by allowing anybody to take an equity stake, contribute capital in exchange for a reward, or donate capital for their personal motives. These features have led crowdfunding to exponential growth since its conception, and is estimated to grow to a $90 billion market by 2020. This thesis functions as an informational source on crowdfunding for any entrepreneur or aspiring entrepreneur by covering many of the concerns, benefits, and other aspects regarding crowdfunding. Furthermore, research is conducted using a dataset, which provides both disconfirming and supporting evidence to a prior study, focusing on which variables influence the funding percentage of crowdfunding campaigns. The thesis also provides preliminary findings of the influence of variables that have not been explored before, and highlights new research areas within the scope of influencing factors in crowdfunding. The research in this thesis found that the duration, number of updates, the targeted goal, number of perk categories, and much more influence funding percentages.

Keywords: Crowdfunding, entrepreneurial finance, influence factors
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1 INTRODUCTION

According to Schumpeter (1976), an entrepreneur is willing and able to convert a new idea or invention into a successful innovation. However, to be able to develop an idea or invention, capital funds are often needed. To gain capital funds, entrepreneurs often tend to ask their family, friends or fools. Even though these sources of funding might be adequate enough for some startups, many seek an amount that is out of the range of these potential sources, which results in the need of external funding.

Entrepreneurial finance is directly related to this issue and much more. Research on entrepreneurial finance examines financing decisions and investing in new projects. It studies different ways of gathering resources and identification practices regarding the ventures advantages and disadvantages for each financing source at the beginning of its life cycle. The research on entrepreneurial finance is vastly connected to the fields of venture capital and private equity, which are both possible financing sources for startups.

High risk is always present when starting a business, whether it is losing money, failing, or even filing for personal bankruptcy as a consequence of a failed business venture. A startup can be considered as a newly founded business, and therefore is often based on a business proposal than actual sales (Sandler, 2012). Due to the fact that the concept has not been proven by the market, it is extremely hard for ventures to raise money. Not long ago the only external financing option for ventures were business angels, venture capitalists, banks or loan giving institutions (Sandler, 2012). Therefore, if these financing partners did not decide to fund the venture there were not many alternative solutions left. According to Harrison (2013), there has been a sharp decline in the availability of bank lending since the financial crisis to new and small businesses. Crowdfunding could be a solution to this problem that many entrepreneurs face, and has already changed the funding of startups fundamentally (Belleflamme, Lambert, Schwienbacher, 2013). Crowdfunding is a rather new phenomenon and represents an alternative way of funding compared to traditional financing options. By principle, crowdfunding is open to everybody - private persons and economic actors. A group of people, often considered as the “crowd” in the context of crowdfunding, contributes small amounts of capital to projects, products or ideas. These projects, products, or ideas are owned by entrepreneurs or private persons that seek money, in order to fulfill the capital need for their specific project. Entrepreneurs search for investors or contributors through digital platforms, referred to as intermediaries. (Bouncken, Komorek, Kraus, 2015) People that
visit the intermediaries might see the potential in a certain idea (or feel that they want to financially help a certain project), and become investors or contributors.

Global crowdfunding has grown rapidly in recent years. In 2014, crowdfunding experienced accelerated growth, expanding by 167 percent to reach $16.2 billion raised, up from $6.1 billion in 2013. In 2015 the industry is predicted to more than double once again, to $34.4 billion raised. The strong growth in 2014 was partly due to the rise of Asia as a major crowdfunding region. The crowdfunding volumes grew by a remarkable 320 percent in Asia, to $3.4 billion raised. That sets the region just ahead of Europe ($3.26 billion) as the second-biggest region by crowdfunding volume. North America continues to lead the world in crowdfunding volumes, with its 145 percent growth rate and raising a total of $9.46 billion. (Massolution, 2015)

These numbers indicate that crowdfunding has not only grown by volume, but in different continents as well. In comparison, the Venture Capital (VC) industry invests an average of $30 billion each year, which suggests that crowdfunding will exceed the funding volume of VC in 2015. Whereas private equity also known as angel capital, averages roughly $20 billion per year in investments. Another indication of the positive sentiment towards crowdfunding is the World Bank’s estimation that crowdfunding would reach $90 billion by 2020. (Barnett, 2015)

1.1 Problem discussion

Most entrepreneurs are unable to get funding from external sources due to either their lack of innovative ideas or limited industry and management experience, or both (Harrison, Mason, Girling, 2004). Stated differently, “usually startups don’t have the assets that an objective investor would consider valuable” (Bhide, 2000, p.37). In addition, Bhide explains that the difficulties that startups encounter in raising capital are due to an asymmetry of expectations. In other words, the entrepreneurs have very little to offer to investors except for their hopes and dreams. Therefore, most entrepreneurs are unable to raise outside capital, and have to rely on their personal savings or contributions from family and friends (Harrison et al., 2004). The traditional external sources of capital have been moving their investments upstream, investing bigger amounts to more developed companies. Business angels tend to consider looking to raise amounts greater than $100,000 (United Kingdom, Innovation Foundation, 2012).

“Venture capitalists have largely left the seed stage space, with the ratio of transaction costs to investment size for small deals being less and less suited to their business model. One reason this
ratio has increased, especially in sectors such as software and internet start-ups, is the decreasing costs of starting a business thanks to innovations such as cloud computing and greater processing power” (United Kingdom, Innovation Foundation, 2012, p.17).

This has created two markets where crowdfunding could have a significant effect on venture financing. First, the initial seed money stage for businesses, where the amounts that are required are too small for business angels to get drawn in, and on the other hand, where family, friends, and fools are unavailable or don’t possess the sufficient capital. Second, there also occurs a gap above the level where business angels are often active, situations where the required capital is too small for venture capitalists to get involved. (United Kingdom, Innovation Foundation, 2012)

As crowdfunding helps ventures to get funded, it also conveys pitfalls, like any other external funding source. A crowdfunded startup can create a capital structure that worries other sources of startup capital, which can lead to difficulties in getting funding in following financing rounds. Startups that carry out a crowdfunding campaign may also face substantial legal risk. Purchasers in crowdfunding offerings may sue the issuing company and their directors regarding any type of material misstatements or omissions with the offering. (Stocker, 2012)

Intellectual property rights are also important to consider before launching a crowdfunding campaign. If campaigns are launched too early, there is the possibility that others will capitalize on the proposed ideas. Even though there are measures to prevent this from happening (e.g., patent, trademark, copyright), they always involve a cost. In addition, crowdfunding is subject to fraud, and asymmetric expectations. If expectations of the crowdfunders are not met, it may lead to negative word of mouth and customer feedback, which can easily become detrimental to new ventures. (Burtch, Ghose, Wattal, 2013) This affects negatively on the whole crowdfunding community.

1.2 Purpose and problem formulation

Due to the difficulties that start-ups face when trying to access funds via traditional financing sources, crowdfunding is a highly relevant subject for research. Though crowdfunding has grown rapidly in recent years, the research is still quite limited, and many entrepreneurs are unknowledgeable of this financing source. The purpose of this thesis is to lower the knowledge gap that entrepreneurs have regarding crowdfunding, by mainly building a theoretical foundation that highlights crowdfunding as an alternative source of capital, and quantitatively investigating what are the main variables
for successful fundraising via crowdfunding by conducting a partial repeat study. By quantitatively investigating which variables are important for successful fundraising, this study has an immediate contribution to the scarce research on crowdfunding. Both the quantitative research and theoretical foundation will build a purposeful thesis for any entrepreneur who is new to crowdfunding, by answering the following questions:

How can crowdfunding be used by start-ups?

What are the main aspects of crowdfunding?

What are the main variables for successful fundraising via crowdfunding, and to what extent they influence the funding percentage?

1.3 Further justification of thesis

This section will shed light on current literature that discusses the problematic around cumulatively repeatable studies. This topic has recently gained much awareness among scholars in different sciences, and a new mindset on research will perhaps be established in the near future. As this study can be argued to be a repeat study, the intention of this section is to justify repeat studies as a valid and highly important form of research. However, at the same this thesis can be argued to be much more than a repeat study, as it examines crowdfunding from a different context than prior studies. In short, the study is inspired by a prior study that examined crowdfunding in an All-or-nothing approach, whereas this study examines crowdfunding from a Keep-what-you-get approach. The explorative results of the prior study and theory guide me in setting hypotheses; however, new preliminary findings of crowdfunding are also presented in this study. Therefore, the quantitative study in this thesis can be categorized as a partial repeat study within a different setting of crowdfunding.

The problematic around cumulatively repeatable studies origin from the nature of the statistical and institutional problems in academia. Bettis, Ethiraj, Gambarella, Helfat, and Mitchell (2015) explained the problem by introducing a “thought experiment” from the perspective of strategic management, which is extremely eye opening. The entire article including the thought experiment can be found from the reference list of the thesis, but for now only the authors’ main points about repeat studies are introduced below.
Bettis et al. (2015) explain that replications of statistical studies can take many forms, and “include replications that probe the robustness of an original study using a different sample of data in a similar setting (e.g., the same industry) or the generalizability of the results to different settings (e.g., firm size, industry, geography)” (Bettis et al., 2015). It is inconsistent from the perspective of repeatable cumulative knowledge to only publish statistically significant results, and disregarding or not publishing replications or non-results. The problem that arises is the fact that publishing only one study with a significant coefficient “proves little or nothing” (Bettis et al., 2015). Instead, the purpose of the first study on a particular subject matter should only be to establish initial confirming evidence. In the same fashion, a “single replication without statistical significance on the coefficient (s) of interest does not disprove anything. Instead, it establishes or adds disconfirming evidence” (Bettis et al., 2015). The scholars point out that as the nature of statistical testing is based on probabilities, only statements about the balance of the evidence can be made. The balance of the evidence is therefore crucial to consider in any research topic or findings that are considered to be proven either true or false.

This thesis, as a partial repeat study, will indeed provide both conforming and disconfirming evidence on which variables affect the campaign funding percentages in crowdfunding. In addition, as it provides this evidence, the effect size of the results found in this thesis can be incorporated to the preliminary results, and future studies concerning this topic. However, most importantly the thesis provides findings of crowdfunding from a rather common crowdfunding approach (Keep-what-you-get), which has not been thoroughly studied in the context of which variables influence crowdfunding success.

1.4 Delimitation
The thesis focuses on examining the external funding sources for start-ups, including venture capitalists, business angels, crowdfunding, and banks. However, for the scope of this thesis crowdfunding will be explained in much more detail than the other funding sources. The quantitative research is done by investigating 1700 projects from the crowdfunding platform Indiegogo. Indiegogo is a crowdfunding platform which operates a donation and reward based model, thus limiting the research only to these models and not including the equity or lending model. The dataset that is quantitatively investigated contains information from various different categories (e.g., Sports, Technology, Art, and
so on) of crowdfunding projects, thus providing a diverse selection of crowdfunding projects, and not only focusing on one category. In Indiegogo the fundraisers can chose between a Keep-what-you-get model and an All-or-nothing model; however, all projects that are explored in this thesis had chosen to follow the Keep-what-you-get model, therefore the thesis is limited to this specific model. Similarly to many other studies, endogeneity may have biased effects on the estimates of this study. Specifically, the concepts of omitted variables and simultaneity, which are causes of endogeneity (Wooldridge, 2002), may play a part in the results of this study, and are therefore important to acknowledge as limitations of the study.

1.5 Structure

The first chapters of the literature review provide the reader with some background of entrepreneurship and the importance of entrepreneurship to the global economy. Followed by chapters on entrepreneurial finance and different funding sources for entrepreneurs. Finally, continuing to crowdfunding, where all the main aspects of crowdfunding are presented. The third section includes the methodology, which describes the chosen method for the research, and justifies the choice of method. In the fourth section the results of the research are presented. Lastly, the fifth section engages in a discussion of the results, and how they differed from previous studies.
2 LITERATURE REVIEW

2.1 The importance of small and medium enterprises

Small and medium enterprises (SME) are considered to be the backbone of any single economy. Globally these companies provide an essential source of growth, as they represent approximately 95-99% of all companies. The Organization of Economic Cooperation and Development (OECD, 2000) state that SMEs represent more than 95% of businesses and employ 60-70% of all jobs available. Productivity by SMEs is mostly increased through finance. Financing helps the businesses to access technologies, which provides the tools for an expansion. This ensures the competitiveness of a company, thus reflecting to the overall competitiveness of a whole country for example. Considering these facts, it is justifiable to say that the performance and development level of a national economy is highly dependent of the capacity to create a good environment for SMEs. A good environment enables these companies to create quality services and competitive products at a low cost. (Robu, 2013)

In addition, SMEs have increasingly been drawn into global value chains through different types of cross-border activities. These processes help SMEs to gain access to global markets, as it has become a strategic instrument for further expansion. “Access to global markets for small businesses can offer a host of business opportunities, such as larger and new niche markets; possibilities to exploit scale and technological advantages; upgrading of technological capability; ways of spreading risk; lowering and sharing costs, including R&D costs; and in many cases, improving access to finance” (Lukács, 2005, p. 11). Accessing global markets can facilitate high-growth firms in realizing their potential. However, to prosper SMEs need basic infrastructure services, access to short and long-term funding at reasonable rates, a suitable business environment and regulations, advisory assistance, equity and venture capital, and knowledge about the market opportunities. (Lukács, 2005)

In the past decade SMEs have played a major role in advancing and creating technological features, which has impacted the efficiency of the global community. For example, Google started as a startup in a basement, and became one of the largest companies in the world. Their products and innovations play an essential role on how the world functions on a daily basis. Underlining what Google has achieved, and what other startups can potentially achieve in the future, it is important to acknowledge the
role of SME’s to the global economy, and how crucial adequate financing is for the continuous development of new innovative products and services.

2.2 Entrepreneurship, innovation, and networking

As SMEs are important for the global and national markets worldwide, they would not exist without entrepreneurship. Shane and Venkataraman (2000) define entrepreneurship as an examination “of how, by whom, and with what effects opportunities to create future goods and services are discovered, evaluated and exploited” (Shane and Venkataraman, 2000, p. 218). In addition, in contrast to some scholars, Shane and Venkataraman (2000) argue that entrepreneurship does not necessarily have to include the creation of new organizations. Thus, entrepreneurship can occur in existing organizations, and opportunities can be sold to other individuals or organizations. The definition of entrepreneurship or entrepreneurs in this thesis is considered to follow the description that Shane and Venkataraman (2000) stated, where the engagement of entrepreneurship does not require to create a new organization, instead entrepreneurship can involve only one of the following processes: discovery, evaluation, or exploitation of opportunities. Therefore, entrepreneurs are not only considered to be firm creators, but also as evaluators and discoverers of opportunities. (Shane and Venkataraman, 2000)

Entrepreneurship is highly related to innovation, which refers to an “idea, practice or material artifact adopted by a person or organization, where that artifact is perceived to be new by the relevant unit of adoption” (Carayannis and Stewart, 2013, p.3). Innovation can impact and shape the ways and means how people live their lives, “businesses form, compete, succeed and fail, and nations prosper or decline” (Carayannis and Stewart, 2013).

Though innovation is one of the most important elements of entrepreneurship and global growth, it does not ensure success of an entrepreneur. Entrepreneurial success is often linked to networking. According to Hebert and Link (1989) entrepreneurs are conceived as organizers and coordinators of resources, thus social networking is directly connected with the fundamental idea of being an entrepreneur. Organizing and coordinating resources require social activity and social interactions. Building up a new business requires activating existing social relationships and creating new ones. Therefore, entrepreneurship is “inherently a networking activity” (Dubini and Aldrich, 1991, p. 306). In addition to organizing and coordinating resources, networking is argued to
influence innovation and the identification of entrepreneurial opportunities (Stuart and Sorensen, 2008).

As innovating and networking can be perceived as fundamental when practicing entrepreneurship, the motivation of the entrepreneur is also considered to be a key element in the entrepreneurial process (Shane, Locke, Collins, 2003).

2.3 Entrepreneurial Motivation

According to Shane, Locke, and Collins (2003) entrepreneurship involves human agency. “The entrepreneurial process occurs because people act to pursue opportunities” (Shane, Locke, Collins, 2003). Since people are different from each other, they also differ in their willingness and abilities to act on these opportunities. The authors argue that the variation among people, specifically, in their willingness and ability to act on an opportunity affects the entrepreneurial process. For example, variations among individuals in their perceptions of risk and opportunity influence entrepreneurial decisions. In other words, as the probability of success at the entrepreneurial process is low, “people who are willing to proceed despite these odds might be more optimistic or higher in self-efficiency than people deterred by these odds” (Shane, Locke, Collins, 2003). According to the authors this individual-level variation in motivation is considered to be an important element in the entrepreneurial process. (Shane, Locke, Collins, 2003)

Other motivations, such as need for achievement, vision, locus of control, desire for independence, passion, and drive also influence entrepreneurial activities (McClelland, 1961). Researchers have also been accepting of arguments that people differ in their willingness and ability to pursue entrepreneurship, due to non-motivational individual differences such as their ties to investors, and their career experience (Shane, Locke, Collins, 2003).
In addition, the literature on entrepreneurial motivation states that the environment could have causal effects on the processes and outcomes of entrepreneurship. Stated differently, as the environment has an effect on the entrepreneurial process, it is strongly connected to the motivations of individuals in the entrepreneurial process. The following environmental factors can have an impact on entrepreneurial motivations according to Shane, Locke and Collins (2003).

