

Success factors in a reward and
equity based crowdfunding
campaign

Francisco Pedro Santos Miranda Ferreira

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Supervisor:

Prof. Doutor Leandro Pereira, ISCTE Business School

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Abstract

As the world changes, financial sector changes with it, and alternative finance emerge. Crowdfunding is part of this evolution and its use is becoming more widespread day by day. As more entrepreneurs and organizations seek crowdfunding to fund their ventures, it becomes of uttermost importance to create a framework to help them to succeed raising finance. It is, therefore, the main goal of this thesis, to provide a valuable framework, a useful guide, to help entrepreneurs in the hard task of raising finance through crowdfunding, mainly those using equity crowdfunding. To accomplish the purposed goal, it is important to understand the underlying motivations of those investing in equity crowdfunding, in order to offer them what they seek and what motivates them. It is also vital, for those searching for financing, which kind of crowdfunding fits better with their goals and which one increases the likelihood of achieving them. Finally, is crucial to understand the specific success factors for a successful crowdfunding campaign. As an important problem for a successful crowdfunding or equity crowdfunding campaign is not the information available but rather its dispersion, this framework pretends to collect several information, from different sources, such as literature in the topic already existent, data collected from crowdfunding platforms, specialized people in the area and primary research, in one place to make it easier, for those searching for financing, through crowdfunding and equity crowdfunding, to achieve their goals.

Key words: Crowdfunding; Equity crowdfunding; Startups; Alternative finance

JEL classification system: M13; G21

Resumo

Enquanto o mundo muda, o setor financeiro muda com ele, e várias formas de financiamento alternativo emergem. O *crowdfunding*, ou financiamento colaborativo, é parte importante desta evolução, e o seu uso é cada vez mais comum. Como mais empreendedores e organizações procuram o *crowdfunding* para financiar os seus projetos, é de extrema importância criar uma estrutura que os ajude a ter sucesso em obter esse financiamento. Consequentemente, o principal objetivo desta tese é criar um modelo detalhado, um guia útil, para ajudar os empreendedores na difícil tarefa de angariar financiamento através de *crowdfunding*, principalmente aqueles que escolhem *equity crowdfunding*. Para atingir o objetivo proposto é importante compreender as motivações subjacentes daqueles que investem em *equity crowdfunding*, para lhes oferecer aquilo que procuram e o que os motiva. Também é vital, para aqueles que procuram financiamento, compreender qual das diferentes modalidades de *crowdfunding* se encaixa melhor nos seus objetivos e aumenta a probabilidade de alcançá-los. Por último, é fundamental compreender quais são os fatores específicos de sucesso para uma bem-sucedida campanha de *crowdfunding*. Um dos grandes problemas para quem quer criar uma campanha de *crowdfunding* ou de *equity crowdfunding* bem-sucedida não é a informação disponível, mas sim a sua dispersão. Esta tese pretende recolher várias informações de diferentes fontes, como literatura já existente sobre o tema, dados recolhidos por plataformas de *crowdfunding*, pessoas especializadas na área e dados recolhidos através de um inquérito, e organizá-las num único lugar para ajudar aqueles que procuram financiamento, através de *crowdfunding* e *equity crowdfunding*, a atingir os seus objetivos.

Palavras-chave: Financiamento colaborativo; *Crowdfunding*; Financiamento alternativo; *Startups*

Jel classification system: M13; G2

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Sumário executivo

As revoluções tecnológicas recentes permitiram várias inovações em áreas bastante diferentes. Uma dessas áreas é a das telecomunicações, que são agora praticamente instantâneas e de alcance global. Estes desenvolvimentos proporcionaram o surgimento de muitos outros serviços que até então não podiam existir, sendo um deles o tema central desta tese, o *crowdfunding*. O *crowdfunding* surgiu com a *Web 2.0*, que possibilitou uma participação bastante mais ativa dos cibernautas nos conteúdos *online*, passando de limitados recetores, a criadores de conteúdo e informação. Com a proliferação de plataformas de *crowdfunding* e campanhas para angariação de fundos, aumentou a informação disponível sobre o tema, muita dessa informação dedicada aos elementos necessários para conseguir angariar, com sucesso, financiamento a que se propõem as organizações e empreendedores. Com o desenvolvimento do tema, o problema deixou de ser a existência de informação, mas sim a sua dispersão. Foi concretamente para resolver este problema de dispersão de informação que surgiu esta tese. O objetivo desta tese é recolher informação para criar uma estrutura que possa servir como um guia importante para todos aqueles que, no futuro, procurem financiamento através de *crowdfunding*, principalmente *equity crowdfunding*. A recolha de informação teria de começar, obrigatoriamente, nos pouco trabalhos científicos sobre o tema. Dado que o tema é recente, o primeiro trabalho relevante na área tem apenas dez anos e, no caso particular do *equity crowdfunding*, ainda menos. Foram analisados artigos científicos que estudaram, não só o *crowdfunding* em geral mas, principalmente, aqueles que tentaram aprofundar cientificamente quais os fatores de sucesso numa campanha de *crowdfunding* e quais os fatores que são fundamentais e podem ser diferenciadores entre o sucesso e o insucesso. De fora do processo de recolha de dados não podiam ficar, obviamente, as plataformas de *crowdfunding*, que por motivos óbvios dispõem de mais informação sobre o tema do que qualquer outra fonte. Decidiu-se não recolher informação de empreendedores que já tenham tido êxito em experiências passadas, em campanhas de *crowdfunding*, principalmente por dois motivos. Primeiro, porque a informação que poderia ser recolhida já é disponibilizada pelas plataformas e segundo, porque os fatores de sucesso podem variar muito consoante os casos particulares e, por isso, casos individuais podiam pôr em causa o

resultado, que se quer transversal ao maior número possível de campanhas. Por último, devido á falta de informação específica em relação ao *equity crowdfunding* foi necessário fazer um inquérito, na sua grande maioria a investidores de *equity crowdfunding*, para saber quais as suas motivações para investir neste tipo de financiamento alternativo, de modo a que, aqueles que usam *equity crowdfunding* para captar investimento, saibam com maior detalhe o que oferecer aos potenciais investidores, para os satisfazer e cativar. Obtendo e analisando todos os dados, foi possível perceber melhor, mesmo havendo dúvidas, incertezas e contradições, quais os fatores de sucesso numa campanha de *crowdfunding*, com especial ênfase numa campanha de *equity crowdfunding*.

Vários autores debatem a falta de ligação entre a prática e a teoria científica, propondo até novos conceitos de ciência e investigação, como a *design science*, que se foca num trabalho conjunto entre a teoria e a prática onde, enfrentando um problema concreto, num contexto prático, seja desenvolvida uma teoria que possa ser aplicada noutras circunstâncias. Nas empresas encontram-se soluções para resolver problemas e a ciência teoriza sobre os fatores que influenciaram tal acontecimento. É necessário fazer a ponte entre estes dois mundos. Este trabalho não se propõe só a criar nova informação científica, que possa ser usada num contexto prático fora da comunidade científica, nem usar recursos científicos para explicar o sucesso ou insucesso de produtos ou processos, em contextos práticos, sem aparente base científica. O contributo que este trabalho pretende dar á comunidade é fazer chegar o já existente conhecimento científico e prático mais facilmente àqueles que o procuram usar, em concreto na sua campanha de *crowdfunding*, desenvolvendo-o para o caso particular do *equity crowdfunding*. O questionário apresentado nesta tese pode ser útil para a indústria de *crowdfunding* e respetivos *stakeholders*, principalmente em relação ao *equity crowdfunding* e às motivações subjacentes dos investidores para investir. Além disso, este trabalho também serve para levantar algumas questões sobre *crowdfunding*, que podem inspirar novas pesquisas científicas sobre o tema.

