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What Factors Influence the Success Rate of Crowdfunding Campaigns?

A quantitative study.

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Abstract

Crowdfunding is a financing method based on raising smaller funds from a large audience over the internet. The data used in this quantitative study includes all 1080 reward and equity campaigns uploaded on the Swedish crowdfunding platform FundedByMe from 2011 to 2015. I aim at providing evidence of what factors that influence the success rate of crowd-funding campaigns. To answer this, I have run a multiple linear regression analysis by means of an Ordinary Least Squares model. I find that equity campaigns have a significantly higher chance of receiving funding compared with reward campaigns. In addition, I find significant evidence of Nordic entrepreneurs and the Swedish Krona being positively related with a higher level of success. Lastly, I find that campaigns carried out during more recent years stand a better chance of receiving funding compared to early years.

Keywords: Crowdfunding, Equity Crowdfunding, Reward Crowdfunding, FundedByMe, Success Factors in Crowdfunding, Entrepreneurship, Investments

Acknowledgements

1. Introduction

1.1 Background

In today's world, starting a company is financially complicated. Many start-ups lack an operation history, credit or experience in certain fields. This makes them less eligible for financial support from venture capitalists, angel investors and banks (Stemler 2013). In more recent years, crowdfunding has become a popular financing tool for entrepreneurs to meet with investors for funding. The concept originates from crowdsourcing and refers to a social platform, using the potential of the crowd, for funding activities (Belleflamme et al. 2014). By gathering a big group of investors, who contribute with a smaller amount of funding each, more ventures have the possibility to receive funding today (Stemler 2013). The concept of crowdfunding has been used before, but not over an online platform with a close relationship to social media (Entreprenörskapsforum 2014).

There are four different types of crowdfunding. New ventures can receive funding by selling shares (equity), receiving a loan (lending), giving out company related products or services (rewards) or receive pure donations (donations based).

In total, a lot of funding has been raised over crowdfunding platforms since the first one started in 2006. By the end of 2014, the global crowdfunding market was estimated to have injected $65 billion into the world economy, as a multiplier effect of the investments - creating more than 270,000 jobs worldwide. According to Fundable, one of the leading crowdfunding platforms, one new job was created for every $37,700 invested during 2014 (Clifford 2014). Today, there are 1250 active crowdfunding platforms worldwide (Massolution 2015).

There is little empirical research in the field, mainly because crowdfunding is a new phenomenon. Especially, there is little information about what makes campaigns successful and what drives entrepreneurs to use crowdfunding instead of other available funding options (Ahlers et al. 2015).

1.2 Purpose and Formulation of Research Question

The purpose of this paper is to examine what factors that influence the success rate of crowdfunding campaigns. Looking at a number of variables, this research aims to highlight differences between entrepreneurs and therefore also the campaigns. This includes personal aspects such as educational level, but also financial aspects such as amount of funding asked for. As a result, this study gives a clear indication of success trends in crowdfunding.

The research question is summarised as follows;

What factors influence the success rate of crowdfunding campaigns?

1.3 Disposition

The rest of the paper is structured as follows. Section 2 presents theoretical research explaining the overall phenomenon followed by empirical research discussing success factors in crowdfunding. Section 3 presents the data, the variables and descriptive statistics. Section 4 presents the method used, a model specification and a regression analysis. In Section 5, the study presents the empirical findings from the sample which are discussed in relation to earlier theoretical and empirical research. Finally, Section 6 concludes the study.

2. Existing Research in the Field of Crowdfunding

2.1 Theoretical Research about Crowdfunding

This section will explain what crowdfunding is and what problems it solves. In addition, this section will describe how crowdfunding has been growing in the world, how it fills a market gap and the benefits and drawbacks of the financing method.

2.1.1 What is Crowdfunding?

There are different definitions of crowdfunding, since it covers many uses over different disciplines (Mollick 2013). Financially, crowdfunding refers to the action of, in different ways, funnelling financing from many funders to the receivers of the funding (Almerud et al. 2013). In this study, crowdfunding is defined as a financing method based on fundraising smaller amounts from a large audience over the internet, instead of raising larger amounts from a smaller group of professional investors (Belleflamme & Lambert 2014). The funds are raised

from the general public, so called "crowd" (Lambert & Schwienbacher 2010). The internet has provided ways of using crowdfunding in a structural and convenient way (Entreprenörskapsforum 2014).

2.1.2 Crowdfunding Platforms

The crowdfunding process is built on three equally important key players, making the platforms multi-sided (Belleflamme & Lambert 2014). The first key players are the investors, the second are the entrepreneurs and the third key player is the platform connecting the first two (Almerud et al. 2013). On these platforms, entrepreneurs can upload campaigns which are pitch decks presenting the business, the funding amount wanted and what the funding collected will go towards. In these campaigns, investors can show their interest of investing. With that said, crowdfunding platforms are only social platforms and not classified as financial institutes, since the actual monetary transaction takes place outside of the platform (Mollick 2013)(Almerud et al. 2013).

Currently, four crowdfunding forms are available on the market as can be seen in Table 1. *Equity crowdfunding* gives entrepreneurs the possibility to issue shares in the company to investors, in return for a part of the company profits. *Lending crowdfunding* means that investors offer loans to the campaign owner in return for the capital back at a later stage plus interest. *Reward crowdfunding* means that the investors (called backers) receive a company related product or a service in return for their investments and lastly *Donation crowdfunding* is based on pure financial contributions from the investors (Gabison 2015).

Table 1. Different crowdfunding forms[1]

Crowdfunding Form	Description
Equity	The entrepreneur issues shares in the company to investors in return for a part of the company profits.
Lending	Investors offer loans to the entrepreneur in return for the capital back in a later stage plus interest.
Reward	Investors (called backers) receive a company related product or a service in return for their investment.
Donation	Pure financial contributions from the investors.

Table 1. The table describes the differences between the different crowdfunding forms.

2.1.3 Crowdfunding as a Solution - Filling a Financial Gap

The 2008 financial crisis had a non-proportional effect on the market economy. Consequently, it has been even harder for start-ups and small and medium sized enterprises (SME:s) to raise capital. Regional regulations make this problem even more severe (De Buysere et al. 2012). Convincing investors of the company's ability is also harder for early stage ventures, since many cannot provide a credit or professional history of the team members (Almerud et al. 2013). Angel investors, venture capitalists and banks often seek experience in entrepreneurs or companies that are in more mature stages.