1) Political factors (e.g. legal restrictions, political stability, and currency stability)
2) Market forces (e.g. structure of the industry, market size, potential barriers to entry, and population demographics)
3) Resources (e.g. availability of investment capital, transportation infrastructure, human capital, and complementary technology)

The environmental factors and individual-level variations among humans play a major role in the entrepreneurial process, thus it can be said that these factors and variations impact the entrepreneurs motivations to start acquiring for startup funding. Furthermore, it is wise to note that the motivation of engaging in some activity is often highly dependent on the degree of knowledge a person has regarding that specific activity. For that reason the following chapters of the thesis will serve as an informational source of entrepreneurial finance, and describes different funding sources for entrepreneurs.

2.4 Entrepreneurial finance

One of the biggest problems entrepreneurial firms face is their ability to access capital. As entrepreneurial firms are typically not profitable shortly after launch and lack tangible assets, it is extremely difficult to attain debt financing from banks. As a result entrepreneurs tend to rely on the following primary sources of outside capital: venture capital funds, angel investors, and corporate investors. (Denis, 2004)

“Venture capital funds refer to limited partnerships in which the managing partners invest on behalf of the limited partners. Angel investors refer to high net worth individuals that invest their own funds in a small set of companies. Corporations invest on behalf of their shareholders, for financial and/or strategic reasons” (Denis, 2004, p. 304).

Since there are multiple sources of financing available, the literature on entrepreneurial finance addresses the question: “Whether the source of funding matters for entrepreneurial firms?” This question is similar to the ones addressed in corporate finance literature. For instance, many studies have been conducted regarding the importance of the source of debt financing. This literature explains “that banks are “
special” in that they provide service such as monitoring that are not provided by other debt claimants, while non-bank private debt serves an important role in accommodating the financing needs of firms with low credit quality” (Denis, 2004, p. 304). Similarly, a number of studies focus on the identity of the equity investors, considering the unique roles that different equity investors have to an entrepreneurial firm. (Denis, 2004)

In addition, literature has emerged that attempts to identify what type of benefits and costs are associated with each alternative financing source. To a great extent, this literature has been devoted around venture capitalists due to greater data availability. Recently, however, studies have started to focus on the roles of angel investors and corporate investors as well. (Denis, 2004)

2.4.1 Financial Bootstrapping

Before examining the alternative external funding sources, it is worthy to identify bootstrapping as an internal financing source. When entrepreneurs use bootstrapping as a financing source, they do not access any external capital. Instead, the entrepreneurs attempt to build a company from personal finances or from the operating revenues of the new company. In other words, bootstrapping “is a means of financing a small firm through highly creative acquisition and use of resources” (Frear, Sohl, and Wetzel, 1995).

Compared to external funding (e.g. venture capital, business angels, corporate investors), bootstrapping enables the entrepreneur to maintain control over the business. However, on the negative side, this type of financing might force the entrepreneur to take unnecessary financial risk (Frear, Sohl, and Wetzel, 1995). In addition, it could be expected that bootstrapping may not always provide a sufficient capital injection for the business to become successful.
The above image represents the tradeoffs to consider regarding different funding sources. Noticeably, bootstrapping fall to the left hand side together with loans, grants, and family and friends, bearing the highest financial risk, but the entrepreneur maintains full control of the venture. Funding with the help of VCs, business angels, and institutional investors has a significant impact on equity dilution, but the financial risk is more spread out. On the other hand, crowdfunding is somewhere in the middle as the control/equity dilution ratio is dependent on the funding model.

2.4.2 External Financing sources

To fully understand the different external financing sources, the meaning of both equity financing and debt financing needs to be covered. After equity financing and debt financing are covered, the section describes the traditional external financing sources including: business angels, venture capitalists, and banks.

Equity financing means investing capital in a business in exchange for a portion of the ownership. This ownership allows the investor to share in the company’s profits. It involves a permanent investment in a business and is not repaid by the business at a later stage. The equity stake in a company is either in the form of membership units, common
stock, or preferred stock. Companies may establish different classes of stock for the purpose of controlling voting rights among shareholders. Often stocks in a company are divided into common stock that includes voting rights, and preferred stock that excludes voting rights. (Hofstrand, 2013) In the case of default or bankruptcy common stockholders are the last in line for the company’s assets. “Preferred stockholders receive a predetermined dividend before common stockholders receive a dividend” (Hofstrand, 2013).

**Debt financing** involves borrowing funds from creditors with the condition of repaying the borrowed funds plus interest at a specified time in the future. Debt financing can be either secured or unsecured. Secured debt is attach to collateral (e.g. property), which secures the loan from the creditors perspective. While, unsecured debt does not attach any collateral, resulting in a less secure position in regards to repayment in the case of default. Debt can be short term or long term (Hofstrand, 2013).

**Business angels** are wealthy individuals who invest their own money into unquoted businesses, as well as their time and expertise, in the hope of financial gain. Furthermore, business angels can provide an essential source of networks to a startup. Usually angels are retired entrepreneurs or executives, who may also be interested in investing in companies for reasons beyond financial gain. These may include their genuine interest of mentoring new entrepreneurs, and staying aware of developments in a particular business area. Business angels make a large portion of their investments into seed and early stage companies. (Mason, 2015)

It is widely recognized that business angels play a crucial role in both providing financial capital and adding value to businesses, by utilizing their networks and expertise. According to studies, entrepreneurs feel that angels acting in the sounding board provide the most valuable hands-on contribution. In addition, “their involvement in the development of marketing plans, business strategies and products” (Politis, 2007, p. 130) are perceived to be highly rewarding. (Politis, 2007)

A **Venture capital** (VC) firm pools money together into a fund to be controlled by them. When the money is pooled together the venture capital firm invests the money in companies. VCs search for companies in a large potential market and a unique product or service with a competitive advantage. In addition, they may be interested in owning a large percentage of a company so they can influence its direction. It is commonly stated that within the timeframe of three to seven years VCs expect to successfully exit their
investment, in the best case via IPO, thus they mostly invest in the growth stage. Similarly to business angels, VCs provide value-added benefits. However, with a stronger focus in helping to obtain additional equity financing, monitoring financial performance and monitoring operating performance (Ortigiese, 2007).

**Banks** are a popular source of business funding. Their business model consists of accepting deposits and turning them into loans. They link together clients with the need for capital and clients with capital surpluses. Banks are regulated by the government and have the legal right of repayment of the capital and interest on a loan. Thus, from businesses that intend to get financing, a solid business plan, positive track record, and plenty of collateral is required. This makes it often hard for startups to obtain bank loans. (Hofstrand, 2013)

### 2.4.3 Life cycle of a venture

According to Parker (2006) “life cycle” refers to the sequence of stages in the development process of new ventures. These stages originate from the intentions and actions of the entrepreneur, and creation of the venture as a new organization. The different stages are related to the acquirement of necessary financial and nonfinancial resources. When ventures develop, their owners are actively involved in shaping the ventures performance and direction. However, it is not uncommon that entrepreneurs lose control of their ventures at some point due to equity capital injection. As ventures often need equity capital to grow or even start their operations, their ownership percentage is diluted. The ownership percentage continues to diminish as the venture requires additional equity financing to reach further growth. This is a natural occurrence of ventures that are heavily funded by equity capital. (Parker, 2006)
According to Ross, Westerfield, and Jaffe (2013) a venture's financing stages can be categorized in the following way:

1) **Seed money stage**: A small amount of financing needed to prove a concept or develop a product.

2) **Start-up**: Financing for firms that have started within the past year. Funds are likely used to pay for product development expenditures.

3) **First-round financing**: Additional capital to start the sales and manufacturing processes after a firm has spent its start-up funds.

4) **Second-round financing**: Intended for working capital for early-stage companies that are selling a product, but not yet profitable.

5) **Third-round financing**: Financing for a company with expansion plans.

6) **Fourth-round financing**: Money intended for firms that are likely to go public within six months.

The above mentioned financing stages are highly related to the venture lifecycle introduced below:

**Figure 2  Venture Life cycle Model (ventures4growth, 2016)**
When new ventures are fortunate enough to pass through the venture life cycle model, they often concurrently proceed in the financing stages.

Looking at the venture cycle model, when a venture has an Idea, implementing a strategy, in the inception phase, or in the launching phase, business angels are the most likely source of external equity capital. These activities and phases are commonly known as the seed stage of a company.

The venture cycle model indicates that survival and rapid growth are phases of a venture. These phases are commonly known as the early stage of a venture. The financing stages that occur during the early stage of a venture are startup financing, first round financing and second round financing. Usually only venture capitalists invest in early stage ventures, as the amount required is often too high for business angels to get involved, and the risk is too high for banks.

Similarly, expansion and maturity are phases in the venture life cycle. These phases are commonly known as the later stage of a venture. The financing stages include third round financing and fourth round financing.

Finally, the venture can experience decline, where sales drop dramatically. Often because the venture is paralyzed by a combination of bureaucracy and lack of innovation capabilities (Product Arts, 2013).

Every successful entrepreneurial venture will go through the stages mentioned above. As a venture proceeds through the stages it loses its entrepreneurial ability, thus becoming an organization run by managers instead of entrepreneurs (Stevenson, Jarillo-Mossi, 1986). This is a natural occurrence, because organizations are often reluctant to take risk and exploring new technologies, thus losing their ability to recognize new opportunities. Of course, there are many exceptions regarding the prior statement as well. However, even though it is a natural occurrence that ventures lose their ability to recognize new opportunities, it can certainly be regarded as a major reason for failing organizations.

The purpose of this section was to highlight the importance of equity financing to the venture lifecycle. The adequate financing, especially in the seed and early stage of a venture is critical for its potential success, as financing provides capital for its launch, survival, and growth. The next chapters take a deeper perspective on the differences between the traditional financing sources.
2.4.4  Venture capital vs Banks

Many well known technological companies such as Microsoft and Intel have received financing from venture capitalists during their early development stage. However, overall venture capital is quantitatively less important than bank financing to entrepreneurial finance. In addition, venture capital is primarily concentrated to just a few industries such as software, telecommunications, and biotechnology, which collectively obtain over half of the total venture capital investments. (Brander and Bettignes, 2006). Of course, other industries receive venture capital as well, but percentually in much lesser amounts.

From an entrepreneur’s perspective, the biggest difference between banks and venture capitalists, is that VCs provide substantial managerial contributions, whereas banks function only as a provider of capital. According to Brander and Bettignes (2006), the “effort” that is provided by the VC can not be legally verified, “creating a potential moral hazard problem in which the VC might provide too little effort”(Brander and Bettignes, 2006, p. 809). The same moral hazard problem is also subject to the entrepreneur, as the effort of the entrepreneur can not be verified. The problem of moral hazard is explained to originate from the incentives of both the VC and entrepreneur. Equity ownership is the key incentive that effects the effort of both parties. “A higher equity share for the VC improves the VC’s incentives, but it correspondingly dilutes the entrepreneur’s incentives” (Brander and Bettignes, 2006, p. 809).

Bank finance on the other hand, enables the entrepreneur to remain full ownership of the business. This prevents the dilution of entrepreneurial effort and loss of entrepreneurial control, however, it deprives the venture of the VC’s managerial input. “Either bank finance or venture capital finance might be preferred depending on several factors, including the specific sensitivities of effort and performance to variations in ownership structure” (Brander and Bettignes, 2006, p. 809).

According to the authors, as pure financial intermediaries, banks are favored compared to VCs, because debt contracts have superior incentive properties for the entrepreneur than equity-based venture capital. Venture capital financing can be a good choice from the entrepreneurs point of view, only if the VC can provide managerial inputs that are considered as highly valuable to the venture. Surprisingly, “it might be in the entrepreneur’s interest for the VC to receive a higher ownership share than the minimum amount necessary to attract the VC” (Brander and Bettignes, 2006, p. 827).
This idea arises from the incentive effect of additional equity, as additional equity will motivate the VC to put more effort into the venture. (Brander and Bettignes, 2006) Of course, this definitely does not imply that “free” or additional equity should be proposed to every VC. However, there might be cases where a VC with certain industry experience is much more motivated to put high amounts of effort towards facilitating a business within the same industry that the VC has experience of, if 20% equity is offered compared to for example 15%.

Moreover, VCs are expected to favor ventures with a strong “best case” potential, even though the probability of success is low. In other words, VCs like to finance projects that are long shots, but if successful the payoff is very big. From a banks perspective a “big success” is no more than getting the interest payments and the principal paid back. Therefore, banks “have no particular preference for major success over modest success” (Brander and Bettingnes, 2006, p. 828), thus mainly financing ventures with low failure probabilities. (Brander and Bettingnes, 2006) Consequently, it is expected that ventures in for example the gaming or virtual reality industry are more attractive investments for VCs than to banks.

2.4.5 Venture capital vs Business angels

As mentioned earlier business angels and VCs differ in the investment size, the stage in which they invest, and their value added tasks. However, they also differ in other aspects that are important for an entrepreneur to be aware of. Below are a few additional contrasts between angel investors and VCs.

Due Diligence: An angel investor’s due diligence processes can be relatively relaxed in some cases. It may include having a coffee with an entrepreneur in order to make background checks and research with experts. However, when angels work together with other angels, creating an angel group, their due diligence tends to be more detailed and thorough, as more angels bare the risk of the investment (Mason, Botelho, Harrison, 2013). On the other hand it would be expected that VCs do a lot more due diligence than a single angel investor or an angel group, due to the fact that they have a fiduciary duty to their Limited Partners.

Decision making: Single angel investors make their decisions completely on their own, while VCs more often than not have an investment committee that will evaluate every investment decision or other decisions involved in a specific investment. This enables the
VC firm to be as objective as possible, as the investment decision is based on opinions across two or more individuals.

**Returns:** Because angel investors usually invest in an earlier stage than the VCs, they bare a higher risk. Despite this, angels are satisfied with the same kind of returns that VCs prefer. According to Shane (2009) 45.4 percent of angel investors expect a return of 10 times their invested capital in ten year. However, “successful angels target a thirty times multiple on their invested capital in five years” (Shane, 2009. 193). According to a number of sources, successful VCs target around 30 times their invested capital in ten years for a single investment. Both angels and VCs look for such high returns on a single investment, because the majority of the investments are likely to fail, providing them with no return from the failed investments (Shane, 2009).

**Time frame:** Within three to five years most angels look for an Exit, or a Liquidity Event in which they get their money back (DeGennaro and Dwyer, 2009). Obviously, some investments might take longer, but the usual preference of angel investors is the time frame of three to five years. VC firms are often very precise of when they want a venture to exit, because a VC fund´s lifespan is often ten years, after which the firm must return all capital and profits to the investors (Limited Partners). However, this does not mean that VCs prefer the time frame of ten years for a Liquidity event to happen for a single investment. Instead they usually prefer a time frame similar to business angels, around three to seven years.

Raising capital from angels or VCs requires hard work. The process of trying to raise capital always distracts the entrepreneur from doing the most important things in a business like building/ developing a product or service and getting in contact with customers. For the benefit of the entrepreneur, raising capital should sometimes be put off as long as possible, in order to build value and get a higher valuation for the company. Eventually, however, raising equity capital is usually necessary for a successful venture. If the purpose is to get VC funding at some point, starting with an angel investment can create traction to capture the attention of a good VC (Fairchild, 2009). However, it is possible that VCs are sometimes reluctant to co-invest with angels due to concerns over split control rights of the venture (Wong, Bhatia, Freeman, 2009). That is, the VC nor the business angel is able to achieve a solid majority control over the companies´ board of directors, which might lead to problematic decision making processes (Wong et al., 2009).
Researchers have argued that while VCs may offer more added value to a venture than angels, angels have a more informal partnership with the venture/entrepreneur. This is noticeable for example in the due diligence processes explained earlier. (Wong et al., 2009) According to Wong et al. (2009), entrepreneurs appeal to sociological networks and utilization of local contacts to generate internal funding for the venture, which the angel can offer. In addition, Goldfarb et al. (2007) state that angels require less control of the venture than VCs. Furthermore, the relationship between angels and entrepreneurs also include more empathy than between VCs and entrepreneurs. This is explained by the fact that angels are often relatives of the entrepreneur, or successful entrepreneurs or directors from the same industry. (Fairchild, 2009)

Despite the fact that venture capitalists can usually provide more managerial and value-added benefits to a venture, entrepreneurs often prefer the use of angel-financing (Fairchild, 2009). However, every venture has their specific need and preferences regarding the choice of finance, thus it cannot be stated that VCs, business angels, or banks significantly outperforms one and other.