Chapter 1 - Introduction

“The industrial revolution in the new century is, in essence, a scientific and technological revolution, and breaking through the cutting edge is a shortcut to the building of an economic giant.” (Kim Jong-un, 2013).

New technologies are changing the world in several different ways. They have helped the world, among other things, discovering new planets, developing new services, creating new products, challenging all the boundaries, bending rules we thought unbendable and changing the world in a completely different shape. That is such an undeniable truth that even Kim Jong-un, the leader of the most closed economy in the world, acknowledges that. One of the areas that was influenced by a recent technological revolution was the field of telecommunications, which are now virtually instantaneous and global in scope. These developments provided the emergence of many other services that, previously, could not exist. One of them is the central theme of this thesis, crowdfunding. Crowdfunding emerged with web 2.0, which allowed for an abundant and more active participation of the internet users in the online content, going from limited receivers, to creators of content. With the proliferation of crowdfunding platforms and fundraising campaigns, the information available on the subject increased. Much of this information was devoted to the elements needed to successfully raise funds for organizations and entrepreneurs. With the development of the theme, the problem, just like in other industries, is no longer the existence of information, but rather its dispersion. It is exactly this problem of dispersion of information that this thesis addresses. The purpose of this thesis is to gather enough information to create a framework that can serve as an important guide for all those who will, in the future, seek funding through crowdfunding, mainly equity crowdfunding. The collection of information had to begin in the few scientific works available on the subject. Given that the topic is recent, the first relevant works in the area are only ten years old and, in the particular case of equity crowdfunding, even more recent. Several scientific articles were analysed. Initially those that addressed issues such as the definition, scope and limitations of crowdfunding, and later, those that have tried to scientifically deepen what are the factors of success in a crowdfunding campaign. Obviously, the data collection process had to include the crowdfunding platforms,

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which have more information on the subject than any other source. It was decided not to gather information from entrepreneurs who have already been successful with a crowdfunding campaign mainly for two reasons. Firstly, the information that could be collected from them is already available in the platforms they used to raise finance. Secondly, the factors of success can vary greatly, depending on the specificities of each campaign, and those individual results could jeopardize the conclusions, that should be general and applicable to the larger amount of campaigns possible. Due to the lack of specific information about equity crowdfunding, a survey was made to a sample largely composed by equity crowdfunding investors. The participants that had already previous experience in crowdfunding, were asked which were their motivations to invest in crowdfunding and in equity crowdfunding. To the participants that have never invested in crowdfunding or equity crowdfunding, questions were made to understand which were the reasons why they have never invested through it. The survey was made so that, those who use equity crowdfunding to collect investment know, in more detail, what to offer to potential investors, in order to satisfy them and receive their investment. By collecting and analysing all the data, it was possible to have a better understanding about which are the success factors in a crowdfunding campaign, with particular emphasis on an equity crowdfunding campaign.

Several authors discussed the lack of connection between practice and scientific theory. Some of them even proposed new concepts of science and research, such as “*design science*”, which emphasizes “*exploration through design*” (Holmstrom and Ketokivi, 2009). A research method with the objective to explore new alternative solutions to solve problems, in order to improve the problem-solving process and bridge theory and practice (Holmstrom and Ketokivi, 2009). The main goal of this work is neither to create new scientific information, that can be used in a practical context outside the scientific community, nor to use scientific resources to explain the success or failure of products or processes in practical contexts, with no apparent scientific basis. The contribution that this work intends to give to the community is to make existing scientific and practical knowledge more easily available to those who seek to use it in their crowdfunding campaign, mainly in equity crowdfunding. The survey introduced in this thesis can be helpful for the crowdfunding industry and its stakeholders, primarily related to equity crowdfunding, and the underlying motivations of

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investors to invest in it, since it helps to understand better that, the underlying motivations of those investing in reward based crowdfunding and equity crowdfunding, are similar. Furthermore, this work also serves to raise some questions about crowdfunding, that can sparkle new scientific research on the topic.

Chapter 2 - Literature review

2.1 - The web 2.0

One of the biggest recent technological breakthrough affects the way we connect, communicate, cooperate and keep in touch with other people. The web 2.0 widened our limits regarding the way we interact in a society. It refers to the way internet is used and whose boundaries are, no longer, sender receiver models, but rather an interactive and collaborative network, where users participate in the creation of content. Users are no longer only receivers and collectors of information, they create and build it, shaping a technological revolution based on user generated content and networks (Kleemann *et al.*, 2008). Tim O'reilly, (2007) who popularized the term Web 2.0, defined it as a constantly updated system that is improved as more people use it and more content is created and mixed by users from multiple sources, "*creating network effects through an architecture of participation*" (O'reilly 2007). An interesting change that Web 2.0 brought to companies is that, nowadays, the service/product is never completed, since it is always being updated, upgraded and improved by the consumers. Google clearly illustrate this last statement, since it is easily observed that every second, a new blog entry or some news update changes the information available in the Google search engine. Facebook is another good example of a Web 2.0 platform, since most of its content is produced by users. Web 2.0 made possible the assembly of the diffused knowledge in the web and allowed the connection of all the Web 1.0 dispersed data that can be used by companies to develop and improve their products and operations, using consumers as co-developers or co-workers. It also made possible for users to communicate, through several on-line platforms, with many other people almost instantly. Subsequently, distance is no longer a problem to communicate. Web 2.0 is about data connected as a network, and this is changing the world of business.

2.2 - Crowdsourcing

Several companies have taken advantage of this new technological developments triggered by Web 2.0 to improve their business in very different ways. One of them is the use of crowdsourcing. Crowdsourcing exists when an organization outsources a specific task, which is fundamental for the production or sale of its product or service, to the general public, using an open call through the internet, so the individuals can contribute to the firm's activities. This contribution is made for free or for a lower cost than the cost a company would have if employing internal resources (Kleemann *et al.*, 2008). Despite Kleemann (2008) only referring profit-oriented firms, there are several examples of non-profit organizations that also used crowdsourcing to improve their activities. A very good example is Ushahidi, Inc., which is a non-profit software company that built a free and open-source software to collect information through crowdsourcing for social activism (Ushahidi, 2017). Even though Jeff Howe (2009) was one of the first discussing about crowdsourcing, the most in-depth studies about the definition of crowdsourcing were written later. After analysing 175 documents and 36 original definitions of crowdsourcing, Estellés-Arolas and González-Ladrón-De-Guevara (2012), reached an integrated crowdsourcing definition that, not only included non-profit organizations, but also individuals as the source of the crowdsourcing initiative. The participants in the open call participate voluntarily in tasks of different nature, contributing with their resources to the organization, achieving a mutual benefit. While the user receives the satisfaction of a certain type of need, the crowdsourcer will utilize those resources to improve the activity undertaken (Estellés-Arolas and González-Ladrón-De-Guevara, 2012). The authors stated 8 characteristics to define a crowdsourcing process:

- there is a task with a clear goal
- it must have a clearly defined crowd
- the reward received by the crowd is well defined
- the crowdsourcer is clearly identified
- the compensation to be received by the crowdsourcer is clear
- it uses the Internet
- it is an online assigned process of participative type
- it uses an open call of variable extent

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According to the definition of the authors, Wikipedia and YouTube are not examples of crowdsourcing. For example, in the case of Wikipedia, neither the crowdsourcer nor the benefit the crowdsourcer receives are identified and there is not an open call (Estellés-Arolas and González-Ladrón-De-Guevara, 2012). Since there are several discussions about the best definition of crowdsourcing, for example, about the characteristics of the crowd, whether it has to be clearly defined or not, and this is not a central definition for the development of this thesis, it will be used the definition given by Estellés-Arolas and González-Ladrón-De-Guevara (2012), because it comprises the common features of a large number of other crowdsourcing definitions. The success of crowdsourcing initiatives highly depends on the motivation of its participants. Kleemann *et al.*, (2008) stated that, those who participate in crowdsourcing projects, have either intrinsic or extrinsic motivations. While intrinsic motivations refer to the pleasure of undertaking a task, an extrinsic motivation demands an external reward. Crowdsourcing is, therefore, a very powerful tool that is being used by many companies to improve their processes and products, as well as to find a better fit with the needs of the consumers. Although crowdsourcing can be divided in several sub areas there is one that as an outstanding importance for this work: crowdfunding.

2.3 - Crowdfunding

One of the many types of online crowdsourced participative activities is crowdfunding. Pooling resources to fund a specific venture exists for centuries but, as mentioned before, the technological evolution made it possible, nowadays, to take it to the next level, where crowdfunding is democratising the access to funding worldwide (Bruntje and Gadja, 2015). Crowdfunding is a fundamental piece of crowdsourcing but, since it is a very recent topic, there are few scientific studies to define and understand its dynamics, outcomes and consequences (Lukkarinen *et al.*, 2016). As the industry matures and crowdfunding becomes more widely adopted, new forms of crowdfunding will appear and the current ones will develop in different ways. Therefore, it is better and wiser to understand and recognise the definition of crowdfunding as an object in constant evolution, depending on technology and adoption, rather than a complete and stable definition. Having that in mind, it is needed to find a definition, not broad enough to be too general, but not too narrow to be easily obsolete.

In very broad and simplistic terms, crowdfunding can be defined as the financing of a project, not by professionals, but by a group of individuals (Schwienbacher and Larralde, 2010). Despite being very easy to understand, this definition is too wide and incomplete. One of the first and most widely accepted definitions of crowdfunding defines it as an open call through the internet, where financial resources are provided to support a specific initiative. Those resources can be given as a donation, in exchange for the future product or some other form of reward (Schwienbacher *et al.*, 2010). Even though it is the most commonly accepted definition for crowdfunding and it is used by most authors, it has been the target of some critics by some authors such as Ethan Mollick (2014), who argued that the former definition didn't address, neither the goal of the crowdfunding initiative, nor the goal of the investors. Mollick (2014), suggested an alternative definition for crowdfunding. He defined it as an effort to fund a venture, with relatively small amounts from a large number of people, without standard financial intermediaries, initiated by entrepreneurial individuals or groups. These groups can vary on its nature, they can be cultural, social or non-profit (Mollick 2014). Knowing the limitations already mentioned to create a concise definition of crowdfunding, it is not easy to choose the perfect one to use through this work. Nevertheless, crowdfunding can accurately

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be defined as an online participative open call activity in which the crowdsourcer - an individual or an organization - acquire financial resources, to fund a specific initiative, from the crowdfunders - a group of individuals - usually in exchange for a specific reward. The only type of crowdfunding where no reward is provided is non-profit crowdfunding. Even though no reward is provided by the initiator of the crowdfunding, the crowdfunders receive intangible psychological rewards such as the warm glow from helping others (Andreoni, 1989). The initiator of the crowdfunding campaign can be addressed as entrepreneur, crowdfunder or crowdsourcer, those terms are interchangeably used. The same applies to the terms referring to those investing in crowdfunding campaigns, which can be named as funders, crowdfunders or backers.

There are four main types of crowdfunding and there is some debate about which one is the most popular. However, most authors such as Schwienbacher, Lambert and Belleflamme (2012 and 2014), Kirby and Worner (2014) and several international institutions, such as the World Bank and the European Commission, have published some studies dividing crowdfunding in four different models (infoDev, 2013; European Commission, 2016):

- **Pre ordering or reward based crowdfunding** allows consumers to pre order a certain product, not yet available in the market, in exchange for a certain amount of money, that will allow the entrepreneur to produce and launch the product (Schwienbacher, Lambert and Belleflamme, 2013). The returns expected from the crowdfunders and from the founders are clear, while the funders of a project expect some kind of reward, which can have different forms, such as the product not yet released, with special price conditions or special features, the founders expect an injection of money (Mollick, 2014).
- **Profit sharing or equity crowdfunding** is a method of financing that allows entrepreneurs to offer shares, equity or some kind of future profits, to a group of investors, in exchange for money, through an online open call. It includes royalty based crowdfunding (Schwienbacher, Lambert and Belleflamme, 2014; Mollick, 2014; Ahlers, Cumming, Gunther and Schweizer, 2015).

- **Peer to peer lending, lending crowdfunding or debt crowdfunding** is a kind of crowdfunding that happens online, when the crowd receives an interest for giving an amount of money as a loan expecting, in the end of that period, to receive the capital invested plus the correspondent interest (Mollick, 2014; Ahlers, Cumming, Gunther and Schweizer, 2015).
- **Patronage, donation or charity crowdfunding.** In this type of crowdfunding the funders act has philanthropists and do not expect any direct return from their investment (Mollick, 2014). Although, they can receive mental rewards such as the warm glow resulting from supporting a non-profit cause (Andreoni, 1989).

2.4 - The blossom of crowdfunding as an alternative finance system

2.4.1 - Crowdfunding data

After reaching a conclusion on a definition for crowdfunding and understanding how it is sub-divided in four broad categories, the next step to reach a complete understanding of the topic is to understand its current and past dynamics by collecting and analysing data from the industry. Searching for exact and widely accepted numbers for crowdfunding data is still a very hard task since it is still undefined what exactly crowdfunding is and, consequently, some platforms and reports on crowdfunding interpret the concept differently, resulting in a broader or stricter interpretation of numbers. To make the process as accurate as possible, it will be taken into account the data from the world's biggest crowd finance data intelligence website TAB (insidetab, 2017) and the most complete Crowdfunding Industry Report, Massolution Crowdfunding Industry 2015 Report (Massolution, 2015).