Crowdfunding adds value to the financial market in different ways. First, receiving funding from many investors instead of a single one, means spreading the funding burden and therefore diversifying the risk over many people. Secondly, it also broadens the investment base

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[1] This study will focus on the two most prevailing crowdfunding forms on the market — equity and reward crowdfunding.

since it includes people with less capital. As a result, the usual funding process changes significantly. The process normally executes as follows: 1. The entrepreneurs use their own capital. 2. The entrepreneurs ask the "Three F: s" *Family, Friends and Fools* for funding. 3. The entrepreneurs seek external funding. Usually, many entrepreneurs try to avoid the third step since it means giving up control over the company. Crowdfunding simultaneously broadens step 2 and lowers the risk for the people investing. Instead of family members investing a high amount each, investments from many people can add up to the same amount (Almerud et al. 2013).

2.1.4 Global Market Size and Spread

The crowdfunding market grows at a rapid speed. During 2014, the 1250 active platforms worldwide raised over $16 billion compared to $6 billion during 2013 (Massolution 2015).

The US market is ahead of the game. This mainly because of the *Jumpstart Our Business Start-ups* (JOBS) Act, signed by President Barack Obama in April 2012. The act was created to help smaller enterprises start and expand as well as finding new financing options for these companies (Belleflamme & Lambert 2014). North America stands for the largest market followed by the Asian and European market, that both have a market share around 20% each. In Europe, Great Britain has a lead, mainly because the government supports the market financially (Funding Tree 2014).

During 2014, lending crowdfunding grew the most, followed by equity crowdfunding. In the early years of crowdfunding, reward and donation campaigns were the most popular. This since more creative or philanthropic projects were seeking funding. In contrast, more business related ventures receive funding today, mainly using lending and equity campaigns (Massolution 2015).

2.1.5 Benefits of Crowdfunding

There are many benefits related to crowdfunding. Financing over one of the platforms makes the funding process less time consuming since face-to-face interaction is almost non-existent. Therefore, crowdfunding minimises the geographical constraints of traditional funding

(Belleflamme & Lambert 2014). The entrepreneurs are in full control over their campaigns, since they can delete and consider comments and feedback from the crowd. The entrepreneurs can also decide the length of the campaign period (i.e., the financing period), the level of financing and how the projects should be financed (Gabison 2015).

According to the European Commission, crowdfunding platforms offer low interest rates, reducing the costs for the entrepreneurs and the investors. Furthermore, the risk related to each investor is smaller. Thus, crowdfunding fills another gap on the financial market since it becomes appealing to risk-averse investors (Gabison 2015).

Moreover, crowdfunding is not only used as a financing source. Crowdfunding campaigns also works as an efficient marketing tool or to prove a demand for a product or service. It can generate an interest from the crowd and since the campaigns are often related to social media platforms, the possibility of spread is enormous. The campaign can also be used to get interest from venture capitalists, angels or banks that can finance the venture at a later stage. Crowdfunding platforms often offer great relationships between entrepreneurs and investors, expanding the important network of the entrepreneur (Mollick 2013).

2.1.6 Drawbacks of Crowdfunding

One of the biggest problems within funding, both traditional and new, is the asymmetry of information. This occurs because the key players have access to different degrees of information. Since the campaign is based on an online platform, the personal interaction is reduced massively. This means that investors are not given the same chance to get to know the entrepreneur. As a consequence, the entrepreneur can exaggerate or lie about the project to a larger extent (Gabison 2015). On the other hand, investors on crowdfunding platforms are in general less educated about the market and funding processes, which can result in entrepreneurs disclosing more information (Schwienbacher & Larralde 2010).

Moreover, many entrepreneurs lack knowledge about how to create an optimal campaign and how to market it. Since this can be very time consuming, there is a risk of entrepreneurs focusing on the campaign instead of the actual innovation (Gabison 2015).

Critics of crowdfunding mention the "wisdom of the crowd" as a potential problem. Inexperienced investors tend to use decisions of others as an indication of the quality of the company. For this reason, many campaigns are in need of experienced "lead investors" who invest in the campaign during the first day of the campaign period. As a result, they prove to the crowd that the venture has potential. However, receiving this initial funding can be hard for many start-ups, since inexperienced entrepreneurs often lack a sufficient network (Funded-ByMe 2015). However, Surowiecki (2005) states that the crowd acts smarter than individuals, as long as it is, inter alia, based on a diverse group of people.

Furthermore, traditional institutions do quality checks more properly than crowdfunding platforms do. Crowdfunding is, in some cases, known for being a financial last resort attracting ventures that could not receive traditional funding. The crowd is not an expert in investing and even though one *can* raise capital through crowdfunding, it is not equal to the project having great chances in the future (Gabison 2015).

Lastly, one of the biggest threats for crowdfunding platforms is the risk of fraud. Handling everything online opens up doors for fake campaigns and companies. However, Ingram et al. (2013) state that a study made on the world leading platform Kickstarter revealed that the "fraud rate" was only 3.6%, which was only 0.05% of the funding raised over the platform. Different platforms have different levels of quality controls of the campaigns, meaning that the risk of fraud is potentially higher on the ones with fewer controls. This can result in more risk-averse investors choosing the ones with a higher degree of control.

2.2 Empirical Research Analysing what Factors that Influence the Success Rate of Crowdfunding Campaigns

There are few previous studies discussing the underlying factors of crowdfunding success. Those that exist mainly focus on social capital, funding goal and geolocation. Most studies focus on the US, where crowdfunding is an established phenomenon. Many US based platforms only offer *reward* and *donation* crowdfunding since the donation culture is recognised.

Mollick (2013) made a study based on all campaigns uploaded on the platform Kickstarter

between 2009 and 2012; seeking answers to why some campaigns succeed and other do not. Mollick performed a logistic regression on 48,500 funding efforts. First he examined the social capital of the entrepreneur by using a log on the number of the entrepreneur's Facebook friends. Secondly, he measured high campaign quality by looking at if the entrepreneur included a video in the campaign and if he or she did updates within three days of launching. Also, he identified spelling errors. His results show that there is a positive correlation between the social network size and the success of the campaign. The same result holds for high campaign quality and the campaign success.

Ibrahim (2015) states that there is a clear link between geographical proximity and the rate of investments. This is because it reduces some of the investor risk in traditional financing. Mollick (2013) states that geography *may* play an important role regarding the success rate even though the actual crowdfunding process takes place online. Since having a large social network is positively correlated with success in the study, one could assume that the proximity to these people is crucial.