It is merely a question of trade-offs, however, due to the differences in preferences of the external financing sources (VC, angels, banks), entrepreneurs rarely find themselves in situations where it is purposeful to compare them all. In short, a specific venture is seldom a suitable investment option for all traditional external funding sources at the same time. Conversely, almost any venture, project, or established business is by principle suitable for ongoing a crowdfunding campaign.
The table below summarizes the three traditional external funding sources combined with the pros and cons of each.

Table 1  Comparison of external financing sources

<table>
<thead>
<tr>
<th>Financing Source</th>
<th>Type of Finance</th>
<th>Pros</th>
<th>Cons</th>
</tr>
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| Venture Capital  | Equity          | - Added value  
- Shared risk  
- Financial strategy experience | - Equity dilution  
- Expects high returns  
- Issue on effort  
- Limited time  
- Wants to control the venture |
| Business Angel   | Equity          | - Added value  
- Often an informal and trusting relationship  
- Often BA’s have great industry experience  
- Requires less control than VC | - Limited funds  
- Expects high returns  
- Limited time |
| Banks            | Loan            | - No equity dilution  
- Lowest cost of capital | - No added value  
- Highly risk-averse in selecting who to grant |

Since the traditional funding sources have now been covered, the next chapters focus on all the main aspects of crowdfunding. The purpose of the next section is to highlight crowdfunding as an alternative funding source, as well as introducing the benefits, disincentives and pitfalls.

2.5  Crowdfunding

Crowdfunding is defined as a “collective effort by consumers who network and pool their money together, usually via Internet, in order to invest in and support efforts initiated by other people or organizations” (Burtch et al., 2013, p. 7). In the crowdfunding market place anyone can propose a project to the “crowd”, and anyone from the crowd can provide funding for that project. When an individual has decided to provide funding, it is completely up to herself how much she funds.

Crowdfunding finds its roots from the concept of crowdsourcing. Crowdsourcing is the practice of obtaining ideas, feedback and solutions from the “crowd”, in order to develop
business activities. As crowdsourcing is already a well-established concept, especially among larger organizations which greatly benefit from the crowds feedback and opinions, the purpose of crowdfunding is almost purely monetary, by providing funding from the crowd to small projects and ventures. (Burtch et al., 2013)

Crowdfunding has given the opportunity for entrepreneurs to instead of approaching financial investors such as business angels, banks, or VCs for funding, can now with help of the general public acquire funding for their ventures. As a good example, is the smart watch by Pebble Technology, who received $10.3 million in funding via the crowdfunding platform Kickstarter in 2012. Pebble Technology started their funding efforts by attracting some big investors, but still did not receive enough funding for the launch of their product, so they decided to use crowdfunding instead and succeeded. This shows that crowdfunding is not only a funding alternative for small projects, but “also for high-growth startups that are typically financed by business angels and even venture capital funds” (Schwienbacher and Larralde, 2010, p. 10).

As an industry, crowdfunding has grown rapidly in recent years, and in so many directions that many business owners are unaware of the basic aspects (Burtch et al., 2013). Crowdfunding involves many actors, that all have different incentives and purposes for the crowdfunding community. In addition, there are several different crowdfunding models that strongly differ from each other, as well as differences in investor/contributor involvement. Similarly to the traditional financing sources, crowdfunding entails positive and potentially negative aspects for both the investor/contributor and entrepreneur (fundraiser). All of these aspects and issues are introduced in the following chapters.

2.6 Definitions

Contributors: In crowdfunding literature, the individuals who either invest or contribute money towards a project can be called: investors, backers or contributors. This thesis will consider the term “contributor” as individuals who either invest in exchange for equity/interest payments or purely contribute capital in exchange for rewards/ social recognition or donate. The distinction of when the contributor purely acts as an investor is clearly found from the context of the text.
2.7 Actors involved in Crowdfunding

2.7.1 Intermediaries

Intermediaries are internet-based platforms that connect and match fundraisers and contributors (Zvilichovsky et al., 2013). Intermediaries serve as a platform for communication between the contributor and the fundraisers, as well as a source of information and execution of a deal. Communication between fundraisers and contributors is important, in order to receive a successful funding of the incentive (Brabham, 2009). Intermediaries have different investment models, the most common ones are the All-or-nothing model and the Keep-what-you-get model. The All-or-nothing model implies that the fundraiser only receives the amount if a previously determined funding goal is reached. In other words, if the funding goal is not reached the fundraiser does not get any funding. The keep-what-you-get model refers to getting the total amount of funding that has been collected from contributors, even though the funding goal has not been reached. Intermediaries also differ in their focus. There are different platforms for creative projects, organizational and corporate projects, and fundraising projects. “Main fields of application to crowdfunding platforms are acquisition of contents, design& improvement, sales& marketing as well as research& development” (Bouncken et al., p. 410). In addition, social networking platforms such as Facebook or Twitter are of great benefit for fundraisers, as the crowdfunding projects are often communicated on them. Both Facebook and twitter function as a promoter of crowdfunding incentives (Belleflamme et al., 2011), and the social support that is achieved via these platforms is highly important for fundraising (Wheat et al., 2013).

2.7.2 Fundraisers

Fundraisers refer to all individuals, ventures, or more established companies that seek funding. Crowdfunding gives them the opportunity to access the market and raise money (Burkett, 2011). The requirements for starting a crowdfunding project are minor for the fundraiser, “as self-marketing of the fundraisers idea is referred to as the most important requirement” (Bouncken et al., 2015, p. 411). Starting a crowdfunding project requires the fundraiser to apply to the platform, specifying information of the project or venture. The platform then decides if the project is worth publishing. (Belleflamme et al., 2011)
While the platform has the power to decline or accept the publishing of a project, the fundraiser’s and the project’s characteristics have the largest influence on the project ultimately being successfully funded (Moritz and Block, 2014).

2.7.3 Contributors

Contributors represent the crowd that decides to financially support these projects. In addition, they bear a risk and often expect a certain payoff. The contributors are registered users of a certain crowdfunding platform and have access to the project information. The contribution payments are made via a regular bank payment or a micropayment provider. Usually the crowd (contributors) stays anonymous, regarding rest of the crowd and the fundraisers. There is no qualification requirement, in order to take part in crowdfunding as a contributor in the donation reward, and equity based crowdfunding models. Therefore, the crowd can consist of anyone, from people who have experience in investing and contribution activities, to people who have no experience in both investing and contribution activities. (Bouncken et al., 2015) However, this was not the case until recently in the United States, as the SEC granted rules implemented in the Title III of the JOBS Act to allow non-accredited investors to invest in equity crowdfunding as well, though, under certain investment limits (SEC, 2015). This is expected to have a major impact on the growth of crowdfunding in the United States. The majority of Asian and European countries allow non-accredited investors to take part in equity-crowdfunding.

According to Lambert and Schwienbacher (2010), the crowd is looking to achieve social reputation and intrinsic motives when contributing to a project, more so than financial rewarding. Therefore, the crucial factor that the crowd is trying to identity is, if the incentive, project, or company is something they want to be a part of, or something they want to contribute to. Therefore, contributors are particularly motivated to fund when they regard the quality of the incentive as high to themselves (Bouncken et al., 2015). Furthermore, contributors are more likely to contribute to projects that are non-profit organizations or socially focused companies, instead of other projects (Belleflamme et al., 2010).

Social networks also influence the motivation of contributors. It often happens that when the number of contributors in an incentive rises, other potential contributors react with lower investments or don’t invest at all, since they believe that the incentive will now easily be funded. As a result the increase of contributors freeze or even decline, which
concerns a number of the contributors, which finally motivate them to contribute the amount they earlier had in mind, in order to ensure that the incentive is successfully funded. (Bouncken et al., 2015)

### 2.8 Crowdfunding models

The dimensions of crowdfunding differ in the allocation of recourses and the reward for contributors (Moritz and Block, 2014). The rewards for the crowd can either be material or immaterial. Immaterially, the crowd receives social acknowledgement, usually by the fundraiser posting the contributor’s name on the project page of the platform. Materially, the compensation can be either monetary, where the fundraiser agrees to refund the paid amount, or indirectly monetary, where the contributor gets products or services in exchange. All together there are four different financing models in crowdfunding, including: donation, reward, lending and equity model. (Bouncken et al., 2015)

The **donation** model refers directly to fundraising, where the crowd can donate money to a specific project via the crowdfunding platform. Contributors (donators) receive only immaterial or social rewarding in exchange for their contributions. The donation model is commonly used for the realization of creative projects. In addition, public institutions such as libraries have realized the opportunity that they can be financially funded by the crowd via this model. (Bouncken et al., 2015)

The **reward** model includes both material and immaterial rewarding. In this model the contributor can be materially rewarded by receiving a financed product before it is found in stores for the general public. Immaterially, the contributor can be rewarded via social acknowledgements, as their name might appear in the funded project. (Bouncken et al., 2015)

The **lending** model refers to small loans given to the fundraiser, in exchange the contributors gets a fixed interest rate. These contracts can be between a private person who finances another private person’s project or product, or from private persons to companies. (Bouncken et al., 2015)

The **equity** model comprises of giving out equity to contributors in exchange for capital. The model has got particular attention from scholars, as it can bridge the early stage gaps in funding (Mollick, 2013). The contributor receives the right of profit sharing in the
same way as investing in a stock exchanged company. However, the right to vote may vary as the fundraiser/ entrepreneur might be reluctant to allow these rights, especially in the early stage of a venture.

2.9 Direct and Indirect Crowdfunding

Crowdfunding can be either direct or indirect. Indirect crowdfunding refers to the use of an intermediary to get the project across to the crowd, usually via a specific crowdfunding platform. Direct crowdfunding refers to a direct effort by the fundraiser to promote and collect contributions from the crowd via e.g. a company website. Direct crowdfunding can cause difficulties to reach a large enough number of people via a company website, especially if the company/fundraiser is unknown. (Bouncken et al., 2015) Scholars have not determined what the minimum number of participants in a crowd is required for a potentially successful campaign. However, according to Bouncken et al. (2015) well-known crowdfunding platforms such as Crowdcube, Kickstarter, and Seedmatch state that a maximum average is between 500 and 600 participants per project in 2014. Despite the relatively low number, most crowdfunding campaigns are conducted indirectly via a crowdfunding platform (Moritz and Block, 2014).

2.10 Ex post facto and Ex post ante

There are two general models of funding that refers to the production process of a product or service called ex post facto and ex ante. These two models are usually used in a reward based crowdfunding model. Ex post facto funding is when a product is offered to the contributor after financing. In other words, the fundraiser plans to give the contributor a product e.g. a prototype, sample, or blueprint in exchange for the investment. The fundraiser can use the funding for production costs (Belleflamme et al., 2010). Ex post ante on the other hand refers to funding towards an uncompleted product. Fundraisers have not yet passed the production process of creating a product or service, thus the investments will be used to create the product. Ex post ante funding creates a direct connection with the realization of the product opposed to ex post facto funding where the trial product or prototype is already completed before contribution. (Tomczak and Brem, 2013)
2.11 Active versus passive investment

The difference between active and passive investment is crucial for the entrepreneur to acknowledge, particularly in the equity based model. A passive equity investment from the contributor, does not allow the contributor to vote on company specific issues or work for the company. Entrepreneurs that look for passive investments are therefore only interested in raising money and not willing to give up control of the company. (Schwienbacher and Larralde, 2010) Conversely, other entrepreneurs may find it beneficial to allow active investments from contributors even though some control is given up in the form of voting rights. The benefits of active investments are that the contributors may provide valuable feedback on potential market demand and product characteristics.

The benefits of active investment can be regarded to find its roots from the “wisdom of the crowd” argument. First, the argument states that:

"unlike business angels or venture capital funds, the crowd might not have any special knowledge about the industry. However, the crowd can at times be more efficient than individuals or teams in solving corporate problems. Hence, crowdfunders (investors/contributors) as a crowd would be more efficient than a few equity investors alone” (Schwienbacher and Larralde, 2010, p.12).

Secondly, when contributors take part in the profit sharing of a venture they easily become consumers of the venture’s products, thus potentially providing feedback for product development for example. Certainly, contributors need not become consumers, but because they have a stake in the profit sharing of the company, it is also in their benefit to provide valuable information of the general market sentiment towards the product or service. (Schwienbacher and Larralde, 2010) Contributors can easily accumulate this information by asking their friends, colleagues and family for their opinions. In addition, with many contributors becoming consumers as well, a large scale advertisement campaign is not necessarily required.

2.12 Motivations to use crowdfunding and benefits

2.12.1 Commonly known motivations

The main motivation for entrepreneurs in using crowdfunding is obviously to acquire funding for their product or service. Fundraisers usually use the contributions towards production processes, acquiring new assets or paying employees. Moreover, the difficulty of getting funding by traditional funding sources such as business angels, banks or VCs
play a major role for entrepreneurs to access funding via crowdfunding. These difficulties exist, as mentioned earlier, due to the preferences and risk taking abilities of the traditional funding sources. In addition, entrepreneurs are motivated to use crowdfunding as a funding source when traditional funding sources require too much equity.

2.12.2 Feedback and Marketing

As the “wisdom of the crowd” argument states that entrepreneurs get feedback from the crowd regarding e.g. product development, it certainly plays a big role in motivating someone to use crowdfunding. Acquiring this feedback is cost-effectively done by establishing a survey directed to the consumers or contributors, “to refine plans or designs, to expand on them, to access concept feasibility and to estimate potential value” (Burtch et al., 2013, p.10). In addition, crowdfunding can create hype around the product. Lambert and Schwienbacher (2010) argue that crowdfunding can have the sole purpose of generating hype, in order to create a marketing campaign in which the consumers are able to participate. A potential hype provides valuable signals of the market potential a specific product has. For example, artists that use Sellaband.com (a crowdfunding platform for artists) can have the consumers commit financially to purchase the CD if production is commenced. (Schwienbacher and Larralde, 2010) Obviously, the consumers that have committed to purchase the CD may advertise the artist to his or her friends, creating a further hype. In addition, a high number of committed consumers is an indication to the artist that the CD will have demand, and having that information, the artist can begin the production process of the CD’s. More precisely, in addition to the hype, the crowdfunding process can be used for the purposes of presale, “allowing businesses to develop a solid pipeline of purchases before actually entering into production” (Burtch et al., 2013, p.10). Furthermore, establishing a solid pipeline of sales functions as evidence of market potential, thus making it easier to get larger investors interested in the project (Burtch et al., 2013). According to a study conducted by Lambert and Schwienbacher (2010), found that raising public awareness was relevant to 85% of the respondents (fundraisers), and obtaining feedback of the product/service offered was considered relevant to 60% of the respondents.
2.12.3 Lower cost of capital

The incentive for fundraisers to choose crowdfunding over the traditional funding sources may also lie in the lower cost of capital for three reasons:

**Better matches:** Using crowdfunding as a funding source allows the fundraisers to match with those individuals that have the highest willingness to pay for an equity stake in their venture, or are eager to access their new product via contribution. As crowdfunding is operated through an internet-based platform, these matches are more effortlessly found from a global pool of individuals (investors/contributors) rather than a local pool of potential individuals like business angels, personal networks, and relatives. In comparison to traditional offline funding sources, the location of the fundraiser is not so strongly reflected to the investment/contribution decision. (Agrawal et al., 2013)

**Bundling:** Some platforms allow the fundraiser to bundle the sale of equity with other rewards such as early access to products or recognition to the investor/contributor). The bundling approach may enable the fundraiser to lower his or hers “cost of capital by “selling” goods that are otherwise difficult to trade in traditional markets for early-stage capital” (Agrawal et al., 2013,p. 11).

**Information:** From the perspective that crowdfunding accumulates more information than traditional sources of early-stage capital (e.g. interest from other investors/contributors, ideas for product design or modification, public attention), it can increase larger investors’ willingness to invest, as a result lowering the cost of capital. For example, this was particularly evident in the chase of Pebble watches, which got a negative reaction from traditional early-stage investors, until a very large number of crowdfunders contributed to the campaign. The contributors that funded more than $115 were promised to receive a Pebble watch when they became available. This information validated the demand of the product, which likely lowered the cost of capital. Of course, the same effect would occur “without crowdfunding by pre selling the product and then presenting the sales information when raising capital through traditional channels” (Agrawal et al., 2013, p.12). Indeed, if the information is negative in regard to expectations, it might cause the cost of capital to increase as well.