2.4.2 - Total amount pledge and evolution

According to TAB, from 2012 to 2015 the amount pledge through crowdfunding increased from 1.4 billion dollars to 11.1 billion and will overcome the 30 billion mark during 2017. According to Massolution Crowdfunding Industry 2015 Report, it increased from 2.7 billion dollars in 2012 to 34.4 billion dollars in 2015. The World Bank expects a growth of 90 to 96 billion dollars per year by 2025 (infoDev, 2013). Although the numbers are very different, it is very clear that the amount raised through crowdfunding is growing at a very fast pace, increasing by 10 times in just 4 years, while the current growth is even faster. Even more interesting is the fact that, according to Massolution (2015), crowdfunding will surpass venture capital (VC) investments, which totalized an average of 30 billion dollars each year, in 2017. This will be a very important step as a confirmation of the alternative financing potential over traditional financing methods.

According to Massolution (2015), the biggest crowdfunding market, for now, is North America, accounting for 17.25 billion dollars, followed by Asia with 10.54 billion dollars and Europe with 6.48. European Union was responsible for 4.2 billion euros. However, Asia

had the highest growth, growing by 210% and, according to the World Bank report (InfoDev, 2013), the biggest growth will continue to be in China, that will account for 46 to 50 billion dollars by 2025, becoming the biggest market for crowdfunding, while Europe and central Asia will account for 13.76 billion dollars.

2.4.3 - Amount by platform and crowdfunding type

The crowdfunding model with higher amount raised is, by far, the lending\debt model with at least 23.8 billion dollars raised cumulatively so far, while reward based raised 5.2 billion dollars. The equity model was responsible for 1.8 billion dollars (TAB, 2017). The importance of the lending crowdfunding model can be even bigger since massolution report states that this model was responsible for 25.1 billion dollars, just in 2015. Reward based reached 2.68 billion dollars and equity model 2.56 billion dollars (Massolution, 2016).

The biggest crowdfunding platform is by far Lending Club, a peer to peer lending platform, with more than 20 billion dollars funded so far (Lendingclub, 2017). Following lending club appear two reward based platforms, Kickstarter, that since its launch, on April 28, 2009, was the chosen platform to raised more than 2.7 billion dollars by 12 million people, through 113,229 projects successfully funded (Kickstarter, 2017) and Gofundme, which raised more than 2 billion dollars through its platform (Gofundme, 2017).

2.4.4 - A closer look to European equity crowdfunding

The equity crowdfunding model in USA and Asia is mostly restricted to net worth individuals, as can be inferred by the new legislation that came into effect in the USA, the JOBS act III. Even though the purpose of the legislation was to help and widespread equity crowdfunding in the USA, serious questions have been raised, among different sectors, about the effectiveness of this law (Forbes, 2016). Consequently, the details about equity crowdfunding will be focus on the European market. The commission staff working document, Crowdfunding in the EU Capital Markets Union (European Commission, 2016), shows that 422,039,462 million euros were raised through 863 campaigns, dispersed through 60 EU equity crowdfunding platforms. In average, each campaigned raised 504,832 euros. The top two equity crowdfunding platforms in Europe, allowing the investment of small amounts of money, in

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different economic sectors, are Seedrs and Crowdcube, both located in the UK, with more than 100 million euros raised (Beauhurst, 2016; TAB, 2017).

2.5 - Motivations of individuals or organizations to choose crowdfunding

After defining crowdfunding, explaining the process and evolution that led to the beginning of it, and presenting the big picture of crowdfunding nowadays, it is important to explain and understand why do entrepreneurs and investors use crowdfunding instead of more traditional sources of financing. Therefore, from now on, it will be explained first, why are entrepreneurs largely embracing crowdfunding and, afterwards, why are investors so eager to invest their money through it, using first available literature on the subject and secondly, primary data. To this date there are not a lot of studies about crowdfunding, its characteristics or practices, neither to what leads entrepreneurs or organizations to choose this type of financing over more traditional sources, mainly because it is a very recent phenomenon. For the same reason, there is also a lack of studies regarding which are the factors that lead to a successful crowdfunding campaign or even about what influences the decision of the crowdfunders to invest and how do they choose between different types of crowdfunding. This lack of scientific studies about the issue of crowdfunding is acknowledge by several authors such as Schwienbacher, Lambert and Belleflamme (2012 and 2014), Mollick (2014) and Lukkarinen *et al.*, (2016). Nonetheless the existing literature already gives some useful insight.

2.5.1 - Lack of financial resources

For obvious reasons, one of the most important motivations to start a crowdfunding campaign is, independently from which type of crowdfunding adopted, to raise money. This can be a hard task using traditional sources of financing such as loans, bootstrapping, venture capital, etc., mainly for small startups in the beginning of the enterprise, when risk and uncertainty are extremely high. Gerber and Hui (2013) conducted 83 semi-structured interviews to find the motivations and deterrents for participation in crowdfunding. Lack of financial resources was the main reason why entrepreneurs chose to crowdfund. The bureaucracy and higher fees make it very hard for startups to access traditional finance instruments. The available traditional financing sources for small business are excessively affected by economic circumstances and are hard to access, for different reasons, depending on its type.

Debt can cripple the growth of the startup and it also doesn't bring any support to the firm. Furthermore, a collateral is often required to access it and small startups hardly possess any assets, at least in the initial phase. Another issue is the fact that debt makes the entrepreneur bear the risk alone, while equity financing spreads it among different people. VC's usually demand high stakes in the venture while, when using crowdfunding, the entrepreneur doesn't lose as much managerial power or, at least, the power is dispersed among many (Schwienbacher and Larralde, 2010). Even discarding the above-mentioned downsides of the traditional sources of finance there is one other that is essential to explain the shift from traditional sources to crowdfunding: the cost of finance. The interest rate for corporations, according to the ECB is 2.09% annually, although for loans up to 250.0000, which is the majority of crowdfunding campaigns, it is 3.22%, with a tendency to raise (ECB, 2016). In the Portuguese case, according to the data in Pordata, the interest rate is 3.77% in average and 4.19% for amounts inferior to a million euros (Pordata, 2017). It is important to notice that, those numbers, apply only in cases where the organization gives the bank a guarantee in the event of a default, since most startups do not possess any assets or only a few have them, the interest rate applicable is much higher. It is also important to notice that this only refers to the interest rate and that there are other extra fees when using this financing method. To issue shares in a stock exchange a company must pay a one-time listing fee and an annual fee. As an example, for the London stock exchange, for a company with a market capitalisation of one million pounds, the listing fee is 8.2% and an annual fee of 5.4% (London Stock Exchange, 2016). In terms of issuing bonds, the same problems arise, the complex bureaucracy, cost and limitations are a bottleneck for corporations that want to get finance. For example, in Portugal, it is only possible to issue bonds through the official channels if the total sum is 200.000 euros or higher (Bloomberg, 2016; Milleniumbcp, 2016). The fee charged for an equity crowdfunding campaign, in the two biggest equity crowdfunding websites in Europe, is 7% in Crowdcube and in Seedrs there is a 2.000 pounds completion fee and then it is progressive, starting with 6% on the first £150,000, 4% on £150,000 to £500,000 and 2% on everything over £500,000 (Seedrs, 2016; Crowdcube, 2016). For Kickstarter, the biggest crowdfunding platform, the fee is 5% of total funds raised, plus a payment processing fee of 3% + \$0.20 per pledge (Kickstarter, 2016). Having in consideration that, for crowdfunding, it is a one-

Success factors in a crowdfunding campaign

time fee, while for other instruments there are several annual costs, bureaucracy and limitations, and having in mind that startups remain not profitable for several years, it is possible to conclude that crowdfunding can be, financially, a better option comparing to getting a loan from a bank, or issuing bonds or stocks.