Moreover, Agrawal et al. (2011) examined all *investments* made into the crowdfunding platform Sellaband between August 2006 and September 2009, seeking answers to how geo-location and funding success are related. A linear probability model was performed in the study. They notified if the entrepreneur's location was crosschecked with other personal sites such as Facebook. The study states that crowdfunding enables investments over long distances. However, the results also showed that proximity to investors is important for entrepreneurs when receiving funding. In addition, the location in itself can have an effect on the actual success, since it can have characteristics that would make the entrepreneur more successful (Knudsen et al.2007).

Giudici et al. (2012) also researched the effect of geography. This based on 461 projects made by 699 individuals or associations on eleven Italian crowdfunding platforms. Giudici et al. used a probit model, with *success* as a dummy variable. They used the entrepreneur's Facebook profile in order to decide the geo-location of the entrepreneur. On the contrary, they found that geography *has no* significant effect for the success.

Ahlers et al. (2015) cover the signaling in *equity* crowdfunding. To see what affects the numbers of investors, they performed a binomial regression on the 104 campaigns uploaded on the Australian platform ASSOB from October 2006 to October 2011. Secondly, the authors performed an Ordinary Least Squares regression to test for what affects the absolute funding amount. First, the research team found that smaller projects are more likely to be financed. Further on, the study focused on the entrepreneur's qualities by looking at the number of people with a Master of Business Administration Degree (MBA) in every team. Their results showed significant evidence that teams including a higher number of people having MBA degrees, stand a higher chance of attracting a higher number of investors. In addition, they studied the level of uncertainty in the campaigns. They confirmed their hypothesis that a higher level of uncertainty results in a smaller likelihood of receiving investments, since investors do not have full information about the risks.

Lastly, in parallel with the "sharing economy" establishing, it becomes clear that traditional institutions are losing power when companies take advantage of connecting peers. If one can live in another person's house (AirBnB) or let another individual drive you to the airport (Uber, Lyft), there is nothing stopping people from funding another person's project (Belleflamme & Lambert 2014).

My study touches on similar subjects as to the ones presented. However, the samples used are significantly different. The publications mentioned focus on platforms offering different crowdfunding forms in different parts of the world. For that reason, this study is unique.

3. Data

3.1 FundedByMe

This section presents the data, which is collected from FundedByMe, the first crowdfunding platform to be launch in Sweden (Ingram et al. 2013). FundedByMe started in 2011 and since then, the platform has raised over 12,000,000 EURO to 421 companies. Presently, the platform has around 57,000 members from 166 countries and investors from over 75 different countries. The company has its headquarter in Stockholm, Sweden. The platform has not closed any campaign without having investors from outside of Sweden on board. The plat-

form started by only offering reward crowdfunding, but introduced equity crowdfunding in 2012. In 2015, lending crowdfunding was introduced on the platform (Frohde 2015). The Compounded Annual Growth Rate (CAGR) between 2012 and 2014 was 449% (Gromek & Lundqvist 2015). FundedByMe has an 83% market share on the Nordic market, meaning that this study is extensive and formulates the behaviour on that whole market (Frohde 2015).

3.2 Variables

I have received data on all 1095 approved *equity* and *reward* campaigns on Fundedbyme.com since the start in April 2011 to June 2015. Out of these, I have chosen to only include the ones containing full information. The final sample consists of 1080 campaigns. Due to the majority of the data coming from FundedByMe, the data is reliable and reflects the company and market in a correct way.

The data received from FundedByMe includes information about the campaign name, the funding goal, the actual amount raised and the different currencies used. Moreover, I received data on the campaign type used, campaign category and lastly the country from where the entrepreneur created the campaign.

By using LinkedIn and Facebook, I have collected data on the educational level of the entrepreneur and if he or she has started a company before the campaign.[2] The extra data collected also includes the gender of the entrepreneur, based on his or her name.[3] Lastly, I added information about what year and season the campaign went live.

The following part will explain the dependent and independent variables. All financial variables are expressed in the Swedish Krona, converted with the exchange rate of 08/09 2015.

Dependent Variable

In order for me to answer the research question, I have examined how much percentage funding the entrepreneurs received during their campaign periods. I have used *percentage funded*

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[2] LinkedIn is a social web based service for professionals and Facebook is a social platform.

[3] In some cases where uncertainties about the name occurred, I have compared the name with the LinkedIn profile picture.

as the dependent variable, representing the success level of the campaign. This continuous variable is the proportion of money raised compared to the funding goal.

One potential problem with the dependent variable is that it can be influenced by the funding goal, and not only the actual quality of the campaign. For instance, two campaigns based on the same idea, asking for different amounts of funding, can receive different funding percentages.

Alternatively, I could have performed a logistic regression where the dependent variable *success* would be dichotomous. This would also give clear results on what influences success in crowdfunding. However, due to the design of the regressions, a campaign receiving 99% funding would be classified as unsuccessful. Therefore, I have chosen to perform a robust OLS regression analysis in order to utilise the exact percentage levels given.[4] It will explain "success" in a more accurate way, since the results will explain what took the campaign close to 100% or received more than that. This statistical approach makes better use of the information in the data as compared to a logistic regression.

Independent Variables

Funding Goal: One of the variables that could affect the level of success is the amount of funding the entrepreneur is seeking. One could argue that it would be easier to raise smaller amounts of funding. Ahlers et al. (2015) concludes that smaller projects have a better chance of being funded compared to larger ones. It is important to see if this study gives the same result.

Campaign Type: Moreover, the data includes the campaign type used by the entrepreneur. In this study, campaign type is a dummy variable, where 0 denotes equity campaigns and 1 denotes reward campaigns. Campaign type can be related to the funding goal, since more business related ventures could be assumed to ask for more funding. The expected result is that equity campaigns have an advantage compared to reward campaigns due to the development of the market. This variable will be referred to as *Reward* later on in the text.

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[4] The robust OLS model controls for heteroscedasticity.

Gender: This variable represents the gender of the entrepreneur. There are more male entre-preneurs using the FundedByMe platform and it is important to examine if this is because male entrepreneurs receive more funding than female entrepreneurs. Gender is a dummy variable where 0 denotes male and 1 denotes female. This variable will be referred to as *Women* later on in the text.

For all the categorical variables (the ones not only denoted as 0 or 1), one observation is used as a reference (denoted with an asterisk). The other observations within these variables will therefore be significant or not significant in relation to this observation.