The scholars also point out that if crowdfunding continues to increase the competition in the supply of early stage capital, it might decrease the cost of capital across the traditional funding sources for early-stage funding. (Agrawal et al., 2013)
2.13 Pitfalls and disincentives in crowdfunding

2.13.1 Intellectual property

One of the major issues that are considered in crowdfunding is intellectual property rights. If the entrepreneur proposes a project too early, others might capitalize on the proposed idea. Of course, there are measures to prevent this from happening (e.g., patent, trademark, copyright), but they always involve a cost (Burtch et al., 2013). The concern over someone capitalizing on a proposed idea is the strongest for those who are worried about imitation. For the entrepreneurs this is especially worrisome “during the period between raising capital and launching their product” (Agrawal et al., 2013, p. 15). Traditional funding sources on the other hand allow the entrepreneur to keep his or hers innovation secret from the general public and competitors, before taking the product or service to market. In addition, the risk of disclosing too much information to competitors might also have a negative effect on bargaining power with potential suppliers and patentability. (Agrawal et al., 2013) The following quote used by Agrawal et al. (2013, p. 16) is a good example of the potential negative effects.

“Quest did not have contracts already in place before he went on Kickstarter – a novice mistake. Once the Hanfree was funded, Quest says, he began contracting with accessories manufacturers in China, Singapore, and Los Angeles. But because those manufacturers were able to see precisely how much money Quest had raised on Kickstarter, Quest says they gained too much leverage in negotiations, chipping away at the product’s margins. It soon became too expensive to create the product with the funds raised.” (Markowitz, 2013)

2.13.2 False indications

The crowd can certainly give an indication that a product has demand; however it is important to realize that the crowd in the crowdfunding community might not be reflective of the broader market demand (Burtch et al., 2013). It is regarded to be a well-known fact that the crowd is not always wise and can occasionally be “stupid”. This “stupidity” “results from various systematic errors in judgment and decision-making that can arise within group decision-making processes” (Burtch et al., 2013, p.10). The following concepts; like pluralistic ignorance, false consensus, decision heuristics and bias, that psychologists and behavioral economists have researched, can lead to poor decision-making outcomes. As a result the crowd does not always represent a reliable source of information on for example product demand. Therefore, outcomes that are extremely good or poor in the “crowdfunding process should probably be looked upon with a healthy dose of skepticism” (Burtch et al., 2013, p.10). In the case where the “crowd’s initial support for a project is not the result of a well-considered or well-
informed deliberation” (Burtch et al., 2013, p.10), the fundraiser might be handed a false indication of the market potential. A false indication of market potential can obviously be detrimental for a venture if sales do not meet the initial expectations. (Burtch et al., 2013)

2.13.3 The number of investors/contributors

The number of contributors in a specific campaign can be problematic for entrepreneurs. Since contributors in the crowdfunding community generally invest or contribute small amounts towards a project, many contributors are often required to fulfill the capital requirement of the project. Therefore, the contributor management process can become significantly more costly and time consuming opposed to achieving finance from one traditional financing source. For instance, by March 2013 the Pebble watch had “delivered 34 detailed updates about the software and manufacturing of the product and received about 14,000 comments from the Kickstarter community” (Agrawal et al., 2013, p.17). Furthermore, contributors typically demand more attention in cases where the venture or project does not meet deadlines or expectations. Certainly, communicating with contributors gives the opportunity to collect feedback, but it also distracts the entrepreneur in executing the project. (Agrawal et al., 2013)

In addition, as entrepreneurs cannot decide who is allowed to invest or contribute in their projects, they cannot prevent contributors with “differing visions and strong personalities from joining and potentially negatively affecting the community’s dialogue” (Agrawal et al., 2013, p.17).

Moreover, a large number of contributors can create problems in the equity model for fundraisers to achieve financing in later stages of the venture, especially if business angel or VC funding is desired in the future. VCs and business angels often look for a certain capital structure in the ventures they invest in, thus if the large amount of contributors has created an undesirable capital structure, VCs and business angels will not invest. In addition, VCs and business angels might find it troublesome to deal with a large group of contributors, particularly, if it might limit their influence on the direction of the venture. (Stocker, 2012)
2.13.4 *Moral hazard and asymmetric information*

Crowdfunding is also subject to asymmetric information which leads to the problem of moral hazard. The problem occurs due to the fact that contributors have less information than the fundraisers. Especially, in the early-stages of ventures the information presented by the fundraisers is only their personal opinions on, for example, demand and valuation of their venture. Furthermore, if the fundraisers are located far away from the contributors, the opportunity for the contributor to perform due diligence in person with the fundraiser is slim. In addition, as the investment amounts are often small, the contributor has a weak individual-level incentive to perform due diligence. This may lead to a situation where the crowdfunding community systematically underinvests in due diligence. As a consequence of these issues, crowdfunding can be subject to fraud or the fundraiser using the money towards something else than expected. (Agrawal et al., 2013)

It is fairly easy to use false information to create a crowdfunding project that looks like a legitimate campaign. Even though “platforms try to filter out such cases of manipulation, crowdfunding may become an appealing target for professional criminals” (Agrawal et al., 2013, p.19). Contributors might also be concerned about the fact that will the entrepreneur actually deliver the product according to the initial specifications or whether they will receive some good at all (Strausz, 2015).

<table>
<thead>
<tr>
<th>Table 2</th>
<th>Summary of Pros and cons in crowdfunding (Burtch et al., 2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pros</strong></td>
<td><strong>Cons</strong></td>
</tr>
<tr>
<td>• Estimate market capacity</td>
<td>• Difficulty with later funding</td>
</tr>
<tr>
<td>• Facilitate Pre-sales</td>
<td>• Intellectual property/ Idea-revelation</td>
</tr>
<tr>
<td>• Idea evaluation</td>
<td>• Potential fraud</td>
</tr>
<tr>
<td>• Marketing and hype</td>
<td>• Potential false indications from the crowd</td>
</tr>
</tbody>
</table>

2.14 *Aspects to consider when setting up a crowdfunding campaign*

As crowdfunding platforms differ in which models they offer (donation, equity, lending, reward), they also differ in their operating policies. Usually crowdfunding platforms achieve revenues by charging project fees between 3% to 9% of the total amount funded. In addition, as previously discussed the fundraiser has the option to choose between an All-or-nothing model or Keep-what-you-get model on some platforms, while other platforms only function on one of these models. The chosen model by the fundraiser or the predetermined model that a specific platform functions on has to be displayed on the
project page of each project. Other information that has to be displayed on the project page include: campaign description, campaign duration, and the possible rewards offered to contributors. (Burtch et al., 2013) Most importantly, the fundraiser should be aware of how the probability of success is influenced by different actions and decisions regarding several factors in crowdfunding.

The following chapters will discuss how these factors according to a previous study and literature influence the successfulness of a crowdfunding campaign, as well as introducing new ideas that potentially may have an effect. After each section a hypotheses is stated that is based on previous findings or a hypotheses is stated that is based on new assumptions around crowdfunding. The stated hypotheses are quantitatively analyzed in the results section using a dataset from the crowdfunding platform Indiegogo.

### 2.14.1 Funding Duration

Excessive funding durations have shown to have a negative effect on the probability to achieve funding success, as it signals a lack of urgency or excitement of the fundraiser (Mollick, 2013). However, simultaneously, longer durations can be assumed to have a positive effect on achieving awareness, thus leading to a greater funding level. Therefore, it seems that the decision between a longer duration or shorter duration should be considered by the size of the venture. For a venture with an established customer base or followers, hype and further awareness might be the primary objective of the campaign. On the other hand, for a small startup the objective might purely be based on getting necessary funding to stay in business or start production. (Burtch et al., 2013)

**H1: Longer duration of the campaign is negatively related to success**

### 2.14.2 Target amount

High fundraising goals can have a negative effect on the success of a crowdfunding campaign, “because crowdfunding may perceive excessive goals to be unreachable or unrealistic” (Burtch et al., 2013, p.11). Noticeable is that many crowdfunding platforms allow the funding process to continue even after the target is met, thus implying that the specific project has the possibility of being overfunded. In these cases, according Burtch et al. (2013) setting a lower target amount can be a good strategy, because the predetermined target amount and the additional (potential) overfunded amount are
distributed to the fundraiser. In other words, if the fundraiser has concerns about reaching the desired “relatively” high target amount for some particular reason, it may be a good option to state a lower target amount, thus having a better probability of achieving funding and potentially overfunding. However, as the contributors perceive that the target amount is reached, additional funding is harder to achieve, because crowdfunders assume that the funding gap has been filled. According to Burtch et al. (2013), to tackle this problem, assuming that the goal of the project is to achieve overfunding, is to inform the crowdfunders that the funded amount covers only a portion of the overall project budget. (Burtch et al., 2013)

However, these measures that are suggested by Burtch et al. (2013) seem to be slightly risky (e.g. if you state a very low target amount but the actual goal is to achieve much more via overfunding), and to have little effect in reality, as Mollick (2013) conducted a study that showed that failures in crowdfunding happen by large amounts, and successes by small amounts. The results concluded for example that; “twenty five percent of projects that are funded are 3% or less over their goal, and only 50 % of successful projects are about 10% over their goal ”; and “only 1 project in 9 receives 200% of its goal” (Mollick, 2013, p. 6). Mollick (2013) suggested that these patterns in funding success might be related to the way crowdfunders react to other contributors, referring to Kuppuswamy and Bayus (2013) paper on bystander effects among contributors. In conclusion, setting a lower target amount than what is actually desired will most likely lead to achieving only the predetermined target amount and not much more, since contributors often stop funding a project after it has achieved its target. Obviously, the target might not be reached as well. In these cases, if the project follows an All-or-nothing model the fundraiser receives no funding, but in the Keep-what-you-get model the fundraiser receives the entire funding amount despite reaching the target amount.

**H2: Increasing target amount is negatively related to success.**

Mollick (2013) stated, however, that that while projects are not equally attractive, “the underlying nature of the projects must also play a role” (Mollick, 2013, p. 6). In other words, the decision of the contributors to pick a specific project to fund cannot only be a consequence of bystander effects among contributors, and must have some other underlying reason for why specific projects get more contributors than others, and as a result receive more funding.
2.14.3 Signal of Quality

In structuring a successful crowdfunding campaign the project itself has to be attractive to the crowd. Just by writing a professional description of a project is surely not enough to attract the crowds’ attention, even though the project may be the best investment/contribution option on the platform. Mollick (2013) suggested that crowdfunders act just like venture capitalists or other traditional funding sources, evaluating the quality of the product, team, and probability of success. From this perspective, the projects that show high signals of quality to the crowdfunders have a higher probability to achieve funding success. Therefore, projects demonstrating low quality signals will receive little to no contributors, and projects demonstrating high quality signals will receive many contributors. Since anybody can contribute to a crowdfunding project, quality signals are “magnified through a Matthew Effect (Merton, 1957) that multiplies the impact of project quality” (Mollick, 2013, p. 6). That is, high quality projects gain interest of contributors who may advertise and promote the project to other contributors or media, thus increasing the awareness of the project. The crowdfunding community is built around this social concept as social media platforms are often incorporated to the platforms. In addition, crowdfunders can post positive comments on the project page of a specific project, thus increasing positive feedback and insights of the project, which eventually increases other crowdfunders’ willingness to fund the project. (Burtch et al., 2011)

The quality signals of ventures have been of great interest among scholars particularly in the venture capital scene. Since investments are often uncertain, based on estimations and projections, the potential signals of quality can play a major role in an investment decision by a venture capitalist (Michael, 1974). Chen et al. (2009) identified many quality signals that are explained to have a positive effect for receiving funding from a traditional face-to-face investment setting (e.g. business angels, VCs, banks). One of the major quality signals included the quality of the preparation demonstrated by entrepreneurs in an investment setting. The preparation demonstrated or preparedness was “determined by the degree to which founders took the time and effort to ensure that project pitches conformed to standards for successful pitches” (Mollick, 2013, p. 8).

According to Mollick (2013), looking at the investment setting from the perspective of crowdfunding is indeed very different, “and it is much less clear how individuals demonstrate preparation or draw on strategic networks in a virtual environment” (Mollick, 2013, p. 7). Critics of crowdfunding have expressed their concern about
whether project quality even plays a major role in a crowdfunding setting, and that quality may not be as clear for contributors compared to traditional funding sources (Bogost, 2012). Mollick (2013), however, found in his research that crowdfunding success is related to quality signals through the demonstration of high preparedness. The research showed that making a video of the project, product, or service, which is displayed on the project page, has a great positive effect on the probability of success. In addition, the research found that rapid updates posted by the fundraiser affect success and that spelling errors in the description of the project has a negative effect on success. All of these three factors (video, rapid updates, and spelling errors) clearly signal whether or not the fundraiser is prepared for the funding process, thus at the same time functioning as a signal of quality to contributors. In addition, crowdfunding platforms recommend to post a video and to post updates of the project, thus obviously the individual fundraisers that engage in these activities are considered to be prepared for the funding process. Furthermore, we might assume that comments written by the fundraiser in the comment section of the project page would have a similar positive effect on funding success as updates.

**H3a: The presence of video is positively related to success**

**H3b: The number of updates is positively related to success**

**H3c: The number of comments written by fundraiser is positively related to success**

### 2.14.4 Network size

Another signal of quality that scholars suggest has a positive influence on receiving funding is network size. As already discussed earlier, social networks provide connections to entrepreneurs that may increase the probability of success, by obtaining partners, potential customers and potential investors. In addition, large social networks can function as endorsements of project quality (Shane and Cable, 2002). In crowdfunding, social networks are the preliminary providers of funding in many cases, as they usually consist of friends and family (Agrawal et al., 2010). Therefore, the size of the social network should influence success levels of crowdfunding projects. Mollick (2013) found for example that in the Film category of his research “fundraisers with 10 Facebook friends would have a 9% chance of succeeding, one with 100 friends would have a 20 % chance of success, and one with 1000 friends would have a 40% chance of
success” (Mollick, 2013, p.8). In addition, it was found that having no Facebook account at all is better than having only a few friends. To conclude his results, it is better to have a large Facebook network than a small one, however, in cases where connections are very limited it may be wise to consider whether connecting a Facebook account to the platform is a good idea.

The dataset used in this thesis did not include the Facebook friends of the fundraiser, instead it included the Facebook fans of the underlying project, which could be considered to be a more appropriate measure for examining the project’s network. Furthermore, it could also be the case that the amount of Tweets posted by the fundraiser is positively related to success, which could be analyzed from the dataset. Of course, the posting of Tweets could be regarded as a type of networking activity as well, and spreading the word about the campaign.

**H4a: The higher amount of Facebook fans is positively related to success**

**H4b: The higher number of Tweets posted by the fundraiser is positively related to success**

### 2.14.5 Perks

Rewards offered to the contributor or “perks” may also have an influence on the success of a project, however, no scholar has researched these particular effects to my knowledge. Indiegogo suggest that perks may have an effect on the funding percentage by stating that projects that offer perks raise 143% more money than those that do not. In addition, perks help the project to attract larger audiences and make the contributors feel more valued for their contributions, as well as spreading the word about the project. (Indiegogo, 2016) Since Indiegogo states that projects that offer perks succeed better in crowdfunding, one can assume that contributors might think in the same way as traditional funding sources or rationale investors, trying to get something in return for their contribution. Therefore, the following assumptions about contributors are based on theory of investment behavior.

One might assume that crowdfunders that are drawn to contribute to a specific project, seek to obtain a product as a reward for their contributions, and these rewards function as the sole motivational element for contribution. This said, it could be assumable that crowdfunders act in a similar way as traditional funding sources, seeking to find projects
that offer a good “return on investment” given a predefined risk level. Of course, in the case of donation- and reward based crowdfunding, the “return on investment” can be considered to be the monetary value of the reward in relation to the contribution amount. Therefore, assuming that crowdfunders act as traditional funding sources, we can assume that their willingness to contribute to a specific project is dependent on two factors. First, the number of reward options or “categories of perks”. In other words, the contributor can be presented with many reward options that are offered by the fundraiser, which are related to the amount that is contributed (if $100 is contributed= keychain, if $10,000 is contributed= TV). Secondly, the monetary reward value in relation to the contribution amount. For example if a contributor has $1000 that is intended to be contributed to crowdfunding and is basically indifferent of which project to fund, either project A or project B, would chose to fund the project that provides the reward with the highest monetary value in exchange for that $1000.

In conclusion, perks work as incentives towards the contributor to fund a project. The number of categories of perks offered by the fundraiser can play a big role given that the contributors act even to a degree as “rationale investors” and are indifferent of two or more projects which they could fund. When many categories of perks are involved in a crowdfunding campaign, it is easier for the contributor to match the funding amount to a reward that is perceived to be fair. Given that contributors are indifferent of which project to fund, it could be assumable that the contributor chooses to fund the project that offers the “highest return on investment” or the highest relative reward for funding. Therefore, given that contributors are indifferent of two or more projects and act as “rational investors”, they compare projects and the monetary value of the perks, trying to find perks that offer the best relative value for their funding amount.

Indeed taking the perspective that crowdfunders, especially, in the donation and reward based crowdfunding models, purely contribute to projects based on the monetary value of the reward can be considered as flawed. However, it is perhaps naive to state considering human nature that the monetary value of the rewards and the categories of perks would have no effect on contributor decision making.