2.5.2 - Maintain control

The issue of who keeps the control of the venture, after the financing round, is also an important difference between crowdfunding and traditional financing sources. When Gerber and Hui (2013) asked to 83 respondents their motivations to invest in crowdfunding, the issue of being able to maintain control of the venture, in oppositions to what happens when one single investor takes a determinant role in it, was among the stated motivations.

2.5.3 - Skills

Apart from the financial motivation, other reasons were given by entrepreneurs to start a crowdfunding campaign. In a case study of a French company that decided to raise finance through crowdfunding Schwienbacher and Larralde (2010) studied that, apart from the money, the entrepreneurs were also looking forward to use the expertise, skills and experience of the investors to develop their company at no cost or, at least, at a cheaper price than it would usually cost them.

2.5.4 - Connections

During the interviews of Gerber and Hui (2013), making long term connections was also an important motivation to choose crowdfunding instead of other sources of finance. Those connections can assume very different forms, from the above-mentioned skills that can be used by the entrepreneur, to others that can be of very different nature, such as advice, in different fields, along the development of the venture and even after the conclusion of the venture.

2.5.5 - Feedback, advertisement and validation

In a survey made to entrepreneurs that used crowdfunding to raise funds Schvienbacher, Lambert and Belleflamme (2010) found out that, even though the strongest motivation for the entrepreneurs to create a crowdfunding campaign was to raise funds, crowdfunding campaigns can achieve very different goals. One of the goals that was stated in the article was that, getting public attention and obtaining feedback on the product or service offered were, for more than half of them, important reasons why they chose crowdfunding. This becomes even more important in industries with strong complementary goods. In the same study, they also found that crowdfunding is usually combined with other sources of funding, mainly because crowdfunding can also be used as an advertising vehicle or as a way for the entrepreneurs to better understand the desires and preferences of the consumers. Furthermore, the crowd might become consumer and spread information about the product, since they can get emotionally attached to the product's brand or even have equity in the venture and, therefore, the best the company performs, the most return they can have on their investment. Crowdfunding, if done properly, can be a very good and cheap source of good marketing for the venture, since it can be exposed through different platforms and to several different potential consumers. This was indeed one of the reasons stated during the interviews made by Gerber and Hui (2013) to those that created a crowdfunding campaign. This exposure can be very important for products that need to build ecosystems of complementary products, such as, for example, the video games consoles market. A successful crowdfunding campaign can lead the producers of complementary products to produce products that are compatible with the successfully crowdfunded product (Mollick 2014). A good example of a crowdfunding campaign that benefited from this is the oculus rift campaign (Kickstarter, 2017).

Mollick (2014) adds that a successful reward based crowdfunding campaign, where the demand for the product is confirmed, is very important in order to get more easily, in the future, access to finance, either from crowdfunding or from other traditional sources. The issue of validation is also referred by Gerber and Hui (2013). There are some examples of ventures

that failed to raise finance from traditional sources but that, later on, after a successful crowdfunding campaign, were able to secure large amounts from traditional sources. This wisdom of the crowd, in the crowdfunding context, shows that the crowd can sometimes be more efficient than individuals, teams or a few equity investors, even if they lack specific knowledge about the industry where the crowdfunding project they are supporting belongs (Schwienbacher, and Larralde, 2010). A very good example is the pebble smart watch, a project that was rejected by venture capitalists but that, after one of the most successful campaigns in Kickstarter, received venture capital investment (Forbes, 2012).

2.5.6 - Self – revelation mechanism

In the very beginning of the venture, the entrepreneur, doesn't recognize which consumers are more likely to acquire the product, but a crowdfunding campaign can also be a very helpful tool to discover the high utility users, since their participation in the financing round is a good method for the entrepreneur to acquire more knowledge about the target consumer and to attract the most interested consumers, that selected themselves to be a consumer of the product. This only applies to reward based crowdfunding (Schwienbacher, Lambert and Belleflamme, 2014).

2.5.7 - Conclusion

Entrepreneurs are choosing more often crowdfunding instead of traditional finance because they lack financial resources, usually harder to get from traditional sources, to share the risk of the venture, to get free or cheap access to the skills and support of the crowd, to form long term connections, to get feedback from the consumers, to keep control of the venture, to get public attention, advertising, feedback and validation, because it is becoming easier to cope with the legal issues and, last but not the least, because crowdfunding can be used as a self-revelation mechanism to test the product and to find out the profile of those investors that have the biggest interest in the product, solving the information asymmetry problem for the entrepreneur that will be explained in detail later (Schwienbacher, Lambert and Belleflamme, 2014).

2.6 - Motivations for investors to invest in Crowdfunding

Those who participate in crowdfunding campaigns have different motivations. The motivations of crowdfunding backers have not been deeply studied yet, mainly due to the fact that crowdfunding is a recent topic (Schwienbacher, Larralde and Belleflamme, 2010; Lukkarinen, 2016) but from the few researches already made there are some important conclusions.

2.6.1 - Intrinsic and extrinsic motivations

According to Kleemann *et al.*, (2008) participants in crowdsourcing projects, such as crowdfunding, have either intrinsic or extrinsic motivations. Intrinsic motivations refer to the pleasure of undertaking a task, such as the feeling of belonging to a strict group, and extrinsic motivations call for an external reward, such as future profits or a product.

2.6.2 - Financial return or access to an exclusive product

One of the main reasons why investors use crowdfunding is the direct return they can have from the investment. In the case of reward based crowdfunding, the return comes as an exclusive product, sometimes not even produced, not available to anyone else except the investors, or a tangible reward of interest to the supporter. This reward does not have to be tangible, it can be a simple acknowledgement (Gerber and Hui, 2013). It can fulfil either intrinsic or extrinsic motivations of the entrepreneurs.

In equity based crowdfunding the expected return will depend on the strategy adopted by the invested company, either a sale to a bigger company or an initial public offering, when the company decides to be listed in a stock market. Although it is hard to value which amount of return an investor can expect from equity crowdfunding, since there have been very few successful exits, there has been published some data that can help to estimate a value. This data has helped some platforms such as Crowdcube and Seedrs to launch a secondary market, for equity crowdfunding investments, providing an earlier option for investors to receive returns

from their investments (Seedrs, 2017; Crowdcube, 2017). Seedrs published a portfolio update whose results show that, the annualised performance of all deals, as of 31 July 2016, in terms of share price appreciation, was 14.44% (Seedrs, 2016). This value is comparable to the interest rate received by deposits that, in the euro area, according to the ECB, has an average maximum interest rate of 0.75% annually (European Central Bank, 2016). In terms of bonds, the return on governmental bonds in the euro area is also lower than 1% (European Central Bank, 2016) and from private companies the return is similar (Bloomberg, 2016). Although riskier and despite the insufficient data, the return on equity crowdfunding is much higher than the returns available for deposits and government or corporate bonds, which makes equity crowdfunding much more attractive for some investors.