Currency: The next variable is the currency the entrepreneur was seeking money in. The ones used are the EURO*, the Swedish Krona (SEK), US Dollars (USD) and Norwegian Krone NOK.[5] Campaigns using "larger currencies" such as the EURO might be more successful on the international arena, in different campaign categories or campaign types. Possible is that larger currencies are used by more business related ventures (regardless of country of the en-trepreneur) and smaller currencies used by entrepreneurs aiming for a localised crowd in the Nordic countries.

Campaign Category: The entrepreneur has to choose a category in order to upload a cam-paign. FundedByMe offers many categories, but to make the data more comprehensible, I have divided these into eight "parent categories". [6]

- Technology*
- Art (architecture and design, art, dance, fashion, film, journalism, music, photography, theatre, writing/publishing)
- Food (food, restaurant, café)
- Retail/Service (retail, services, consumer products)
- Society (schools, education, community, health care, politics)
- Business (business, finance, start-ups, social entrepreneurship)

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[5] EURO*= SEK 9.41, US Dollars = SEK 8.41 and Norwegian Krone NOK = SEK 1.02.

[6] The first word represents the "parent category" followed by the original categories the entrepreneur can choose between on the platform in parentheses.

- Other (sport, fitness, travel, media, entertainment, other, charity)
- Internet/Gaming

It is of interest to know if different categories perform differently on FundedByMe. This since it can give an idea of what investors prefer to invest in. The campaign category is related to what campaign type the entrepreneur has chosen and for that reason, a possible result is that the categories mainly used in equity campaigns are the most successful.[7]

Country: This variable represents the country from where the entrepreneur managed the campaign. I have divided the countries up into different categories based on seven geographical areas.

- The Nordic Countries
- Rest of Europe
- Global (not mentioning any specific areas)
- North America*
- South America
- Asia
- Africa

FundedByMe is an international platform, even though the majority of the entrepreneurs and investors are from the Nordic countries.[8] As a speculation I would suggest that investors from the Nordic countries prefer to invest in and support companies from their home countries. This variable tests for the effect of geography in crowdfunding.

Starting Year: The crowdfunding market has been growing massively during more recent years. Henceforth, one could argue that campaigns created during later years would have an advantage compared to campaigns going live during the inception. This since crowdfunding has been acknowledged and accepted by market actors. The time period ranges from 2011* to

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[7] See Table 3 in Section 3.3 Descriptive Statistics.

[8] See Table 3 in Section 3.3 Descriptive Statistics.

2015.

Starting Season: This variable tests for if investors invest more during certain seasons. One could assume that seasons including longer holiday periods would be bad for investments, since people can be assumed to spend less time online.

- Winter* (December, January, February
- Spring (March, April, May)
- Summer (June, July, August)
- Fall (September, October, November)

Maximum Educational Level: Empirical findings by Backes-Gellner and Werner (2006) state that a university degree works as a strong signal in traditional financing. Ahlers et al.'s (2015) results show that human capital is positively related with a higher funding level. For this reason, I have decided to include the entrepreneur's highest level of education as a variable. I have denoted the educational level as presented on his/her personal LinkedIn profile.[9] There are four educational levels in this study.[10] The first is High School, followed by Bachelor (or university studies even though a degree was not read for), Master and Post-Doctoral Studies or a Master of Business Administration (PhD/MBA). Possible is that higher levels of education are related with higher levels of funding, since an education can increase professionalism and broaden a professional network.

Experience: This variable states if the entrepreneur has prior experience of starting a company or not. Entrepreneurs having prior experience, can be assumed to have an advantage since they have knowledge about financing processes. As for educational level, this data is found on the entrepreneur's personal LinkedIn profile.[11] Experience is a dichotomous variable where 0 denotes "no prior experience" and 1 denotes "prior experience".

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[9] In some rare cases I used the entrepreneur's Facebook profile.

[10] Educational levels are compared to studies prior to High School.

[11] The entrepreneur is considered as "Having experience" if the entrepreneur entitled himself or herself as Chief Executive Officer (CEO), Founder or Co-Founder.

There are some limitations to the last two variables. Due to many people not having LinkedIn profiles, some observations have missing values. This is *not* necessarily equivalent to these entrepreneurs not having an academic degree or prior experience. Also, the LinkedIn profiles might not be updated, giving misleading results.

Moreover, the data does not make difference between companies that have been operating before the campaign and companies that are completely new. If a company has been on the market prior to the campaign, one could assume that the product/service is recognised by the market. Moreover, the data does not take into consideration if these companies have been funded prior to their crowdfunding round or not. For future research, this could be an interesting approach to take on.

3.3 Descriptive Statistics

The following text presents the data in figures, in order for the reader to get a clear overview. In some campaigns, the entrepreneur has stated the company name or something else instead of a personal name. Henceforth, information about the entrepreneur was not found in all cases. This is one of the reasons why some figures below do not add up to the number of observations (1080).

In Table 2, descriptive statistics of the financial variables are presented. Out of the 1080 observations examined, the average funding goal is: 238,600 SEK compared to the average value of money raised, which is 95,500 SEK. The average percentage funding received is 32%, which is a relatively small number compared to full funding. The campaign that received the highest percentage funding collected 1780% of the funding goal. The highest amount of capital collected is 11,800,000 SEK and the highest funding goal 20,000,000 SEK.

Variable	Mean	Std. Dev.	Minimum	Maximum
Percentage Funded	32 %	89,33%	0%	1780%
Funding Goal Amount	238,600	977,000	0	20,000,000
Amount of Money Raised	95,500	618,400	0	11,800,000

Table 2. Descriptive statistics about Percentage Funded, Funding Goal and Money Raised.

In Table 3, descriptive statistics for the rest of the variables are presented based on campaign type. The majority, 67% used SEK as currency for raising funds, followed by 25% using the EURO, 5% using the USD and 2% using the NOK. The same results hold for reward campaigns alone, but for equity campaigns, the EURO is most frequently used.

Out of the 1080 campaigns, 987 are reward campaigns and 93 equity campaigns. The majority of the campaigns are in the category arts, followed by other and internet/gaming. However, these results differ if looking at the separate campaign types. The same order holds for reward campaigns, but for equity campaigns retail/service is the most popular category and arts is second. This aligns with empirical research about crowdfunding, since more entrepreneurs do reward campaigns for a creative purpose and equity campaigns for more business related ventures (Massolution 2015).

The majority, 85%, of the campaigns are made by entrepreneurs from one of the Nordic countries followed by 6% made by entrepreneurs from other countries in Europe.