Unfortunately, the dataset examined in this thesis was unable to evaluate the “return on investment” for the rewards, but it was able to distinguish the maximum amount that can be contributed in exchange for a perk, and the minimum amount that can be contributed in exchange for a perk for each project. It could be expected that contributors that are only able to contribute a small amount, are more willing to fund projects that
offer a reward in return for a low contribution amount. Therefore, projects that offer a reward in exchange for a low contribution amount might perform better in crowdfunding. On the other hand, projects that offer a reward in exchange for a high contribution amount might encourage wealthy individuals to contribute more, as it could be expected that the contributor receives a “discount” or further “discount” on the rewards due to the high contribution amount. However, these assumptions are only based on speculation of how a fundraiser should/could act (discount factor), and how some wealthy individuals and contributors that cannot contribute a lot might act. Therefore, this thesis attempts to examine if the assumption that the minimum perk and maximum perk would influence funding success is in fact true or not. In addition, the number of categories of perks is examined towards the funding percentage in this study.

**H5a: The number of categories of perks is positively related to success**

**H5b: Higher maximum perk is positively related to success**

**H5c: Lower minimum perk is positively related to success**

Table 3 below summarizes Burtch et al. (2013) conclusions of what influences crowdfunding success. As noticeable, also the description of the project is argued to play a part in success.

<table>
<thead>
<tr>
<th>Table 3 Factor effects</th>
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</thead>
<tbody>
<tr>
<td><strong>Crowdfunding Factor</strong></td>
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<tr>
<td>Longer Description</td>
</tr>
<tr>
<td>Detailed Description</td>
</tr>
<tr>
<td>Media (e.g., Photo, Video)</td>
</tr>
<tr>
<td>Keep the Crowd Informed (updates)</td>
</tr>
<tr>
<td>Leverage Social Media (Facebook, twitter)</td>
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<tr>
<td>Unrealistic or Unreachable Target amounts</td>
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<tr>
<td>Lengthy Funding Durations</td>
</tr>
</tbody>
</table>
3 RESEARCH METHODOLOGY

3.1 Background

To understand the purpose of this study it wise to recall the main research question of this thesis. The research question is the following one: “What are the main variables for successful fundraising via crowdfunding, and to what extent they influence the funding percentage?” The different variables range all the way from the number of updates, comments, and Facebook fans to the duration of the campaign.

The research question is highly relevant within the crowdfunding community, as only a few studies have been conducted on how different variables affect crowdfunding success for the fundraiser. Providing answers for which variables are important in order to achieve a higher funding percentage in a crowdfunding campaign is crucial information for any entrepreneur that is considering crowdfunding as a source of funding. A well-known study has been conducted by Ethan Mollick in 2013, which provided preliminary findings of the nature of crowdfunding, as well as which particular variables increase the success rate of a crowdfunding campaign operating in an All-or-nothing model. This thesis intends to build on those findings by producing a partial repeat study within a different setting of crowdfunding (Keep-what-you-get model), and providing new preliminary findings of variables that have not been examined before.

For answering the research question, Mokter Hossain’s dataset from Indiegogo is used that covers 1700 crowdfunding projects where numerous variables for each project are displayed. Mokter Hossain is a researcher and PhD student at Aalto University, who provided me the dataset and the data was collected by him.

The hypotheses that were already introduced in the literature review function as a tool to either support or add disconfirming evidence to Mollick’s (2013) preliminary findings on which variables affect crowdfunding success. Furthermore, the actual percentual impact that each variable has on the funding percentage is investigated. The additional hypotheses focuses on the effect that perks may have on the funding percentage, thus providing preliminary findings of these effects, as no scholar has researched the topic to my knowledge. Furthermore, efforts are made to find new preliminary findings around all variables that the data set contains, in order to get an even better understanding of the elements that might affect funding percentages in crowdfunding campaigns. The next chapter justifies the chosen research method in accordance to the research question.
3.2 Philosophical worldview

According to Creswell (2014), the approach to research always involves philosophical worldview assumptions and a distinct method. Philosophical worldview assumptions are linked to the research design and methods or procedures of a specific research. The links are necessary in order to transform the research approach into practice where the chosen worldview is present. There are four different world views: postpositivism, constructivism, transformative, and pragmatism. (Creswell, 2014)

The thesis follows the postpositivist worldview, in order to tackle its research question, and builds the research approach in accordance to the worldview. Postpositivist assumptions are often represented in quantitative research more than qualitative research. The research done according to a postpositivist worldview attempts to identify and assess the causes that influence outcomes. In addition, postpositivism is also reductionistic, “in that the intent is to reduce the ideas into small, discrete set to test, such as the variables that comprise hypotheses and research questions” (Creswell, 2014, p.7). Thus, the thesis’s research approach follows a postpositivist worldview, in order to identify the key variables that affect the funding percentage of a crowdfunding campaign. Furthermore, postpositivism develops knowledge that is based on “careful observation and measurement of the objective reality that exists “out there” in the world” (Creswell, 2014, p.7). It also states that laws or theories rule the world, thus making it crucial to test and verify these theories/laws to get a better understanding of the world. Hence, a researcher that follows a postpositivist worldview begins with a theory and collects data related to the theory, in order to support or disapprove the theory, and potentially makes necessary revisions and conducts additional tests. (Creswell, 2014)

From the perspective of my research, this thesis follows the postpositivist worldview, because Mollick (2013) has previously presented findings regarding the nature of crowdfunding. These findings have guided me in the process of establishing hypotheses, which potentially either supports or adds disconfirming evidence to Mollick’s (2013) findings. Certainly, due to the scarce amount of research done on which variables affect crowdfunding success, his findings cannot be defined as a theory or law yet, but it is the closest of a theory to date on crowdfunding success.
3.3 Deductive Approach

Before a researcher starts working, the decision between two main research approaches must be done: deductive or inductive. The idea of a deductive research approach is to create a theory from available literature or existing findings, whereas the inductive research approach “involves the search for pattern from observation and development of explanations – theories – for those patterns through series of hypotheses” (Bernard, 2011, p. 7). In other words, researches following the inductive approach begin with a topic and develop empirical generalizations and identify preliminary relationships (Neuman, 2003).

In the case of crowdfunding the research has so far generally been inductive, where empirical data try to identify relationships and explain the nature of crowdfunding, however, this thesis follows the deductive approach. More precisely, “deductive” means reasoning from the particular to the general. If a particular theory or case example seems to be linked to a causal relationship between variables, the relationship between the variables might be true in many cases. Therefore, a deductive research approach allows the researcher to test if the relationship occurs in more general terms. In short, the deductive approach includes hypotheses that will be tested, through the implementation of relevant methodology, in order to prove the formulated hypotheses either right or wrong. (Gulati, 2009) This is the main reason the thesis follows the deductive research approach, because the research done on crowdfunding is scarce, thus, the thesis will provide additional findings to potentially support or add disconfirming evidence to Mollick’s (2013) preliminary findings. Furthermore, as Mollick´s study was based on an All-or-nothing approach (Kickstarter), this thesis provides evidence if the findings are relevant in a different setting as well, in a Keep-what-you-get approach (Indiegogo).

3.4 Quantitative Strategy

The researcher’s decision between either a quantitative or qualitative research strategy is always determined by the purpose of the study (Olsson & Sörensen, 2007). Since the thesis’s research approach follows a postpositivist and deductive approach, the quantitative strategy is the logical decision over a qualitative strategy. In addition, the quantitative nature of the research question provides a simple foundation, in order to state that the quantitative strategy is far superior to a qualitative strategy for this particular study. Furthermore, the quantitative strategy is highly linked to the postpositivism and deductive approaches, as both approaches try to test and verify
theories to get a better understanding of a certain phenomenon (Creswell, 2014), thus the quantitative strategy fits both of these approaches.

Quantitative research can include true experiments, quasi-experiments, and non-experimental research. Non-experimental qualitative research is implied in this study, and two specific non-experimental approaches will be used. First, non-experimental research can follow a casual-comparative research “in which the investigator compares two or more groups in terms of a cause (or independent variable) that has already happened” (Creswell, 2014, p.12). Secondly, is the correlational design “in which investigators use the correlational statistic to describe and measure the degree or association (or relationship) between two or more variables or sets of scores” (Creswell, 2014, p. 12.).

From the perspective of this thesis, these two non-experimental approaches aid in finding relationships between crowdfunding success and the different variables in the dataset. More precisely, the casual-comparative approach aids in investigating if certain project categories (e.g. sports, arts, small business) succeed differently in crowdfunding, and the correlational design aids in finding relationships between the multiple variables that the dataset contains. However, in addition to these approaches, the study utilizes multiple linear regressions to analyze the statistical significance that the variables have on the funding percentage and to what extent they influence the funding percentage of crowdfunding campaigns.

### 3.5 Multiple linear regression

Using multiple linear regressions the study finds which independent variables can predict the outcome of the dependent variable (funding percentage). In addition, multiple linear regressions can investigate the estimated magnitude of the effect that an independent variable has on the dependent variable, by stating an unstandardized beta coefficient. These functions enable the thesis to either support or add disconfirming evidence towards the hypotheses, and to compare the results to Mollick’s (2013) preliminary results.

The next section discusses the sample which is used for this research, focusing on justifying the representativeness of the sample.
3.6 Sample

The dataset used in this study consisted of 1700 crowdfunding projects from Indiegogo. Indiegogo is an international crowdfunding platform that operates only on the donation-reward based model, and is open to almost any kinds of projects from anywhere of the world. The majority of the data are based on campaign starting dates during the years of 2012 and 2013 (1433 projects), and the other 267 projects started their campaigns during the years of 2011 and 2014. Furthermore, the majority of the data was collected from the exact point of project expiration, by examining the campaign links from the Indiegogo website. Only the number of Facebook fans was captured at a later point after expiration. In Indiegogo, the fundraiser can chose between two funding model options to pursue, either the All-or-nothing model or the Keep-what-you-get model. The All-or-nothing model refers to stating a target amount before the campaign begins that has to be reached, in order for the funding to be realized. If the target is not reached the money is paid back to the contributors, and the fundraiser does not get any funding. The Keep-what-you-get model refers to getting all the contributions no matter if the target amount is reached. However, the target amount must always be displayed on the project description page. Unsurprisingly, all the projects in Mokter Hossain’s dataset contained projects that utilized the Keep-what-you-get model, most likely to ensure that they would at least receive some funding, thus making every project that receives even one dollar basically a successful fundraising campaign.

Therefore, this thesis is not investigating whether or not the funding percentage reaches 100%, indicating success in an All-or-nothing model; instead it mainly attempts to investigate how the variables affect the funding percentage. Of course, if a certain variable has a positive impact on the funding percentage it is automatically related to the success of a campaign.

3.7 Variables

The dataset contains many different variables that have been categorized in 3 specific groups: Independent variables, dependent variable and control variables. Table 4 summarizes the variables and specifies the importance of why the variables have been chosen for analysis.
3.7.1 **Dependent variable**

The percentage of funding received of the target amount is the dependent variable of this study, as it will signal how successful the projects are. Furthermore, the dependent variable Funded (%) was log transform to $\log{\text{fund}}$, due to the high skewness of the data and to improve the interpretability of the data. Also, the standardized residuals of $\log{\text{fund}}$ were investigated. From the original data set that was provided by Mokter Hossain, nearly all $+\text{->}3$ standard deviations of $\log{\text{fund}}$ were deleted from the dataset in the beginning of the data preparation process. The preliminary reason for this action lied in the discovery of very high outliers that could have driven the models by themselves, ultimately providing flawed outcomes. Furthermore, the residual vs predicted value scatter plot was investigated after the initial deletion of outliers. Five residual outliers were deleted from the final regressions, each deleted case were above + or - 4 standardized residuals. In addition, from the original 1700 projects, I excluded all projects that were missing even one data point (exclude listwise), providing a total number of 1561 projects that were used in the regressions.

3.7.2 **Independent variables**

The independent variables include: Facebooks fans, Tweets, the duration of the campaign, the goal amount, number of updates, number of comments, number of comments written by fundraiser, presence of video, gallery, funders, referrals, number of contributions made by fundraiser to other projects, number of perk categories, the maximum funding amount in exchange for a perk, and the minimum funding amount in exchange for a perk. Each of the independent variables are linked to important factors that may influence the successfulness of a crowdfunding campaign. These factors are found in third column in Table 4.

3.7.3 **Control variables**

The control variables are the category of the campaigns, which include the following ten categories: Technology, Art, Comic, Dance, Design, Fashion, Film, Food, Sports, and Small Business.
### Table 4 Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Importance factor</th>
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<tbody>
<tr>
<td><strong>Dependent variable</strong></td>
<td><strong>Logfund</strong></td>
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<td><strong>Independent variables</strong></td>
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<td>- Duration</td>
<td>- Campaign descriptive</td>
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<td>- Goal</td>
<td>- Campaign descriptive</td>
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<td>- Facebook fans</td>
<td>- Networking</td>
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<td>- Tweets</td>
<td>- Networking</td>
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<td>- Updates</td>
<td>- Preparedness</td>
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<td>- Comments</td>
<td>- Awareness/hype</td>
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<tr>
<td>- Comments written by creator</td>
<td>- Preparedness</td>
</tr>
<tr>
<td>- Gallery</td>
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<tr>
<td>- No. Of contributions</td>
<td>- Founder specific experience of crowdfunding as an contributor/reciprocity</td>
</tr>
<tr>
<td>- Referrals</td>
<td>- Reputation/networking/experience</td>
</tr>
<tr>
<td>- Funders (#)</td>
<td>- Resulted awareness of project</td>
</tr>
<tr>
<td>- Video</td>
<td>- Preparedness</td>
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<tr>
<td>- Perk categories</td>
<td>- Incentive</td>
</tr>
<tr>
<td>- Maximum Perks ($)</td>
<td>- Incentive</td>
</tr>
<tr>
<td>- Minimum Perks ($)</td>
<td>- Incentive</td>
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<td>- Comic</td>
<td>- Category</td>
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<td>- Dance</td>
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<td>- Film</td>
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<td>- Food</td>
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<td>- Sports</td>
<td>- Category</td>
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<tr>
<td>- Small Business</td>
<td>- Category</td>
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</tbody>
</table>

As noticeable, not all variables included in the analysis have been discussed in the literature review. The importance factors that have been given for the variables: Comments, Gallery, No. of contributions, Referrals, and Funders are based on my assumptions of why they might be important and what they might measure. Since the importance factors of these variables state justified reasons of why they might affect funding success, they have been incorporated to the regression model.
4 RESULTS

From Table 5 the descriptive information of the variables used in the analysis are displayed. For the sample to be representative of crowdfunding, were projects can differ a lot across these multiple variables, the only variable where outliers have been deleted in the sample is the log transformed Funding % Logfund. The criteria of the outlier deletion process are found from the earlier section: Dependent variable 3.7.1. To specify, only the Logfund variable has been log transformed. The removing of outliers from the original dataset did not significantly change the results in terms of significance level nor unstandardized beta direction (+, -).

Table 5 Descriptive Statistics of Variables

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<tr>
<th>Dependent variable</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
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<td>1.03</td>
<td>8.04</td>
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<td>1.00173</td>
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<td>1000000</td>
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<td>134</td>
<td>10.45</td>
<td>14.043</td>
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<td>9.64</td>
<td>13.125</td>
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### Table 6  Correlations

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<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
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</tr>
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<td>2. Duration</td>
<td>&amp; 0.306** &amp; 0.153** &amp;</td>
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<td>3. Updates</td>
<td>&amp; 0.256** &amp; 0.091** &amp; 0.297** &amp;</td>
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<tr>
<td>4. Comments</td>
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<td>5. Gallery</td>
<td>&amp; 0.172** &amp; 0.074** &amp; 0.227** &amp; 0.405** &amp; 0.083** &amp;</td>
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</tr>
<tr>
<td>6. Facebook fans</td>
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<td>7. Funders</td>
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<tr>
<td>8. Tweets</td>
<td>&amp; 0.100** &amp; 0.052* &amp; 0.223** &amp; 0.453** &amp; 0.095** &amp; 0.384** &amp; 0.390** &amp; 0.309** &amp;</td>
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<td>9. No contributions</td>
<td>&amp; 0.106** &amp; 0.016 &amp; 0.124** &amp; 0.031** &amp; 0.100** &amp; 0.038 &amp; 0.026 &amp; 0.010 &amp; 0.001 &amp;</td>
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<tr>
<td>10. Comments by creator</td>
<td>&amp; 0.241** &amp; 0.083** &amp; 0.405** &amp; 0.397** &amp; 0.110** &amp; 0.175** &amp; 0.275** &amp; 0.066** &amp; 0.159** &amp; 0.127** &amp;</td>
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<tr>
<td>11. Goal</td>
<td>&amp; -0.142** &amp; 0.058** &amp; 0.115** &amp; 0.264** &amp; 0.038 &amp; 0.242** &amp; 0.251** &amp; 0.217** &amp; 0.223** &amp; -0.015 &amp; 0.079** &amp;</td>
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<tr>
<td>12. Category of perks</td>
<td>&amp; 0.111** &amp; 0.129** &amp; 0.251** &amp; 0.077** &amp; 0.137** &amp; 0.217** &amp; 0.127** &amp; 0.141** &amp; 0.192** &amp; 0.061** &amp; 0.091** &amp; 0.129** &amp;</td>
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<tr>
<td>13. Maximum Perks</td>
<td>&amp; 0.029 &amp; 0.020 &amp; 0.002 &amp; 0.010 &amp; 0.007 &amp; 0.007 &amp; 0.029 &amp; 0.047* &amp; 0.020 &amp; 0.045* &amp; -0.004 &amp; 0.029* &amp; 0.093** &amp;</td>
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<tr>
<td>14. Minimum Perks</td>
<td>&amp; -0.014 &amp; -0.033 &amp; -0.036 &amp; 0.015 &amp; -0.031 &amp; -0.018 &amp; -0.008 &amp; 0.132* &amp; -0.008 &amp; -0.030 &amp; 0.063 &amp; 0.065* &amp; -0.172* &amp; -0.005 &amp;</td>
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</tr>
<tr>
<td>15. Video Y/N</td>
<td>&amp; 0.054* &amp; 0.044* &amp; 0.140** &amp; 0.099** &amp; 0.143** &amp; 0.110** &amp; 0.103** &amp; 0.041 &amp; 0.076** &amp; 0.083** &amp; 0.069** &amp; 0.128** &amp; 0.184** &amp; 0.046* &amp; -0.002</td>
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*p<0.050, **p<0.01
4.1 Correlation Analysis

Funders and Comments show a strong correlation of 0.811 with a p-value of below 0.01. This finding is not surprising, as we can assume that the more funders a project has the more comments it will get and vice versa.