2.6.3 - Community based benefits

Investor in crowdfunding can make two types of investment. Passive investment, when they invest their money, in exchange for an asset or reward, without involvement in the decision-making process, or an active investment, when they are allowed to take part in some decisions of the venture (Schwienbacher and Larralde 2010; Schwienbacher, Lambert and Belleflamme, 2014; Gerber and Hui, 2013). Schwienbacher, Larralde and Belleflamme (2010) also stated that “*rewards and control are used as substitutable incentives*”, which means that, if investors cannot be deeply involved in the project, they might require more rewards or returns but, if they can be intensely involved in it, they might require less rewards. This is attributed to community based benefits. Moreover, the authors give some important insight for the understanding of which factors can influence entrepreneurial choice, regarding to which kind of crowdfunding to choose, in order to maximize their income. They found that, crowdfunding, is linked to community-based experiences, which create community benefits for the participants. Those benefits differ, depending on which kind of crowdfunding is used. They are linked to consumption, in reward based crowdfunding, and to investment, in equity based crowdfunding. This difference is crucial for the entrepreneur’s decision, since the value added by the community benefits is a critical success factor for a crowdfunding campaign. Without the community benefits, crowdfunding lose one of its biggest advantages against

traditional financing sources, such as banks or institutional investors. Community is of utmost importance for a crowdfunding campaign. It is the big difference between crowdfunding and the other traditional sources of financing (Schwienbacher, Lambert and Belleflamme, 2012 and 2014). In a case study of a French company, that received investment through equity crowdfunding, conducted by Schwienbacher and Larralde (2010) was found, through a survey, that the most important motivation for the investors to invest in crowdfunding was not to resell the shares and have return on their investment. The most important, for those investors, was to be part of the exciting adventure that is being part of an entrepreneurial project, they were motivated by the challenge and by the experience they could earn, by participating in the venture. They were also searching for personal satisfaction and recognition. Some of the funders also specified that extending their network was a motivation to participate. In reward based crowdfunding, the crowdfunders, are willing to pay for a project not yet launched, securing additional community benefits, not available to those who wait until the product is available in the market, at a lower price. Those community benefits could be, for example, being able to vote in the product development decisions and choose some features of the product (Schwienbacher, Lambert and Belleflamme, 2014). In equity based crowdfunding, the community benefits are different than in the reward based model, in equity based crowdfunding, crowdfunders value more the above-mentioned feeling of being part of an entrepreneurial venture and being part of a group that contributed to the existence of the venture, with all the gains they might extract from it. As an example, some crowdfunding platforms and some companies that used equity crowdfunding to get financial resources, organize meetings for the crowdfunders, so they can expand their professional network (Schwienbacher, Lambert and Belleflamme, 2014). Although the product or profit are important for investors, it can happen a kind of a donation. Investors may finance the venture, without expecting any profit in their return, only if they are still satisfied with all the community benefits they might enjoy. If the community benefits are large, the crowdfunders may still invest, even if the financial return they expect to receive is small or inexistent. On the other hand, if community benefits are small or inexistent, entrepreneurs have to focus on the smaller number of crowdfunders that are willing to pay for the investment, even when the

net utility of community based benefits is negative (Schwienbacher, Lambert and Belleflamme, 2014). Concluding, crowdfunders are more likely to invest when the community benefits are higher, and less likely to invest when the community benefits are small.

2.6.4 - Help

For some investors, mainly family and friends, and those that use donation based crowdfunding, one of the main motivations to invest is to help others. While in donation based crowdfunding, this is a motivation for all the investors, in the other types of crowdfunding, this almost exclusively apply to those investors who have a personal relation with the one raising funds (Gerber and Hui, 2013).

2.6.5 - Support a cause

Investing without expecting a return is not exclusive to those that have a personal connection with the entrepreneur raising finance for the venture. It might also be a motivation to invest for those that believe the project will have an important impact and are according to the personal beliefs of the investor (Gerber and Hui 2013). This happens in very different areas of society but political campaigns, for different causes, funded through crowdfunding, are very good examples to illustrate this situation.

2.6.6 - Conclusion

Depending on the type of crowdfunding, investors invest in crowdfunding for three main reasons. In equity crowdfunding to get financial resources. In reward based crowdfunding to access an exclusive product. One common reason and, likely, the most important one, is the community benefits. Even though they are common to both types of crowdfunding they differ, depending on the type. While in reward based crowdfunding, community benefits are linked to the product development, in equity crowdfunding they are connected with the belonging of a group that is part of the entrepreneurial project. Last but not least, the motivation to help others or to support specific causes, which are according to beliefs of the investor, are also important motivations for some of them, when investing in crowdfunding.

2.7 - Which type of crowdfunding to use

After understanding why entrepreneurs and investors are using crowdfunding more often, it is also important to understand some differences between crowdfunding types, so the entrepreneur can choose the one that has the best fit with his needs. It is important to know which kind of crowdfunding an entrepreneur should use to make a successful campaign, and that depends, above all, on the investors, mainly on the motivations of the backers to invest in crowdfunding discussed before, but also on some other important features, such as information asymmetry and the amount to be funded.

2.7.1 - Information asymmetry

The information asymmetry exists when the entrepreneurs knows the quality of the product or the details of the venture better than the ones financing the venture. When information asymmetry exists about the quality of the product, the consumers are not sure about the real quality of the product, making it harder for the entrepreneur to convince potential consumers. This means that information asymmetry tends to favour equity crowdfunding instead of reward based crowdfunding, since it is easier for the entrepreneur to convince the crowd to invest money when they want equity in the venture and might or not consume the product, than when the reward is the product itself and the crowd is not entirely sure about its quality (Schwienbacher, Lambert and Belleflamme, 2014). Information asymmetry regarding the entrepreneur, the financials and the potential of the venture to generate future cash flow. are more important in an equity crowdfunding context, since in this type of crowdfunding a very important, but not the only one, motivation of investors is to get future returns on their earnings (Ahlers, Cumming, Gunther, and Schweizer, 2015). Using information asymmetry wisely can help convincing important investors but can also be helpful to push away non-serious investors (Schwienbacher and Larralde, 2010). It is very important to understand that, when the stronger part of the venture is the product, the entrepreneur will be more successful using reward based crowdfunding. If the stronger characteristics of the venture are not related to the product itself but related with, as an example, future cash flow perspectives or potential market growth, then the entrepreneur might be more successful raising funds through equity crowdfunding.