Moreover, most entrepreneurs have a bachelor's degree as their highest educational level (33%), followed by a master's degree (18%). Only 2% of the entrepreneurs have a PhD or an MBA. However, if looking at the separate campaign types the distribution of higher educational levels differ. 31% of the entrepreneurs carrying out equity campaigns have a master's

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[12] More descriptive statistics about these variables are presented in Table 5a in the appendix.

degree and 7% a PhD/MBA. This compared to entrepreneurs doing reward campaigns, where 16% have a master's degree and only 2% a PhD/MBA.

13% of the entrepreneurs have started a company prior to their campaign. It should be high-lighted that 34% of the entrepreneurs starting an equity campaign have prior experience compared to 10% for reward campaigns. 622 campaigns are created by men and 348 by women. Men created the majority of the equity campaigns, but the difference is not as significant for reward campaigns.

Most campaigns went live during 2012 (38%). In 2013, 22% of the campaigns went live followed by 17% during 2014 and 8% during 2015 (even though the data only covers January until June). Most campaigns went live during spring, but the differences between the four seasons are not substantial. One can see a significant difference in the trends of the campaign types over time. As the data shows, the number of equity campaigns increases every year compared to the number of reward campaigns that decreases.

Table 3. Displays the binary and categorical variables divided up in campaign types.[13]

Variable	Equity = 93		Reward = 987	
Currency	EURO = **68**	SEK = **22**	EURO = **202**	SEK = **705**
	USD = **0**	NOK = **3**	USD = **57**	NOK = **23**
Category	Technology = **8**		Technology = **35**	
	Arts = **23**		Arts = **420**	
	Food = **6**		Food = **42**	
	Retail/Service = **34**		Retail/Service = **52**	
	Society = **0**		Society = **1**	
	Business = **4**		Business = **86**	
	Other = **14**		Other = **262**	
	Internet/Gaming = **4**		Internet/Gaming = **89**	

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[13] More descriptive statistics about these variables are presented in Table 6 in the appendix. Also, some of the data is illustrated in Graph 1, 2 and 3 in the appendix.

Variable	Equity = 93		Reward = 987	
Country	North America = **1**		North America = **23**	
	The Nordics = **78**		The Nordics = **842**	
	Global = **0**		Global = **11**	
	Rest of Europe = **12**		Rest of Europe = **48**	
	South America = **0**		South America = **5**	
	Asia = **1**		Asia = **23**	
	Africa = **0**		Africa = **31**	
High School	**2**		**50**	
Bachelor	**40**		**316**	
Master	**29**		**161**	
PhD/MBA	**7**		**17**	
Gender	Male = **74**	Female = **19**	Male = **548**	Female = **329**
Experience	**32**		**103**	
Starting Year	2011= **0**	2014 = **38**	2011 = **176**	2014 = **144**
	2012 = **8**	2015 = **29**	2012 = **402**	2015 = **44**
	2013 = **17**		2013 = **220**	
Starting Season	Winter = **16**	Summer = **16**	Winter = **208**	Summer = **248**
	Spring = **34**	Fall = **26**	Spring = **286**	Fall = **244**

Table 3. Descriptive statistics of the majority of the independent variables.

4. Method

4.1 Regression Analysis

This study aims at providing evidence on what factors that influence crowdfunding success. I have performed a multiple linear regression, using an OLS model. The standard errors are robust. Data Set 1 includes a subset of all variables and Data Set 2 includes all variables. [14],[15]

4.2 Model Specification

The robust OLS regressions are specified as follows:

Data Set 1:

$$Percentage\ Funding_i\ =\ \alpha\ +\ \beta_1 * Funding\ Goal_i + \beta_2 * Currency_i + \beta_3 * Reward_i + \beta_4 * Category_i + \beta_5 * Country_i + \beta_6 * Women_i + \beta_7 * Starting\ Year_t + \beta_8 * Starting\ Season_t + \varepsilon_i$$

Data Set 2:

$$Percentage\ Funding_i\ =\ \alpha\ +\ \beta_1 * Funding\ Goal_i + \beta_2 * Currency_i + \beta_3 * Reward_i + \beta_4 * Category_i + \beta_5 * Country_i + \beta_6 * Women_i + \beta_7 * Starting\ Year_t + \beta_8 * Starting\ Season_t + \beta_9 * High\ School_i + \beta_{10} * Bachelor_i + \beta_{11} * Master_i + \beta_{12} * PhDMBA_i + \beta_{13} * Experience_i + \varepsilon_i$$

4.3 Missing Values Analysis

Due to some variables having many missing values (mainly educational level and experience), some observations are excluded. When examining Data Set 2, only 577 observations are included. FundedByMe requires more personal information about the entrepreneur if doing an equity campaign compared to a reward campaign (FundedByMe 2015). Investing

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[14] Out of the prior empirical studies made on this subject, the majority have performed a logistic regression. In these studies, the authors have classified campaigns as successful if reaching a specific level of funding. These studies only seek answers to why some campaigns are successful or not, instead of focusing on the level of success. However, to make this study as fully covering as possible, I have performed a logistic regression as well. In this model, success is a dichotomous variable denoted as 1 if the campaign reached over 80% funding and 0 if below 80%. The choice of 80% is because FundedByMe counts all campaigns reaching this level as successful. The results from this model are qualitatively similar to the results in the OLS model. For this reason, I have used the OLS regression since it utilises the data in a better way.

[15] As stated earlier, some variables are treated as binary and some as categorical. In STATA, this has been counted for by letting the program know what variables are categorical and those which are not. If not informing STATA about this, the program values a category with a higher number as "better", instead of just using the number as a category. Some variables (category, country, gender, educational level, experience, starting year and starting season) were transformed into numerical values since STATA initially treated them as string variables.

in an equity campaign involves greater risk and therefore, investors want information about the entrepreneur and his or hers capabilities of succeeding. For this reason, people carrying out equity campaigns tend to have LinkedIn profiles. In Data Set 2, 83% of the equity campaigns are included compared to 54% of the reward campaigns. In other words, a larger proportion of the equity campaigns are represented. However, during the data collection there were no other systematic signs of some entrepreneurs being more likely to have LinkedIn profiles than others. Also, the sample means and spread are similar, indicating that Data Set 2 is representative of Data Set 1.

4.4 Regression Results

In Table 4, the results from the regression analyses are presented. The dependent variable, percentage funded, is continuous and represents the success level. The first column presents the results from Data Set 1 and the second column presents the results from Data Set 2. The variables included in both data sets are identical. The standard errors are robust.

Table 4. Regression Results. The first figure represents the coefficients followed by the robust standard errors in parentheses.