Referrals and Comments show a strong correlation of 0.735 with a p-value of below 0.01. Furthermore, Funders and Referrals show a strong correlation of 0.645 with a p-value of below 0.01. This finding explains that the projects that receive many funders also tend to have many referrals. However, it is impossible to know if crowdfunders are influenced by the fact that fundraisers have many referrals and contribute for that reason, or if the fundraisers that have many referrals just structure more attractive campaigns and for that reason achieve many funders. In addition, it could be the case that the people who have given these referrals are a large part of the funders as well. The high correlations might signal multicollinearity, fortunately the robustness checks prove otherwise. All robustness checks can be found from page 58.

Comments and Comments by creator show a moderate correlation of 0.405 with a p-value below 0.01. This finding is fairly obvious, as it is assumable that the comments posted on a project page by the crowd will affect the fundraiser to post comments and answers to questions that the crowd presents.

Other correlations that might be of interest included the following; Comments by creator and Funders show a low correlation of 0.275 with a p-value of below 0.01; Comments by creator and Logfund show a low correlation of 0.241 with a p-value of below 0.01; Logfund with Funders show a low correlation of 0.320 with a p-value of 0.01; and Logfund with Updates show a low correlation of 0.306 with a p-value of 0.01.
Table 7  Regression results

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Variable</th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
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<td>Controls</td>
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<td></td>
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<td>(0.100)</td>
<td>(0.095)**</td>
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<td>Comic</td>
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<td></td>
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<td>(0.100)</td>
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<td>Dance</td>
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<td></td>
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<td>(0.090)**</td>
<td>(0.085)**</td>
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<td>Design</td>
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<td></td>
<td></td>
<td>(0.129)**</td>
<td>(0.096)*</td>
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<td>(0.080)**</td>
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<td>(0.085)**</td>
<td>(0.081)**</td>
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<tr>
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<td></td>
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<td>(0.1161)**</td>
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<tr>
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<td>Duration</td>
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<td>H2</td>
<td>Goal</td>
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<td>H3a</td>
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<td>H3b</td>
<td>Updates</td>
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<td>FB fans</td>
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<tr>
<td>H4b</td>
<td>Tweets</td>
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Cont.
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<th>Hypothesis</th>
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<td>H5a</td>
<td>Category of perks</td>
<td>0.0125 (0.0050)*</td>
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<td>H5b</td>
<td>Max perk</td>
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<td>H5c</td>
<td>Min perk</td>
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**Additional Findings**

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<td>Funders</td>
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<tr>
<td>Gallery</td>
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<tr>
<td>Comments</td>
<td>0.0005 (0.0002)*</td>
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<tr>
<td>Referrals</td>
<td>1.055 \times 10^{-5} (0.0000)**</td>
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<tr>
<td>No. Of contributions</td>
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*p<0.05, **p<0.01  Robust SE applied

### Model Summary

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<th>Adjusted R square</th>
<th>Standardized error of est</th>
<th>R square Change</th>
<th>Sig. F Change</th>
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<td>0.92766</td>
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<td>0.79741</td>
<td>0.229</td>
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### Table 8  Anova

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<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
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<td>25.736</td>
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<td>0.861</td>
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<td>Total</td>
<td>1566.339</td>
<td>1560</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Model 2</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
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<tr>
<td>Regression</td>
<td>589.656</td>
<td>24</td>
<td>24.569</td>
<td>38.639</td>
<td>0.000^c</td>
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<tr>
<td>Residual</td>
<td>976.683</td>
<td>1536</td>
<td>0.636</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1566.339</td>
<td>1560</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.2 Regression analysis

The model summary in Table 6 shows the Adjusted R-squared at the value of 0.367. Therefore, indicating that 36.7% of the total variability in the dependent variable Logfund is explained by model 2. Furthermore, the Anova tables that are presented above indicate that both models pass the F-test and the null-hypothesis can be rejected, thus providing evidence that this analysis is significant. R-square change indicates that an additional 22.9% of the variability in the outcome is explained by the predictor variables. The reference used in the regression is the category Small business. Due to the heteroscedasticity of the dataset, the regression models in this study were run using a macro developed by Andrew Hayes (2007) that estimates OLS regression models with heteroscedasticity-consistent standard errors. SPSS version 23 was used for all the analysis included in the thesis. The additional variables that have not been given a hypothesis were included in model 2 due to my assumptions that they may have predictive abilities on the funding percentage as well. The next chapter summarizes the findings of all variables, including the control variables and non-hypothesis variables.

4.2.1 Variable specific analysis

Logfund: The mean of the independent variable Logfund is 4.37 and the maximum is 8.04. Noticeably, if the funding percentage is not log transformed, the mean equals to 127 % (Funding %). However, if we disregard the technology category (Funding %, mean 306 %) from the calculations the mean funding percentage is 106 %. Furthermore, by disregarding the technology category from the regression model provides quantitatively similar results as the final regression that includes the technology category. Therefore, the concern that the technology category might be driving the regression model by itself can be overlooked.

Goal: The p-value of below 0.01 indicates that the Goal variable has predictive abilities on the independent variable Logfund. The mean is accounted to $33377 and the highest amount that is presented as a goal in the dataset equals $1,000,000. The unstandardized beta coefficient for Goal in the model equals to $-4.742\times10^{-6}$, thus indicating that increasing the goal amount will have a negative influence on the funding percentage. For example, a $35,000 increase in the goal amount predicts a decrease in the funding percentage of 15 %.
**Funders:** The p-value of below 0.01 indicates that the *Funders* variable has predictive abilities on the independent variable *Logfund*. The mean is 380 funders/project, and the highest amount of funders for a single project rose all the way to 14,194. The unstandardized beta coefficient for *Funders* in the model equals to 0.0003, thus indicating that the amount of funders has a positive influence on the funding percentage. For example, by increasing *Funders* by 380, the funding percentage is predicted to increase by 12%.

**Updates:** The p-value of below 0.01 indicates that the *Updates* variable has predictive abilities on the independent variable *Logfund*. The mean is 10.45 updates/project, and the most updates that were published reached 134. The unstandardized beta coefficient for *Updates* in the model equals to 0.0151 thus indicating that writing more updates on the crowdfunding project page will have a positive influence on the funding percentage. For example, an increase of 10 updates to a specific project predicts a positive impact on the funding percentage of 16%.

**Gallery:** The amount of pictures that the fundraiser had uploaded on the project page did not show significant predictive abilities towards the independent variable *Logfund*. The mean amounted to 10 pictures/project and the highest amount of pictures reached 197.

**Duration:** The p-value of below 0.01 indicates that the duration of the project has predictive abilities on the independent variable *Logfund*. The mean duration of a project in the sample from Indiegogo was 45 days, and the longest duration was 425 days. The unstandardized beta coefficient for *Duration* in the model equals to -0.0038, thus indicating that long funding periods have a negative influence on the funding percentage. For example, an increase of 30 days to the duration of the funding period will likely decrease the funding percentage by 11.4%.

**Comments:** The amount of comments that were posted on the project page of a crowdfunding campaign showed predictive abilities towards the independent variable *Logfund*, with an unstandardized beta coefficient of 0.0005 and a p-value of below 0.05. The mean amount of comments posted were 106/project, and the highest amount posted on one single project page reached to 5117. For example, an increase in the amount of comments by 100 is predicted to increase the funding percentage by 5%.
Facebook fans: Surprisingly the amount of Facebook fans did not show significantly predictive abilities towards the independent variable \( \text{Logfund} \). The mean amount of Facebook fans was 1,029 and the highest amount 42,000. The result is extremely surprising because according to theory on entrepreneurship, networking is related to higher success as an entrepreneur. In addition, Mollick’s (2013) study on crowdfunding stated that a larger amount of Facebook friends of the fundraiser should have a positive impact on the funding percentage.

No. Of contributions: The p-value of below 0.05 indicates that the number of contributions made by the fundraiser to other projects in the past has predictive abilities on the dependent variable \( \text{Logfund} \). The mean contributions made by the fundraisers amounted to 2.93 contributions and the most contributions that were made by a single fundraiser amounted to 173. The unstandardized beta coefficient for No. of contribution in the model equals to 0.0077, thus indicating that the more contributions the fundraiser has made to other projects the higher the funding percentage will be. For example, by contributing to 20 projects the funding percentage is predicted to increase by 17%.

Comments written by fundraiser (creator): The amount of comments written by the fundraiser did not show significantly predictive abilities towards the independent variable \( \text{Logfund} \). The mean amount of comments written by the fundraiser was 13, and the highest amount reached was 1,129.

Referrals: The p-value of below 0.01 indicates that referrals have predictive abilities on the independent variable \( \text{Logfund} \). Referrals could be linked to a positive reputation or trustworthiness of the fundraiser and perhaps a type of networking as well, thus having a positive impact on the success rate. The mean amount of referrals amounted to 2514, and the highest amount of referrals were 91,427. The unstandardized beta coefficient for Referrals in the model equals to \( 1.055 \times 10^{-5} \), thus indicating that higher amounts of referrals have a positive influence on the funding percentage. The influence, however, is very low as an increase in referrals by 2500 affects the funding percentage only by 2.6%. On the other hand, if fundraisers achieve 30,000 referrals, their funding percentage is predicted to increase by 37%.

Maximum perk: Is related to the highest amount of money a contributor can fund to a project in exchange for a predefined perk. Maximum perk did not show significant predictive abilities towards the independent variable \( \text{Logfund} \). The mean maximum perk
amount was $38,182 and the highest amount that a fundraiser asked in exchange for a perk was $5,000,000.

**Minimum perk:** Is related to the lowest amount of money a contributor can fund to a project in exchange for a predefined perk. Similarly to maximum perk, minimum perk did not show significant predictive abilities towards the independent variable *Logfund*. The mean minimum perk amount was $15.22, and the lowest value stated as a minimum perk was $1.

**Category of perks:** Is related to how many different options of perks the fundraiser offers the contributors. The results indicated that the category of perks did in fact show predictive abilities on the independent variable *Logfund*. The mean amount of different categories were 9.5 and the most categories displayed in one project was 76. The unstandardized beta coefficient for *Category of perks* in the model equals to 0.0125, thus indicating that the more perks fundraisers offer to contributors is positively related to the funding percentage. For example, if the categories of perks are increased by 10, the funding percentage is likely to rise by 13.5%.

**Tweets:** The number of Tweets posted by the fundraiser did not show significant predictive abilities towards the independent variable *Logfund*. The mean amount of Tweets were 150 and the highest amount of Tweets were 12,600.

**Video Y/N:** The presence of video on the project page did not show significant predictive abilities towards the independent variable *Logfund*. This finding was surprising because Mollick’s (2013) preliminary findings state that the presence of video does indeed increase the funding percentage in crowdfunding projects.
**Control variables:** The model summary shows that the control variables (category of project) explain 14.8% of the variability. By having small business as the reference, model 1 predicted changes in the funding percentage that can be summarized by Table 6 below displaying the mean funding percentage by category.

**Table 9  Mean funding percentage by category**

<table>
<thead>
<tr>
<th>Category of project</th>
<th>Mean %</th>
<th>Rank</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology</td>
<td>306.19</td>
<td>1</td>
<td>175</td>
</tr>
<tr>
<td>Design</td>
<td>208.96</td>
<td>2</td>
<td>96</td>
</tr>
<tr>
<td>Fashion</td>
<td>193.71</td>
<td>3</td>
<td>98</td>
</tr>
<tr>
<td>Film</td>
<td>116.02</td>
<td>4</td>
<td>100</td>
</tr>
<tr>
<td>Art</td>
<td>106.69</td>
<td>5</td>
<td>179</td>
</tr>
<tr>
<td>Comic</td>
<td>102.88</td>
<td>6</td>
<td>193</td>
</tr>
<tr>
<td>Small Business</td>
<td>100.68</td>
<td>7</td>
<td>192</td>
</tr>
<tr>
<td>Sports</td>
<td>91.58</td>
<td>8</td>
<td>181</td>
</tr>
<tr>
<td>Food</td>
<td>80.75</td>
<td>9</td>
<td>197</td>
</tr>
<tr>
<td>Dance</td>
<td>70.18</td>
<td>10</td>
<td>187</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>130.24</strong></td>
<td></td>
<td><strong>1598</strong></td>
</tr>
</tbody>
</table>

Noticeable is that the categories: Technology, Design, Fashion, and Film achieve much higher funding percentages in the sample than the rest of the categories. The reason could be simple; people are more interested in these categories than in the others or that the perks they offer are more desirable. In addition, as Indiegogo is an international crowdfunding platform, it is assumable that contributors are interested in contributing to the projects in the categories ranked 1 to 4 independent of their own location, which explains the higher funding percentages. On the other hand, contributions flowing into the other categories might be highly dependent on the location of the project in relation to the contributors, which explains the lower funding percentages. In other words, projects in the Dance, Food, Sport, and Small Business category might receive the majority of their contributions from individuals that are in the same area (domestic, state, city, town) as the project itself, whereas the top performing categories receive contributions from individuals around the world.
4.3 Robustness checks

The strong correlations found between Funders and Comments, and Referrals and Comments might signal multicollinearity. Therefore, the Variance Inflation Factor (VIF) for each variable was explored. The VIF for Funders was 3.5 and for Comments 3.6, which are relatively high. Thus, it was worthy to experiment, by excluding the Comments variable from a regression, in order to make sure that multicollinearity did not affect the regression results. No significant differences were found compared to the original regression results. As no significant differences were found, it was justifiable to run the final regression with all the 15 independent variables including the Comments variable. Furthermore, no signs of collinearity on the control variables were found. In addition, bootstrapping was considered to be an appropriate robustness check after exploring the residuals of the final regression. Fortunately, the findings from bootstrapping compared to the final regression found quantitatively similar results.
5 DISCUSSION

This section will discuss each hypotheses separately attempting to find reasons why these hypotheses are supported or disconfirmed, what fundraisers should take in consideration when examining these hypotheses, and comparing the results of this study to Mollick’s (2013) preliminary findings. Finally, additional findings and suggestions for further research are stated.

5.1 H1: Longer duration of the campaign is negatively related to success.

The findings in this study supports Mollick’s (2013) preliminary findings that longer durations in crowdfunding projects have a negative effect on funding success, therefore H1 is considered to find support. Mollick (2013) explained that longer durations signal a lack of urgency or excitement from the fundraiser, which would explain the outcome of both this and Mollick’s study respectively. According to this study the average length of a crowdfunding campaign on Indiegogo is around 45 days. Furthermore, an increase of 30 days to the duration of the funding period predicted a decrease in the funding percentage of 11.4 %. The impact is not relatively significant in a Keep-what-you-get model, as the fundraiser will receive some funding even though the target is not met. However, in an All-or-nothing model the impact can be a crucial factor between receiving funding or not. In Indiegogo the fundraiser has the option to choose between these models, thus it is important to acknowledge the effect before deciding on the duration of the funding period.

Someone might argue the legitimacy of Mollick’s (2013) theory that long durations show lack of urgency or excitement by stating that: because it is harder to get high amounts of funding from the crowd than low amounts, the fundraiser that asks for higher amounts must therefore have a longer funding period, in order to achieve success. In addition, it might be argued that the negative effect of duration on funding success, originates from the negative effect that high goal amounts have on funding success. In other words, assuming that high goals need longer funding periods to succeed, the explanation of why longer durations have a negative effect is directly related to the negative effect of high goal amounts. However, according to this study that is not the case, as the correlation between Goal and Duration is only 0.062 with a p-value of below 0.01.
5.2 H2: Increasing target amount is negatively related to success.