2.7.2 - Reward for small amounts, equity for big amounts

In reward based crowdfunding the entrepreneur creates a discrimination between crowd-funders and other consumers. When the need for capital increases, the entrepreneur must decrease the price of the rewards offered to attract more investors, this may turn the crowd-funding campaign unviable, since the asked price for the rewards will be so low, in order to attract more investor, that the money collected might not be enough to cover the production costs of the rewards (Schwienbacher, Lambert and Belleflamme 2012 and 2014). Therefore, reward based crowdfunding campaigns are more advisable for smaller amounts. Equity crowdfunding, on the other hand, is not affected in the same way by the increase in the target amount, since the fact that more funders will take part in the campaign, will have little effect on the profits collected by the entrepreneur (Schwienbacher, Lambert and Belleflamme 2012 and 2014). In other words, a reward based crowdfunding campaign is more likely to be successful when the total funding required is lower and equity crowdfunding when the required amount is higher. The level of funding should be understood according to the market size. Therefore, reward based crowdfunding happens more frequently in larger markets, with a bigger customer base, which makes it easier to find consumers that might be interested in acquiring the product (Schwienbacher, Lambert and Belleflamme 2014). Consequently, entrepreneurs should prefer reward based crowdfunding if the initial capital requirement is small and equity based for larger amounts. This is in line with a survey conducted by one of the most important crowdfunding industry website, crowdsourcing.org, through the Massolution report (Massolution, 2016), where equity based crowdfunding models raise higher amounts than reward based crowdfunding models. This fact is a crucial element for the entrepreneur to choose between one of the types of crowdfunding.

Apart from the differences in terms of funding target, research shows that, the equity based crowdfunding model, is more appropriate for early stage ventures because reward based crowdfunding usually requires the existence of a prototype (Schwienbacher, Larralde and Belleflamme 2010; Schwienbacher, Lambert and Belleflamme, 2014). Nevertheless, this finding might not be as accurate now as it was before. New technologies allow the building of prototypes in much faster and cheaper ways nowadays.

2.7.3 - Conclusion

When choosing which type of crowdfunding to use, entrepreneurs must be aware that equity crowdfunding is better for early stages and when big amounts of capital are needed, while reward crowdfunding is more successful for smaller amounts. Information asymmetry in the product favours equity crowdfunding while information asymmetry about the financial or about the entrepreneur tend to impact more, negatively, an equity crowdfunding campaign.

2.8 - Funding cycle

Apart from understanding why investors invest in crowdfunding and which type of crowdfunding to use in each situation, it is important, in order to create a successful crowdfunding campaign, to understand its funding cycle, to recognise its specifics and achieve success. About the funding cycle of a crowdfunding campaign, Kuppuswamy and Bayus (2015), studied that, the amount of funding received from the backers, through the duration of the campaign, is not stable. Mainly because crowdfunders are more likely to invest in the first or last week than in the middle period of the crowdfunding campaign. This creates a U-shaped pattern in the funding cycle of a crowdfunding campaign. Some authors have suggested that, one reason explaining this U shaped pattern, would be the fact that the novelty of a crowdfunding campaign makes it easier to find and, therefore, more visible for investment. As an example, in Kickstarter and most of the other platforms, it is possible to sort the campaigns by recently added, showing the most recently added campaigns first. However, Kuppuswamy and Bayus (2015) didn't find any evidence supporting this theory. This might show that, the sorting option available in some crowdfunding platforms, that allow to sort campaigns by most recent or closing date, is not responsible for this U shaped phenomenon. One possible explanation, confirmed by the authors, states the contribution of friends and family, which occurs more often in the beginning and in the end of the campaign, as one very important factor explaining this investment pattern. In fact, the majority of the crowdfunders in Kickstarter, over 70%, only backed one project and 95% of them joined the platform and made the investment in the same day. These numbers reinforce the importance of the entrepreneurs' network, regarding the success or failure of the crowdfunding campaign. Nevertheless, it is important to notice that this might be different in other types of crowdfunding. One other reason for the existence of this U-shaped phenomenon, is the so-called deadline effect, a psychological construct that influences the behaviour of investors so that, pressured by the limited time available to invest in a certain venture, they are impelled to make a more impulsive contribution, before the deadline expires. This helps explaining why two thirds of the projects reach their target goal in the last week of the crowdfunding campaign. As some scholars such as Kuppuswamy and Bayus (2015) have studied in the past, the goal gradient behaviour, a behaviour theory that applied to crowdfunding states that, as the target goal

comes closer to its accomplishment, investors tend to work harder to reach that goal, has influence in investors' behaviour and contributes to the U shaped pattern, leading to more investments in the final phase of the financing round. Furthermore, the perceived impact of a decision is bigger in a later stage of the goal pursuit. As an example applicable to crowdfunding, the marginal impact of a contribution of 10 euros, when the projects is still in the beginning of the funding stage is much lower than the marginal impact if there is only 20 euros left to achieve the goal of the campaign. There is no difference between successful and unsuccessful projects regarding the U-shaped pattern of the funding circle, both of them receive more funding in the beginning and the end of the project than during the middle period, this also applies for projects in different areas and fields.

Another behaviour from the investors, that influences the funding cycle, is that they are less likely to invest once the investment target is achieved. Fishbach *et al.*, (2011) wrote that, when the group identification is weak, just like in crowdfunding, the individuals decide to pursue a group goal. If they believe the goal is worthwhile, the fact that other people have already supported a certain crowdfunding campaign, works as a validation for new potential backers, so the amount of funding that a campaign has already achieved influences the investment decision of other crowdfunders. When that group goal is achieved, investors lose interest in investing. This conclusion is confirmed by the study of Agrawal *et al.*, (2015) that, through the study of investments in the platform Sellaband found that, the tendency to invest, increases with the amount of funds raised and, when the targeted amount is achieved, backers tend to stop to contribute to the venture, since the success of it has already been achieved.

Although the above mentioned studies were done for reward based crowdfunding, it is argued, by some of the authors, that the motivations of this investors are similar to those who invest in equity crowdfunding. Despite having similar motivations, investors in reward based crowdfunding are usually one time investors, while in equity crowdfunding the majority of the investors already have some experience in crowdfunding (Kuppuswamy and Bayus, 2015; Agrawal *et al.*, 2015).

Conclusion

The funding cycle of a crowdfunding campaign has a U-shaped distribution, where most of the investments occur in the beginning and in the end of the campaign, both for successful and non-successful campaigns. This happens due to the investments of the entrepreneur's close network, to the goal gradient behaviour, to the deadline effect and to the fact that people feel that a contribution is more useful if the project is almost completely funded than in the beginning of the funding cycle, and not due to the sorting possibilities, as one might automatically assume. This is why two thirds of the campaigns are funded in the last week. After the funding goal is achieved, investors are less likely to make a contribution. While for reward based crowdfunding most of the investments are made by one-time investors, in equity crowdfunding the majority of the investors are those with already some experience in crowdfunding.