VARIABLES	Data Set 1 Percentage Funding	Data Set 2 Percentage Funding
Funding Goal	-2.37e-08 (1.62e-08)	-8.83e-09 (1.37e-08)
SEK	0.151*** (0.0432)	0.137** (0.0532)
USD	0.142 (0.092)	0.128 (0.139)
EURO	0.167 (0.117)	0.208 (0.176)
Reward	-0.316*** (0.0740)	-0.352*** (.0733)
Arts	0.0048 (0.0887)	-0.0408 (0.105)
Food	0.0881 (0.1125)	0.0008 (0.135)
Retail/Service	0.080 (0.124)	-0.012 (0.1179)
Society	-0.0227 (0.127)	0.0241 (0.1241)
Business	-0.127 (0.091)	-0.1479 (0.1064)
Other	0.0756 (0.0942)	0.116 (0.1184)
Internet/Gaming	-0.180 (0.096)	-0.040 (0.1100)
The Nordic Countries	0.158* (0.087)	0.2058** (0.1029)
Global	0.261 (0.159)	0.359** (0.1748)
Rest of Europe	0.119 (0.095)	0.174 (0.1156)
South America	-0.129 (0.0946)	-0.0555 (0.095)
Asia	0.018 (0.0966)	0.0325 (0.119)
Africa	0.146 (0.1173)	0.376** (0.167)
Women	0.02 (0.0503)	-0.029 (0.047)

VARIABLES	Data Set 1 Percentage Funding	Data Set 2 Percentage Funding
2012	0.056 (0.046)	0.039 (0.055)
2013	0.182** (0.0839)	0.079 (0.065)
2014	0.085 (0.0661)	0.068 (0.084)
2015	0.228** (0.1003)	0.216** (0.1089)
Spring Months	-0.039 (0.0580)	-0.104* (0.061)
Summer Months	-0.0037 (0.0521)	-0.039 (0.0704)
Fall Months	0.001 (0.0744)	-0.146** (0.058)
High School	-	-0.205** (0.966)
Bachelor	-	-0.051 (0.0918)
Master	-	-0.024 (0.881)
PhD/MBA	-	-0.130 (0.104)
Experience	-	0.017 (0.0516)
Constant	0.2332 (0.169)	0.396 (0.1979)
Observations	962	577
R-squared	0.0445	0.1098

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

5. Empirical Findings and Discussion

In this section, the empirical findings of what variables that influence the success rate are presented. Section 5.1 will analyse and discuss the empirical findings and Section 5.2 will compare the results to earlier empirical research.

5.1 Empirical Findings

The results from Data Set 2 will be presented in parentheses after the results from Data Set 1.

To start with, the variable reward shows *strong* statistical evidence of being negatively related with the success rate on a 1% confidence level. These campaigns have a 32 percentage points (35) lower chance of receiving funding compared to equity campaigns.

The Swedish Krona (SEK) is positively related with a higher success rate on a 1% confidence level (5%), compared to the EURO. If using the SEK, the entrepreneur has a 15 percentage points (14) higher chance of receiving funding.

Moreover, the Nordic countries show statistical significance of being positively correlated with a higher success rate in both data sets (on a 10% confidence level, respectively 5% confidence level). Economically, entrepreneurs from these countries have a 16 percentage points (21) higher chance of receiving funding compared to entrepreneurs from North America. In Data Set 2, entrepreneurs from African countries and the ones denoted "Global", prove to be positively significant on a 5% confidence level. These entrepreneurs have a 38 percentage points higher chance of receiving funding, respectively 36 percentage points, compared to entrepreneurs from North America. However, one cannot draw any conclusion about why this would be the case based the added variables in Data Set 2.

Moreover, 2013 and 2015 show significant evidence of being positively correlated with the success rate on a 5% confidence level (only 2015 in Data Set 2). Compared to 2011, campaigns that went live during 2013 had a 18 percentage points higher chance of succeeding and campaigns starting during 2015, 23 percentage points (22).

Starting season is significantly positively related with the success rate in Data Set 2. Compared to starting a campaign during winter, campaigns starting during spring are statistically negatively related with a higher success rate on a 10% confidence level. Economically, these campaigns have a 10 percentage points lower chance of receiving funding. The same holds for campaigns starting during fall that also are statistically negatively related with the success rate on a 5% confidence level. These campaigns have a 15 percentage points lower chance of receiving funding. However, further research needs to be made on analysing why starting season is only significant in Data Set 2. No conclusions can be drawn based on just adding the variables educational level and experience.

In Data Set 2, High School show statistical evidence of being negatively related with a higher success rate on a 5% confidence level. Entrepreneurs having a High School Degree have a 21 percentage points lower chance of receiving funding compared to lower educational levels.

There is no significant empirical evidence of funding goal being positively related with the success rate. None of the categories show any significant evidence of being correlated with a higher success rate (compared with technology), neither does gender or experience.

5.2 Analysis of Empirical Findings and Discussion

This part will analyse the data from section 5.1 and compare the results to the previous empirical research presented in Section 2. Firstly, I want to remind the reader that differences in the results between my study and earlier studies may be a consequence of this study defining the dependent variable as continuous and not dichotomous. This even though the results from the logistic regression made in this study showed qualitatively similar results to the OLS model.[16]

The fact that there is strong significant evidence of reward campaigns having a lower chance of receiving funding compared to equity campaigns, aligns with my expectations. Earlier research shows that crowdfunding is undergoing a clear trend of attracting and funding more

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[16] In order to make sure that some variables do not affect each other I have performed some extra models. The results from these models will be presented in the appendix and referred to in the text.

business related projects, increasing the number of equity campaigns (Massolution 2015). This goes hand in hand with my data showing that the number of equity campaigns is increasing and the number of reward campaigns decreasing. One reason could be that investors prefer to invest in equity campaigns since more information about the entrepreneur is disclosed (FundedByMe 2015). This mitigates the information asymmetry and gives the investors a better idea of the risks involved.[17] In addition, FundedByMe charges a listing fee for equity campaign, attracting only serious entrepreneurs (FundedByMe 2015). It is worth mentioning how the campaign type and funding goal affect one another. As can be seen in Table 9 in the appendix, reward campaigns are negatively related with the funding goal. In summary, entrepreneurs doing equity campaigns tend to seek more funding than entrepreneurs doing reward campaigns.