Burtch et al. (2013) stated that high fundraising goals can have a negative effect on the success of a crowdfunding campaign “because crowdfunders may perceive excessive goals to be unreachable or unrealistic” (Burtch et al., 2013, p. 11). The assumption does indeed fit the results of this study, where for example a $35,000 increase in the goal predicted the funding percentage to decrease by 15%. However, in Indiegogo where the fundraiser can choose between an All-or-nothing model and Keep-what-you-get model it is important as a fundraiser to think about the fact that even though a high goal would be stated, does it necessarily have a negative effect on the total amount of capital that is received. In other words, given that an extremely high goal is stated, the funding percentage will most likely be lower than by stating a modest goal amount, but because the fundraiser can choose the Keep-what-you-get model, the fundraiser keeps all contributions even if the goal is not reached. For example, let’s say a fundraiser posts two identical projects on Indiegogo: one operating an All-or-nothing model, asking for $100,000; the second operating a Keep-what-you-get model, asking for $200,000. The question that then arises is which project would receive more funding in terms of the dollar amount? Looking at Mollick’s (2013) findings from Kickstarter that operates only on an All-or-nothing-model it was found that; “twenty five percent of projects that are funded are 3% or less over their goal, and only 50% of successful projects are about 10% over their goal”; and “only 1 project in 9 receives 200% of its goal” (Mollick, 2013, p. 6). Assuming this is universally true in an All-or-nothing model, the first project in the example would have a low possibility to achieve much more than $100,000. On the other hand, the second project (remembering it is identical to the first project) that operates under the Keep-what-you-get model could perhaps have a much better possibility to achieve more capital even though the funding percentage would not reach 100%.

The question that arises from these thoughts is: Do contributors care if a project does not seem to reach its goal, does that affect their contribution decision in any way in a donation and reward based model? Mollick (2013) suggested that his results (that are stated above) might be related to the way crowdfunders react to other contributors, referring to the fact that contributors often stop contributing to a project as it has achieved its goal, and also do not contribute when they realize that others are not contributing to a specific project. It is important to keep in mind that Mollick (2013) studied Kickstarter, which is an All-or-nothing based crowdfunding platform, where it would make sense that contributors would be reluctant to contribute to a project which does not seem to achieve its target, because if the target is not achieved the contributor
does not get his potential reward or social acknowledgement just his money back. On the other hand, in a Keep-what-you-get model it could be assumable that this would not play a part in the contributor’s decision as he still gets the reward (or at least is promised) even though the target is not met. Therefore, we can argue that Burtch et al. (2013) statement/assumption around H2 that increasing the target amount is negatively related to success “because crowdfunders may perceive excessive goals to be unreachable or unrealistic” (Burtch et al, 2013, p.11) might only play a part in the All-or-nothing model and not in the Keep-what-you-get model.

There could be a situation where the crowd is reluctant to fund a project in the Keep-what-you-get model that does not seem to reach its target. The situation is related to the promise that the fundraiser can give regarding the delivery of the reward. In other words, if the product is already produced (Ex post facto), or if the funding is used for the production of the reward (Ex post ante). Ex post ante funding might trigger a concern in the contributor, which makes the contributor reluctant to fund if the project does not seem to reach its target, as it could delay the production of the reward. However, contributors face the same concern in All-or-nothing models if the funding is used for the production of the reward. In short, let’s say a project achieves its goal in an All-or-nothing model, the contributors cannot know if the funding is sufficient enough for a timely delivery of the reward. To elaborate, the risk is basically the same for the contributor contributing to an All-or-nothing or Keep-what-you-get model if projects are ex post ante funded.

In conclusion, it is fairly obvious that a higher goal amount would have a negative effect on the funding percentage. Most likely a project needs more funders to contribute the higher the goal, as everybody cannot be interested in one specific project, and therefore the funding percentage is lower for high goals. However, the interesting question is: Whether or not crowdfunders that contribute to projects that operate in a Keep-what-you-get model actually care if the goal seems to be unreachable or unrealistic? Furthermore, it would interesting to study whether or not Ex post ante funding influences funding percentages, or to what degree Ex post ante funding influences funding percentages compared to Ex post facto funding in the Keep-what-you-get and All-or-nothing models respectively.
5.3 Discussion on hypotheses H3a,b, and c (Preparedness)

Mollick (2013) suggested that crowdfunders act just like venture capitalists or other traditional funding sources, evaluating the quality of the product, team, and probability of success. From this perspective, the projects that show high signals of quality to the crowdfunders have a higher probability to achieve funding success. Mollick (2013) explained that one of the major quality signals in any investment setting included the quality of the preparation demonstrated by entrepreneurs. The preparation demonstrated or preparedness was “determined by the degree to which founders took the time and effort to ensure that project pitches conformed to standards for successful pitches” (Mollick, 2013, p. 8). From the perspective of crowdfunding, preparedness can be linked to the presence of video, updates, and comments written by the fundraiser. Mollick’s (2013) study found that the presence of video had a great positive effect on funding success and that updates had a modest positive effect on funding success. Mollick’s (2013) study, however, did not include comments written by the fundraiser, which were investigated in this study.

Conversely to Mollick’s (2013) study, this study found no evidence that the presence of video would have any effect on the funding percentage in the regression model. However, calculations were done on the mean funding percentage for the projects with and without video. There were 257 projects that did not display a video and 1339 that displayed a video. The mean funding percentage for the projects that did not display a video equaled to 116 percent, and the mean for the projects displaying a video equaled to 132 percent. From the mean outcomes we can make the conclusion that projects with video tend to perform on average better in crowdfunding even though the regression showed no signs of such evidence.

Similarly to Mollick’s (2013) findings, this study concluded that updates have a positive impact on funding percentage. The impact was relatively high, as an increase of 10 updates predicted the funding percentage to increase by 16%.

Comments by creator found no predictive abilities towards the funding percentage which is surprising to a degree, as it could be expected that updates and comments written by the fundraiser would have a similar influence, as they both by principle demonstrate preparedness by informing the crowd and answering to questions that the crowd may have. Perhaps the reason of the varying outcomes could originate from the degree of professionalism that fundraisers take when writing updates opposed to writing
comments, or the varying amount of professionalism that fundraisers take when writing comments. If this is the case it is understandable that the Comments by creator variable showed no predictive abilities, as a large amount of comments written by the fundraiser might have had a positive influence in some cases and a negative influence in others. It is also noteworthy that the crowd might have a negative effect on the funding percentage if negative comments are posted concerning the campaign, forcing the fundraiser to the defensive side.

5.4 Discussion on hypotheses H4a and b (Networking)

Another signal of quality that scholars suggest would have a positive influence on receiving funding in any setting is network size. Obviously, social networks provide connections to entrepreneurs that may increase the probability of success, by obtaining partners, potential customers and potential investors. However, is this influence present in crowdfunding? Mollick (2013) suggested in his study that it certainly is, by presenting the following results of the Film category of his research “fundraisers with 10 Facebook friends would have a 9% chance of succeeding, one with 100 friends would have a 20% chance of success, and one with 1000 friends would have a 40% chance of success” (Mollick, 2013, p.8).

In contrast, this study found no significant indications that Facebook fans would influence the funding percentage of a project. However, it is noteworthy that Mollick´s (2013) study examined the Facebook friends of a fundraiser, whereas this study examined the Facebook fans of the underlying project, which gives a better picture of the project´s network. The result is therefore even more surprising, as it obviously would be expected that the rising amount of Facebook fans would have a positive impact on the funding percentage. Furthermore, the number of Tweets posted by the fundraiser showed no predictive abilities towards the funding percentage, which is also surprising to a degree. In addition, it is important to keep in mind that the number of Facebook fans of each project were collected at a particular time after expiration (which cannot be specified), and not on the exact point of expiration. However, in my opinion this does not decrease the value or validity of the results in this study. To elaborate, it could be expected that projects that succeed well in crowdfunding also gain many Facebook fans after the expiration, and that projects that do not succeed well lose Facebook fans. It could also be assumable that both successful and unsuccessful campaigns gain Facebook fans after their campaign, but that successful campaigns would gain more Facebook fans
than unsuccessful campaigns. Therefore, if the number of Facebook fans would have predicted success in this sample, the effect would have been even more evident. Now as the Facebook fan amount in this study did not show predictive abilities, it is justified to demonstrate a degree of skepticism towards Mollick’s (2013) findings around these effects.

5.5 Discussion on hypotheses H5a, b, and c (Perks)

As the literature review explains, one might assume that crowdfunders that are drawn to contribute to a specific project seek to obtain a product as a reward for their contributions, and these rewards function as the sole motivational element for contribution. This said, it could be assumable that crowdfunders act in a similar way as traditional funding sources, seeking to find projects that offer a good “return on investment” given a predefined risk level. Of course, in the case of donation and reward based crowdfunding, the “return on investment” can be considered to be the monetary value of the reward in relation to the contribution amount. Therefore, assuming that crowdfunders act as traditional funding sources, it can be assumed that their willingness to contribute to a specific project is dependent on two factors. First, the number of reward options or “categories of perks”. In other words, contributors can be presented with many reward options that are offered by the fundraisers, which are related to the amount that is contributed (if $100 is contributed=keychain, if $10,000 is contributed= TV). Secondly, the monetary reward value in relation to the contribution amount. For example if a contributor has $1000 that is intended to be contributed to crowdfunding and is basically indifferent of which project to fund, either project A or project B, would chose to fund the project that provides the reward with the highest monetary value in exchange for that $1000.

Unfortunately the data set could not capture the” return on investment” quality of the projects. However, I hypnotized in the literature review that perhaps the minimum and maximum amount that can be contributed in exchange for a perk affects funding success. The regression analysis did not find evidence of maximum perk or minimum perk to have an effect on the funding percentage. However, if both the monetary value of the perk and the amount that needed to be contributed in exchange for the perk would have been stated, a “return on investment” could have been calculated. If this data were available there might be a positive relationship between the funding percentage and the relative “return on investment”. Obviously, the “return on investment (contribution)” would be
negative in a reward based model, but perhaps the projects that offer more in exchange for the contribution succeed better in crowdfunding, in the same way as entrepreneurs have better chances of receiving funding from VCs or business angels if they give up more equity.

On the other hand, H5a discussed in the literature review, that the category of perks would show predictive abilities towards the independent variable Logfund was in fact accurate. This finding might signal that crowdfunders do act to a degree like traditional funding sources, trying to find perk options that they perceive to be fair or reasonable, which explains why projects with more categories of perks achieve a higher funding percentage. To elaborate, when more categories of perks are available more people can combine their individual funding amount with a reasonable perk. Therefore, it is justifiable to state that if there are not enough categories of perks available the underlying project might lose potential funders and capital.

5.6 Discussion on additional findings

Referrals showed a positive impact on the funding percentage. The Referrals variable implies to the amount of referrals that the fundraiser has gotten, which are visible to the crowd from the project page. The impact that referrals had on the funding percentage was fairly low. However, it might indicate that contributors are aware of the amount of referrals that fundraisers hold when deciding on which project to fund. A high number of referrals is probably related to trustworthiness in the eyes of the crowdfunding community, thus attracting more contributors, and as a result higher funding percentages. On the other hand, the amount of referrals might just be an indication that the fundraiser has a lot of experience, and therefore has the knowledge of how to structure an attractive crowdfunding project, and as a result of that the funding percentage automatically rises. That is, it cannot be known if contributors are affected by the amount of referrals that are displayed on the project page, or if the amount of referrals only suggests that fundraisers have experience and knowledge, therefore achieving higher funding percentages. In addition, it could be the case that the people who have given these referrals are a large part of the contributors as well, which could explain the positive relationship of the number of referrals to the funding percentage. Taking this perspective, acquiring referrals can be regarded as a networking activity as well.
Similarly to referrals, the number of contributions made by the fundraiser to other crowdfunding projects in the past had a positive impact on the funding percentage. The impact was fairly high, as the regression model indicates that by increasing contributions to other projects by 20 the funding percentage is likely to rise with 17%. Another recent study has been conducted by Zvilichovsky et al. (2014) that concluded that “campaigns initiated by backer-owners (fundraisers that have contributed to other projects) have higher success rates, raise more money and secure pledges from a larger number of backers (contributors)” and, that these “projects also receive a higher level of backing from other backer-owners” (Zvilichovsky et al., 2014, p. 37). The fact that backer-owners receive a higher level of contributions from other backer-owners is related to the concept of reciprocity (mutual benefit). However, the question that arises is if the crowdfunding community overall is affected by the fact that fundraisers show acts of reciprocity by contributing to other projects, or if backer-owners achieve higher funding percentages and more contributions because they have gained experience how to structure successful campaigns from following the campaigns they contributed to? In other words, it could be expected that the capital coming from other fundraisers (backer-owners) is a small portion of the total target amount, and that the underlying reason that backer-owners receive higher funding percentages is based more so on the experience they have gained from contribution activities than the actual effect of illustrating how many contributions have been made to other projects.

However, it still seems evident that the number of contributions made to other projects by a fundraiser at least affects other backer-owners to contribute to that specific project as Zvilichovsky et al. (2014) state, but how significant is that effect on the funding percentage still remains unanswered.

Furthermore, the total number of comments posted on the project page showed to have a small influence on the funding percentage, and the number of pictures illustrated on the project page showed no predictive abilities towards the funding percentage. These findings are somewhat expected, as it is assumable that comments increase as the funding percentage increases, and that the number of pictures would not have a significant effect on contributor decision making. Of course, the number of pictures could to a degree be related to preparedness, but perhaps the quality of the pictures is what effects contributors the most.

Finally, Funders showed an expected, positive influence on the funding percentage.
5.7 Future Research Directions

Further research should be done on all of the Hypotheses that are included in this research. As crowdfunding is such a new way to achieve funding and evolves rapidly, the results around how these different variables influence the funding percentage may also change very quickly. Furthermore, more studies should be conducted in order to gain more evidence that either supports or adds disconfirming evidence to Mollick´s (2013) preliminary results. Unfortunately, many researchers are unwilling to produce repeat studies due to the current institutional norms, especially if the results do not signal statistical significance. Bettis et al. (2015) stated that this is a major problem in academia, as more often than not it takes only one study that indicates results with statistical significance to be considered a theory of a phenomenon. To prevent this from happening, more repeat studies should be conducted to make sure that the effect size is not ignored. In crowdfunding, the effect size can easily be ignored as scholars have published preliminary results of the nature of crowdfunding regarding different topics, and other scholars are reluctant to produce repeat studies of these topics, or publish studies with non-significant results.

Furthermore, research should be done on how different variables influence the funding percentage in a Keep-what-you-get model compared to an All-or-nothing model. The findings would provide crucial information for entrepreneurs on which actions and decisions are the most important in each model, and how the models possibly differ from each other in terms of influencing factors. As an example, research on what extent high goals influence the total capital received in an All-or-nothing-model compared to a Keep-what-you-get model using identical projects should be conducted. This proposed research would provide invaluable information for entrepreneurs when they consider which model to use or which platform to choose, and how high they should state their goal amounts, as the research would distinguish if it is worth stating a very high goal in a Keep-what-you-get model and still receive more funding than in an All-or-nothing model. To elaborate, if the goal of an entrepreneur is to receive as much capital as possible the entrepreneur would not care about the funding percentage of his project, only the amount of capital received. In addition, especially in a reward based model it is assumable that the contributor would not either care about the fact that the project does not reach its target, as the reward or social acknowledgement is still delivered (or at least promised) to the contributor. However, how to conduct this research in practice remains the big question.
In addition, questionnaires to the contributors would have a major impact in helping to understand how different variables, and why different variables influence contributor decision making processes. This thesis already discussed some cases where it is impossible to know if the information presented on the crowdfunding page influence contributors into funding, or is it purely an indication of some knowledge or experience that the fundraisers have, which affects their ability to produce attractive crowdfunding campaigns. In the thesis these variables included No. of contributions and Referrals.

Furthermore, as discussed earlier, the contributors “return on investment (contribution)” might influence the funding percentage positively. However, in this study it was not possible to conclude any results of this assumption, as the dataset did not include the monetary value of the perk, only the amount that had to be contributed in exchange for the highest and lowest valued perk (maximum perk, minimum perk). Research on this subject would provide a deeper understanding of how contributors behave in the crowdfunding community, and help fundraisers in setting the optimal incentive (perk) for each funding amount.