Entrepreneurs using the SEK have a higher chance of receiving funding compared to the EURO. However, one should discuss what the variable is actually measuring. Even though there are far more countries listed (70+) in the data than currencies used (4), I have to make sure that the variables country and currency are not measuring and confirming the same results.[18] For example, a campaign could be assumed to be led by a Swedish entrepreneur, based on both currency used and the country of origin. However, the choice of currency could differ depending on what audience the entrepreneur is aiming to reach. Without drawing any precipitate conclusions, a Swedish campaign using the EURO could attract more international investors and one using the SEK could attract more localised investors.

In addition, the results show big differences in the currency chosen depending on the campaign type.[19] Nordic entrepreneurs led 84% of the *equity campaigns* on the platform (where 73% of this figure were from Sweden). Therefore, it is surprising that 72% of these entrepreneurs used the EURO and only 24% the SEK. Retail/service, the most popular category among equity campaigns, is led by a majority of entrepreneurs from the Nordic countries.

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[17] FundedByMe requires more information about the entrepreneur when doing equity campaigns compared to reward campaigns, both financially and personally.

[18] This discussion is based on Table 7 in the appendix.

[19] This discussion is based on Table 8 in the appendix.

Still 61% of these campaigns used the EURO.

On the contrary, 65% of all entrepreneurs doing *reward campaigns* used the SEK as a funding currency, compared to the EURO used by 19%. The most popular category in reward campaigns is arts, which is dominated by entrepreneurs using SEK (76%). This can be linked to more reward campaigns doing more creative projects. The category arts includes theatre, dance, film, photography , etc., which could be assumed to attract a localised crowd. For this reason, it *could* be beneficial for Swedish entrepreneurs carrying out reward campaigns to use the SEK instead of the EURO and vice versa for entrepreneurs doing equity campaigns looking for a more international crowd. Since more reward campaigns are carried out on the platform, it is not surprising that the SEK has an advantage compared to the EURO. However, these results will probably change in the future due to entrepreneurs carrying out equity campaigns using the EURO more frequently. Hence, the variables currency and country are both included since they do not measure the same attributes.

As earlier research shows, there are uncertainties about the effect of geography on crowdfunding success. This study finds that geolocation has an effect for the level of funding. Since FundedByMe has its headquarter in Sweden, it is expected that entrepreneurs from the Nordic countries have an advantage compared to entrepreneurs from North America. It is easier for these entrepreneurs to have personal contact with the platform and investors, even though the company offers international support. Data Set 2 shows that African entrepreneurs and entrepreneurs that denoted "Global" have an advantage compared with entrepreneurs from North America, but I cannot prove what the reason behind this is.

Moreover, Belleflamme and Lambert (2014) state that there is no doubt about crowdfunding developing into an important financing option for start-ups that the traditional financing sector cannot ignore. As the market becomes more established and receives more market recognition, more people turn to crowdfunding. This aligns with the results from the data, since more recent starting years are related with a higher success rate. Why 2014 is not significant in any of the data sets, and only 2015 is significant in Data set 2 is harder to explain. Any conclusions about a correlation between the variables added in Data Set 2 and certain years

not being significant cannot be made.

In addition, one could assume that people tend to use the Internet less during longer holiday periods, such as the summer, which would result in fewer investments on the platform. Surprisingly, season is only significant in Data Set 2 and there is only significant evidence of spring and fall being negatively related with the success rate (compared to winter). Based on this research, one *cannot* make any clear conclusions about these results.

Furthermore, Ahlers et al. (2015) studied the effect of human capital and work experience on crowdfunding success. They studied both variables by looking at the number of team members holding an MBA degree, since these students are required to have work experience (Ahlers et al. 2015). More people start their own companies after pursuing an MBA degree (Martin 2014). Based on this information, one could assume that MBA programs attract people with an entrepreneurial mind-set, who most likely have prior experience of starting companies. Ahlers et al. (2015) found that teams with higher number of people holding an MBA degree, results in higher number of investors. Even though the success rate and number of investors do not necessarily correlate, one could assume that it generally does. This is because one of the goals of crowdfunding is receiving investments from a broader group, which generates a higher funding percentage (Almerud et al. 2013). On the contrary, the results from this study show the opposite. High School showed significant evidence of being negatively related with the rate of success, meaning that entrepreneurs with a High School Degree have a lower chance of receiving funding compared to entrepreneurs with lower levels of education. The other levels of education show no significant results. One explanation could be that there is little general knowledge of how to succeed in crowdfunding. As a result, it is irrelevant if the entrepreneur has an academic degree or entrepreneurial experience. Another reason could be that the average investor does not consider high educational levels as an important factor when investing. In addition, entrepreneurs with higher educations could be assumed to over value their capabilities of succeeding.

Moreover, neither category nor gender shows significance in the results. It is of importance to control for if category chosen could be a consequence of the distribution between female and

male entrepreneurs. To control this, I have performed the same robust OLS regression, but excluded category. As can be seen in Table 10 in the appendix, the variables are not significant in any of the cases and therefore they do not affect each other in this study.

Crowdfunding is experiencing a shift from hosting more reward campaigns to more equity campaigns. In the future, categories mainly used in equity campaigns could therefore stand a better chance of receiving funding compared to reward campaigns. This could also affect the distribution of men and women over the platforms, since men execute more equity campaigns.

6. Conclusion

To my knowledge, this study is the first to analyse and test success in crowdfunding based on a broad range of factors. First, this study reviewed theoretical research in order to describe crowdfunding and the high pace at which it is growing. Followed by limited empirical research, the study presented earlier results on what factors that affect the success rate of crowdfunding campaigns. Crowdfunding is developing into an important method of financing, but it is growing faster than research about it is being published (Lambert & Belleflamme 2014). By utilising the Internet, crowdfunding solves a long existing problem by making innovation and funding available at one's fingertips.

This study offers a new perspective on what matters in crowdfunding success. Instead of looking at more obvious factors such as social capital and campaign quality, this study takes on a broader perspective. This has been done by looking at differences within factors on a macro level such as geo-location, as well as on a micro level studying characteristics of the entrepreneur such as experience.

The most notable finding in this study is that equity campaigns have better chances of receiving funding compared to reward campaigns. It reveals what direction crowdfunding is going, especially since it goes hand in hand with empirical data presented earlier in this study. This study also shows that the Swedish Krona is related with higher funding levels and that entrepreneurs from one of the Nordic countries receive higher levels of funding. Lastly the results

show that later starting years correlate to a higher success rate.