Finally, as this dataset captured data only after the campaigns had expired, it would be interesting to follow the campaigns over the entire funding period and investigate how different variables influence the funding percentage in each predetermined period. Thus, it could be analyzed which variable (action or decision) influence the funding percentage the most during a specific period of the campaign and determine which actions or decisions are the most important in each period. For example, it could be the case that updates are more important in the beginning and final stages of campaigns, or that offering very lucrative “return on investments” on perks in the beginning of the campaigns highly influences the funding percentage in a positive manner, which again affects other contributors to contribute to the project later on. In short, as contributors notice loads of contributions going to a campaign they might with a higher probability contribute to that specific project, even if the very lucrative “return on investment” has been withdrawn or maxed out from the underlying campaign. This assumption builds on the concept of audience inhibition, “in which people tend to rely on the overt reactions of others when interpreting an ambiguous situation” (Kuppuswamy and Bayus, 2013, p.6)
5.8 Conclusions

In conclusion, this study illustrated how different variables affect the funding percentage of crowdfunding campaigns in a Keep-what-you-get approach operating in a donation-reward based model. From the results it is noticeable that many variables affect the funding percentage, but that an individual variable in itself has a relatively small effect on the entire funding percentage. Therefore, for crowdfunding campaigns to be successful it is important to acknowledge that almost every decision or action that fundraisers make influences the funding percentage, and that the probability of success could be expected to increase rapidly if all decisions and actions are executed correctly. This said, it is also important to keep in mind that success in crowdfunding is not only related to the underlying value, attractiveness, cause, or potential of a project, instead it is more related to how fundraisers’ actions and decisions are interpreted by the contributors. Similarly, external funding sources which are, of course, provided with or attain more information on the potential and value of ventures, are also influenced by the decisions and actions of entrepreneurs in a traditional investment setting. Some might argue that it is flawed to compare similarities of the decision making processes of external financing sources to those of the contributors in crowdfunding, especially in donation and reward based models. This thesis proved the doubters both wrong and right at the same time, as preparedness showed to have a positive influence on funding success looking at the variable updates, whereas the variable comments written by fundraiser showed no predictive abilities. Furthermore, the variable video showed no predictive abilities in the regression model, although indicating positive influence after examining mean funding percentages. Networking showed similar contradicting results, as Facebook fans and Tweets showed no predictive abilities, whereas referrals (which could be considered to be a form of networking) showed a positive, although small influence on the funding percentage.

As some of the results found in this study are to a degree very surprising and contradict theory and results of other studies, perhaps the most important variables that influence funding success are in fact everything related to the rewards that are offered to the contributors. This study added supporting evidence to this assumption, by finding that the more categories of perks offered positively influence the funding percentage.

As crowdfunding grows rapidly, and more and more people start contributing to projects, it is assumable that networking does/will not have the same influence on funding success that prior studies have shown, and that the main focus of individuals contributing to
crowdfunding projects lie increasingly on the “return on investment”. In short, in a reward based model it could be assumable that as the crowd and number of campaigns increase, the effect of networking would decrease as there are more lucrative rewards offered to the crowd which overpowers the need to contribute to someone you know, Facebook friend, or Facebook fan.

As a final note, networking in crowdfunding is obviously related to marketing and to achieving awareness; however, marketing will perhaps in the end have little influence on the funding percentage in a reward based crowdfunding model if the reward is not reasonable or if other fundraisers offer much more lucrative deals to contributors. The reason is simplicity; contributors can by the click of a button find other deals that offer them more in exchange for their contributions.

In my opinion, crowdfunding will gradually walk in this direction were the incentive of the project obviously matters, and perhaps network size to a degree, but the most important determinant of success will most likely be the “return on investment” for the contributors, especially in the reward based model.
SVENSK SAMMANFATTNING

Introduktion


Crowdfunding kan vara en lösning på dessa problem och har redan förändrat finansieringen till nystartade bolag (Belleflamme, Lambert, Schwienbacher, 2013), och varför inte också till projekt som initierats av privatpersoner.

Information om crowdfundingprojekten är öppen för alla medlemmar inom plattformen. Det gör att informationen når flera potentiella investerare eller bidragsgivare än om projekten presenteras separat för varje traditionell finansieringskälla. Detta möjliggör att kapital kan med större sannolikhet insamlas snabbare och med mindre ansträngning. Dessutom kan det anses att bidragsgivarna/investerarna inte har så strikta investerings-/bidragskriterier som de traditionella finansieringskällorna. Förutom detta, är bidragsgivarna oftast mer intresserade av att få tillgång till en produkt (innan den är potentiellt tillgänglig i butiker för allmänheten) eller socialt erkännande, mer än direkt finansiell nytta (Lambert och Schwienbacher, 2010). På grund av detta kan crowdfunding också användas som ett bevis på efterfrågan (proof of concept), innan produktionen eller större produktion påbörjas. De belöningsbaserade och donationsbaserade modellerna är därför de mest populära bland de kapitalsökande och omfattar största delen av kapitalet som insamlas via crowdfunding.

Motivering av studien och syftesformulering

På grund av de svårigheter som nystartade företag möter när de försöker få tillgång till kapital via de traditionella finansieringskällorna är crowdfunding ett mycket relevant ämne för forskning. Fastän crowdfunding har vuxit med storm steg under de senaste åren, är forskningen fortfarande relativt begränsad och många entreprenörer känner inte till denna finansieringskälla. Därför är syftet med avhandlingen att minska kunskapsluckan som entreprenörer och blivande entreprenörer har om crowdfunding genom att bygga en teoretisk grund som belyser crowdfunding som en alternativ källa till kapital. Dessutom kommer en kvantitativ undersökning att genomföras. Undersökningen belyser vilka variabler som är viktiga för framgångsrik crowdfunding från den kapitalsökandes perspektiv. Därmed kommer avhandlingen omedelbart att bidra till den knappa forskningen inom crowdfunding. Avhandlingens kvantitativa forskning samt teoretiska grund bygger på en informationskälla för entreprenörer som är interesserade av följande forskningsfrågor inom crowdfunding:

1. Hur kan crowdfunding användas av nystartade företag?
2. Vilka är de viktigaste aspekterna inom crowdfunding?
3. Vilka är de viktigaste variablerna för framgångsrik finansiering och till vilken grad påverkar dessa variabler hur lyckad finansieringen i crowdfundingkampanjer blir?

Denna sammanfattning kommer till hög grad fokusera på den tredje forskningsfrågan, eftersom denna fråga är enligt min åsikt avhandlingens viktigaste bidrag. Dessutom är forskningsfrågan kvantitativt analyserad, så konkreta svar får.

**Aspekter som är viktiga att veta**


**Löptid**

Överdrivna kampanjlöptider har visat sig ha en negativ effekt på finansieringsframgången inom crowdfunding, eftersom det signalerar en brist på brädska eller entusiasm av den kapitalsökande (Mollick, 2013). Däremot kan längre
löptider också ha en positiv effekt enligt Burtch et al. (2013) för att uppnå medvetenhet om kampanjen, vilket leder till en högre finansieringsnivå. Det verkar därför som om beslutet mellan en längre eller kortare löptid bör övervägas av storleken på projektet eller företaget ifråga. För ett företag med en etablerad kundbas eller följare (followers) kan "hype" och ytterligare medvetenhet vara det primära målet för kampanjen. För ett nystartat företag kan målet däremot enbart baseras på att få nödvändig finansiering för att fortsätta sin verksamhet eller påbörja produktionen. (Burtch et al., 2013)

H1: Längre kampanj löptider påverkar framgången negativt.

**Kapitalmålet**


presenterede beloppet uppnås och inte mycket mer, eftersom bidragsgivarna slutar
finansiera ett projekt som visar sig ha uppnått sitt mål. Såklart kan det också hända att
målet inte uppnås.

H2: Ökat kapitalmål har en negativ relation till framgång.

**Kvalitetssignaler**

Att bara skriva en professionell beskrivning av sin kampanj är inte enbart tillräckligt för
att locka bidragsgivarnas uppmärksamhet, fastän kampanjen skulle vara det bästa
investerings-/ bidragsalternativet på plattformen. Mollick (2013) föreslog att
bidragsgivarna i crowdfunding agerar precis som riskkapitalister eller andra traditionella
finansieringskällor med att utvärdera kvaliteten på produkten, teamet och sannolikheten
för framgång. Utifrån detta perspektiv kommer de kampanjer som visar höga
kvalitetssignaler att ha en högre sannolikhet för framgång eftersom de lockar mer
bidragsgivare. De kampanjer som visar låga kvalitetssignaler kommer med hög
sannolikhet att inte locka många bidragsgivare. Eftersom vem som helst kan bidra till ett
projekt har kvalitetssignalerna oftast mycket stor betydelse för framgången av
kampanjer (Mollick, 2013). Det vill säga, projekt med hög kvalitet väcker bidragsgivarnas
intresse och sedan föreslår de projekt till andra bidragsgivare och media, vilket ökar
medvetenheten om projektet. Crowdfunding bygger kring detta sociala koncept,
eftersom sociala medier oftast är införlivade i plattformarna. Dessutom kan
bidragsgivarna eller medlemmar inom en plattform (individer registrerade på
plattformen som bidragsgivare eller kapitalsökande) skriva positiva kommentarer på
projektsidan för ett visst projekt som i sin tur kan öka de andra medlemmarnas vilja att
finansiera projektet. (Burtch et al., 2013)

Mollicks (2013) forskning visade att framgång i crowdfunding är relaterat till
kvalitetssignaler som visar en hög beredskap. Att göra en video av projektet, produkten,
etter tjänsten som den underliggande kampanjen utgör har en stor positiv effekt på
sannolikheten för framgång då den visas på projektsidan. Dessutom fann forskningen att
snabba uppdateringar som publiceras på den kapitalsökandes projektsida har positiv
effekt och att stavfel i beskrivningen av projekt har negativ effekt på framgång. Alla dessa
faktorer (video, snabba uppdateringar och stavfel) signalerar tydligt hur förberedd den
kapitalsökande är inför finansieringsprocessen. Dessutom kan man anta att mängden
kommentarer skrivna av den kapitalsökande i kommentarfältet (comments section)
skulle ha en positiv relation till framgång, eftersom det i princip tyder på hög beredskap,
på samma sätt som snabba uppdateringar.
I min avhandling var det möjligt att analysera mängden uppdateringar, kommentarer skrivna av den kapitalsökande och förekomsten av video.

H3a: Förekomst av video ökar framgång positivt  
H3b: Mängden uppdateringar har en positiv relation till framgång  
H3c: Mängden kommentarer skrivna av den kapitalsökande har en positiv relation till framgång

**Storleken av socialt nätverk**

En annan kvalitetssignal som forskare föreslår skulle ha en positiv inverkan på framgång är nätverkets storlek. Teori inom entreprenörskap förklarar att sociala nätverk ger kontakter till entreprenörer som i sin tur kan öka sannolikheten för framgång, genom att få partners, potentiella kunder och potentiella investerare. Dessutom kan stora sociala nätverk fungera som bevis av företagskvalitet (Shane och Cable, 2002). I crowdfunding består det sociala nätverket i många fall av majoriteten av bidragsgivarna, eftersom de är vanligtvis vänner eller familj (Agrawal et al., 2010). Därför borde storleken på det sociala nätverket påverka framgången i crowdfundingkampanjer. Mollick (2013) fann i sin studie att till exempel i kategorin Film skulle kapitalsökande med 10 Facebook-vänner ha en 9% chans att nå framgång, en med 100 vänner skulle ha en chans på 20% att nå framgång, och en med 1000 vänner skulle ha en chans på 40% att nå framgång. I denna avhandling kunde antalet Facebook fans av projektet/företaget analyseras mot finansieringsprocenten. Dessutom kunde mängden Tweets av den kapitalsökande analyseras.

H4a: Antalet Facebook fans har en positiv relation till framgång  
H4b: Antalet Tweets av den kapitalsökande har en positiv relation till framgång

**Belöningar (Perks)**

Belöningar som erbjuds till bidragsgivarna kan också ha en inverkan på framgången av en kampanj. Crowdfundingplattformen Indiegogo förklarar att kampanjer som erbjuder belöningar samlar i genomsnitt 143% mera kapital än de kampanjer som inte erbjuder belöningar. Dessutom kan belöningar locka en större mängd bidragsgivare och får bidragsgivarna att känna sig uppskattade för sina insatser, samt att sprida medvetenhet om kampanjen. (Indiegogo, 2016) Enligt min egen kännedom har ingen forskare genomfört en forskning som skulle studera påverkan av belöningar i crowdfunding. Därför bestämde jag mig för att forska i det. I denna avhandling kunde påverkan mellan
mängden belöningskategorier (category of perks variable) och finansieringsprocenten undersökas. Belöningskategorier är med andra ord mängden av olika belöningar som den kapitalsökande erbjuder bidragsgivarna. Kategorierna definieras oftast utgående ifrån den mängd kapital som ges, d.v.s. om 100 euro ges är belöningen t.ex. en skjorta och om 1000 euro ges är belöningen en telefon. Dessutom kunde den största mängden kapital som kan bidras i utbyte mot en belöning (maximum perk variable), och den lägsta mängden kapital som kan bidras i utbyte mot belöning (minimum perk variable) analyseras i relation till finansieringsprocenten. I avhandlingen analyseras varför dessa variabler skulle kunna ha en inverkan på framgång och hur bidragsgivaren värderar belöningarna. Jag kom till den slutsatsen att alla de tre variablerna category of perks, maximum perk och minimum perk skulle kunna inverka positivt på framgång.

H5a: Antalet belöningskategorier har en positiv relation till framgång
H5b: Högre maximum perk värde har en positiv relation till framgång
H5c: Lägre minimum perk värde har en positiv relation till framgång

Forskningsmetod och data


SPSS version 23 användes för alla regressionsanalyser.

Resultatredovising

Löptider

Resultaten i denna forskning stöder Mollicks (2013) preliminära resultat att längre löptider påverkar framgång negativt. Enligt min studie är den genomsnittliga längden av en crowdfunding kampanj i Indiegogo ca 45 dagar. Regressionsmodellen förutsåppte att en ökning på 30 dagar i kampanjlöptider inverkar negativt på finansieringsprocenten med 11 procent.
Kapitalmål
Resultaten i denna studie stödjer hypotesen H2 eftersom regressionsmodellen förutspådde att t.ex. en ökning av kapitalmålet med trettiofemtusen dollar inverkar negativt på finansieringsprocenten med 15 %.

Kvalitetssignaler
Förekomsten av video på projekt sidan visade inga förutspående effekter av finansieringsframgång i regressionsmodellen. Detta var mycket överraskande eftersom Mollick (2013) fann att förekomsten av video skulle ha en stor inverkan på framgång. Emellertid, visade min studie att video har en positiv inverkan om man analyserar finansieringsprocenten i genomsnitt. De kampanjer som visade video på sin projektsida hade en genomsnittlig finansieringsprocent på 132 %, medan de som inte visade video hade en genomsnittlig finansieringsprocent på 116 %.

Mängden uppdateringar av den kapitalsökande visade sig ha en positiv inverkan på finansieringsprocenten i denna studie. Inverkan var relativt hög, eftersom en ökning på tio uppdateringar förutspådde att finansieringsprocenten skulle öka med 16 %.

Mängden kommentarer skrivna av den kapitalsökande visade inga förutspående effekter mot finansieringsprocenten i regressionsmodellen. Detta var i viss mån överraskande eftersom det kunde antas att både uppdateringar och kommentarer skrivna av den kapitalsökande visar beredskap. Avhandlingen belyser några antaganden som kanske är orsaken till detta resultat.

Nätverk
Antalet Facebook fans visade inga förutspående effekter mot finansieringsprocenten i regressionsmodellen. Detta var igen mycket överraskande eftersom det var förväntat att variabeln skulle visa en positiv inverkan. Dessutom analyserades antalet Tweets av den kapitalsökande som inte är direkt relaterat till storleken av ett nätverk, men kan kategoriseras som en ”networking” aktivitet. Antalet Tweets visade inga förutspående effekter mot finansieringsprocenten.

Belöningar
Både maximum perk värde och minimum perk värde visade inga förutspående effekter mot finansieringsprocenten i regressionsmodellen. Däremot visade regressionsmodellen att antalet belöningskategorier har en positiv påverkan på finansieringsprocenten. Det genomsnittliga antalet belöningskategorier som erbjuds till bidragsgivarna var 9,5
stycken i samlet. En ökning på tio kategorier förutspådde en positiv inverkan på finansieringsprocenten med 13,5 %.

**Konkluderande avslutning**


Eftersom några av de resultat som denna studie visade var mycket överraskande och strider emot teorin och resultat från andra studier, drar jag den slutsatsen att kanske de viktigaste variablerna som förutspår framgång i crowdfunding är de facto allt som har att göra med belöningar. Denna studie visade redan att antalet belöningskategorier förutspår framgång, men den viktigaste variabeln är kanske avkastningen mot bidraget för bidragsgivarna ("return on investment"). Säkert är avkastningen negativ för bidragsgivarna i en belöningsbaserad crowdfundingmodell, men kanske de projekt som erbjuder allra mest i utbyte mot kapitalet har den största sannolikheten att nå framgång.
REFERENCES