One must remember that this study focuses on *entrepreneurs* on *one platform*. Hence, the results might not be applicable on crowdfunding as a phenomenon. However, one could argue that the results include the behaviour of the investors as well. For instance, having an education or experience before carrying out a crowdfunding campaign might not be crucial for the entrepreneur in order to upload a great campaign, but it might be a requirement from the investor. Further investigation about the other key players; *investors* and the *platform* would be both interesting and valuable for future research. It would be of interest to know *what* investors consider as important when funding a campaign and *why* these investors turn to specific platforms over others.

As the crowdfunding market is growing, so is the public's acceptance for it as a financing method. Not only do investors and entrepreneurs become more educated about the market — so do the platforms. By learning about what attracts the most funding and the right entrepreneurs and investors, the platforms can connect innovation and funding in a more efficient way. This study can work as a great tool for platforms to develop.

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Appendix

Table 5. Further explanations of Table 2. Figures of the binary variables:

Variable	0	1
Campaign Type (0 = Equity, 1= Reward)	93	987
Gender (0 = men, 1 = women)	622	348
Experience (0 = no experience, 1 = experience)	488	135

Table 6. Further explanations of Table 3. Figures of the Categorical Variables (Categories explained outside of table*):

Variable	0	1	2	3	4	5	6	7
Currency	270	727	57	26	-	-	-	-
Category	41	353	48	84	107	78	276	92
Country	24	920	11	60	5	24	31	-
Year	-	179	407	182	182	73	-	-
Season	-	224	320	264	270	-	-	-

Table 7. Frequency tables for the variables Category and Country.

Country/ Category	North America	The Nordics	Global	Rest of Europe	South America	Asia	Africa	Total
Tech-nology	2 4.88%	35 85.37%	1 2.44%	3 7.32%	0 0%	0 0%	0 0%	41 100%
Arts	7 1.99%	310 88.07%	5 1.42%	18 5.11%	1 0.28%	4 1.14%	7 1.99%	352 100%
Food	1 2.13%	43 91.49%	0 0%	1 2.13%	0 0%	0 0%	2 4.26%	47 100%
Retail/ Service	1 1.19%	69 82.14%	1 1.19%	10 11.9%	1 1.19%	2 2.38%	0 0%	84 100%
Society	4 3.77%	91 85.85%	0 0%	5 4.72%	0 0%	1 0.94%	5 4.72%	106 100%

Business	2 2.56%	63 80.77%	1 1.28%	5 6.41%	0 0%	3 3.85%	4 5.13%	78 100%
Other	3 1.09%	225 82.12%	3 1.09%	16 5.84%	2 0.73%	13 4.74%	12 4.38%	274 100%
Internet/ Gaming	4 4.35%	84 91.3%	0 0%	1 1.09%	1 1.09%	1 1.09%	1 1.09%	92 100%
Total	24 2.23%	920 85.66%	11 1.02%	59 5.49%	5 0.47%	24 2.23%	31 2.89%	1,074 100%

Table 8. Frequency tables for the variables Category and Currency.

| Currency / Category	EURO	SEK	USD	NOK	Total
Technology	15 36.59%	18 43.9%	7 17.07%	1 2.44%	41 100%
Arts	57 16.1%	267 75.42%	22 6.21%	8 2.26%	354 100%
Food	17 35.42%	30 62.5%	1 2.08%	0 0%	48 100%
Retail/ Service	51 60.71%	29 34.52%	4 4.76%	0 0%	84 100%
Society	25 23.58%	75 70.75%	3 2.83%	3 2.83%	106 100%
Business	13 16.67%	57 73.08%	6 7.69%	2 2.56%	78 100%
Other	67 24.28%	189 68.48%	8 2.9%	12 4.35%	276 100%
Internet/Gaming	24 26.09%	62 67.39%	6 6.52%	0 0%	92 100%
Total	269 24.93%	727 67.38%	57 5.28%	26 2.41%	1,079% 100%

Table 9. This table illustrates the relationship between the variables Funding Goal and Campaign Type. The coefficient is represented by the first figure followed by the standard deviation in parentheses. The OLS model is robust.

| Variable	Funding Goal
Reward	-1966833*** (280196)
Constant	2036084 (280196)
Observations R-squared	1080 0.3192

Table 10. This table illustrates the relationship between Gender and Category. The coefficient is represented by the first figure followed by the standard deviation in parentheses. The OLS model is robust.

Variable	Coefficient (Standard Deviation) when including the variable "Category"	Coefficient and (Standard Deviation) when excluding the variable "Category"
Gender Data Set 1	0.0206 (0.0503) Not significant	0.0276 (0.0485) Not significant
Data Set 2	-0.0290 (0.0476) Not Significant	-0.0114 (0.04529) Not Significant

Graph 1. Comparing Average Values for Money Raised and Funding Goal (Adjusted for SEK)
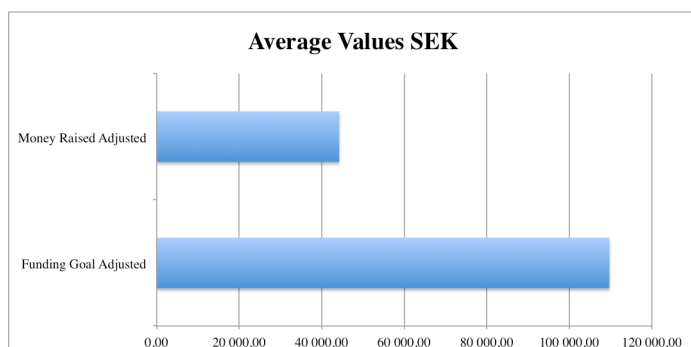
Graph 2. Numbers of campaigns in different categories.
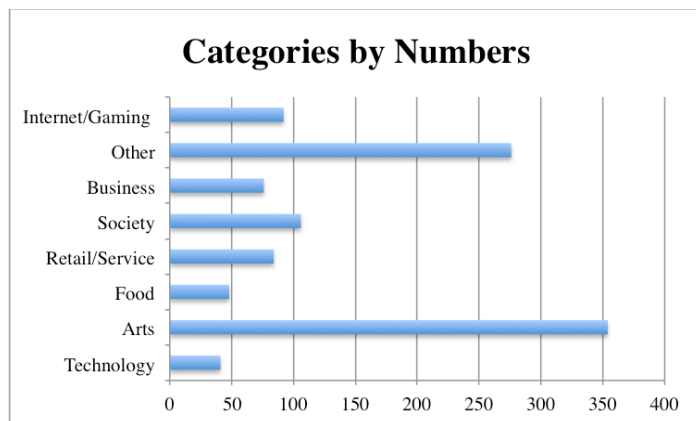
Graph 3. Campaigns by geolocations