2.9 - Specific Success factors in crowdfunding campaigns

The logic of understanding the issue of crowdfunding, starting from the big picture to the specifics, leads us to the last part that is essentials for the entrepreneurs, the specific success factors in a crowdfunding campaign. Although scarce, the literature about the factors that are important for a successful crowdfunding campaign gives already some important help, to those who want to use crowdfunding to raise finance. Since equity crowdfunding is less studied, due to the fact that it is more recent than reward base crowdfunding, there is less literature about it, but the majority of the success factors for reward base crowdfunding also apply to the equity model. The most comprehensive study about the crowdfunding dynamics so far is “The Dynamics of Crowdfunding: An exploratory study, by Ethan Mollick” (2014). In this study Mollick tried to discover more about the dynamics of crowdfunding and why do crowdfunding projects fail or succeed. According to Mollick’s research, crowdfunding ventures, most of the time, either succeed by narrow margins, or fail by large amounts (Kuppuswamy and Bayus, 2015; Mollick, 2014). From the failed projects studied, only 10% reached 30% of their funding target and only 3% reached a 50% target. From the successful projects only 50% raised about 10% more than their target goal and 25% raised less than 3% above their funding target. There are two possible explanations for those results. The first one, criticized by the author, is that the entrepreneurs have the tendency to cover the difference between the actual amount invested by backers and the funding goal, since most platforms work in an all or nothing base. To criticize this possible explanation, the author mentions that, if self-funding was the cause of it, smaller projects would have an higher percentage of success than bigger projects, since they are easier to self-fund, but the data collected doesn’t confirm it. Nonetheless, the self-funding hypothesis cannot be completely discarded, since there might be other issues arising, such as the possibility that small projects are started by people with lower income and that cannot cover the gap between the funding goal and the amount already invested. It might also happen that, since the amount invested by other backers is higher in the medium or big projects than in small ones, the entrepreneur makes an extra financial effort, in order not to lose a big amount of money from the backers, which is smaller in small projects and, therefore, not worth the effort. Apart from it, there are other possibilities that

contribute to uncertainty about the issue of self-funding influencing the outcome of a crowd-funded project. Another alternative suggested by Mollick (2014) is that the patterns of success are related to the quality of the project and, therefore, just like it happens with other kinds of financial instruments, the projects with good quality are identifiable to funders and get funding, while those projects with low quality do not get funding and the quality of the project determines its success. One of the biggest critics about crowdfunding is that the projects quality is not very clear and, thus, projects with high quality might not receive funding, while projects with low quality might be backed by the crowd. If so would be true then, crowdfunding, would be inefficient in supporting entrepreneurs with ideas with high potential and it would be an easy target for fraud. Consequently, it is very important to clarify better this issue.

2.9.1 - Quality signals

To assess the validity of the argument that project quality determines the chances of a project to fail or succeed Mollick (2014) and Kuppuswamy and Bayus (2015) studied if crowdfunding projects' success was linked to quality signals or not. In these studies, the authors found out that, the existence of a video in the crowdfunding campaign, the existence of updates, after three days of launching the campaign, and the inexistence of spelling mistakes, are factors that are signals of the quality of the campaign and of the preparedness of the entrepreneur. Those three signals are associated with the success of a crowdfunding campaign. Hence, crowdfunders are aware of the quality of the crowdfunding campaigns, supporting those with higher quality instead of the projects with low quality, following a rational assessment, just like it happens with the more traditional sources of financing. There are no evidences of irrational herding or, in other words, a tendency to act irrationally as a group. In fact, in crowdfunding, the behaviour that makes people work as a group to achieve a goal, is a proof of rational herding, because backers believe that more informed backers, who invested before, are better informed and their investment decision is a proof of project's quality. The importance of social influence will be discussed later in more detail.

2.9.1.1 - Video

In the study of Mollick (2014) it is shown that the inexistence of a video reduces the probability of investment by 26%. This result is supported by both, equity and reward crowdfunding platforms that state that projects with video are more likely to succeed than those without one (Seedrs, 2016; Kickstarter, 2016).

2.9.1.2 - Updates

Studying more specifically the importance of updates, Kuppuswamy and Bayus (2015) estimated a positive and significant relation between higher levels of project support and the frequency of updates, concluding that successful projects have expressively more updates than unsuccessful projects, increasing the number of project's backers every day. The lack of early updates reduces the success chance of the campaign by 13%, according to the study of Mollick (2014).

2.9.1.3 - Spelling mistakes

Concerning another signal of quality, the existence of spelling mistakes, the study of Mollick (2014) shows that its existence reduces the chance of success of a project by 13%.

2.9.2 - Entrepreneur's network size

Apart from discovering that signals of quality are associated with the success of a crowdfunding campaign, the same authors found that another specific crowdfunding success factor is the entrepreneur's network size. The highest the number of friends in the social networks the more chance a project has to succeed (Kuppuswamy and Bayus, 2015; Mollick, 2014). Regarding the size of the network, as an example, an entrepreneur starting a Kickstarter campaign, in the film category, that has 10 friends has a success chance of 9%, while an entrepreneur that has 1000 friends, has a success rate of 40% (Mollick, 2014).

2.9.3 - Investment goal and campaign duration

The authors also found that increasing the goal size and increasing the duration of the campaign have a negative influence on the chances of success. The first conclusion was predictable since, the bigger the amount to be raised, the hardest it is to fund it, because the entrepreneur has to convince more people to invest more money or to convince current investors to invest more. Kuppuswamy and Bayus (2015) found out that, unsuccessful projects in Kickstarter, had an investment goal four time higher than the successful ones. The second conclusion is a surprise. It is a surprise because one is automatically directed to think that, the longest the duration of a campaign, the better are the chances of success, since more people would be able to come across the campaign and invest on it. Nonetheless, such thing doesn't happen, Kuppuswamy and Bayus (2015) suggest that longer durations might be associated with lack of confidence and it influences negatively the success possibility of a crowdfunding campaign.

2.9.4 - Project's narrative, individual quality signals and internal social capital accumulated

Kuppuswamy and Bayus (2015), also in the study about the dynamics of project backers in Kickstarter, point out that, apart from the already previously mentioned signals of quality and the size of social networks, and according to the existent literature on crowdfunding, mainly Agrawal *et al.*, (2015), the narrative in the project description, the individual quality signals such as gender, race and personal characteristics and the internal social capital accumulated from supporting other projects, in other words, the social contacts made within the platform, are linked with the success or failure of a crowdfunding campaign.

2.9.5 - Communication

After studying a French company that used equity crowdfunding to raise finance, Schwiendacher and Larralde (2010), made some interesting conclusions. According to these authors, to have a successful crowdfunding campaign, founders should efficiently communicate with Web 2.0, because the more communication around the project or the campaign the better.

One other recommendation to the entrepreneurs is to use their network as widely as possible, since the communication from people that belong to the network of the founder and believe in the project is more effective than formal communication.

2.9.6 - Conclusion

When planning a crowdfunding campaign there are specific success factors that must be taken into account. The existence of a video and regular updates is essential, just like the inexistence of spelling mistakes. For obvious reasons, the bigger the investment goal, the harder it is to achieve it. Although, unlike common perception, the longer the time span the campaign is open to the public, the worse. The most important is not the time available for investment but the project narrative and an effective communication, embracing the Web 2.0. The personal characteristics and network, together with the social contacts within the platform are also very important factors. Even though several characteristics are shared between reward base and equity crowdfunding, there are some important differences. One of those important differences are the characteristics of the backers in each type of project. While in the reward base model most backers are investing in crowdfunding for the first time, in the equity model the majority of the investors have prior experience in crowdfunding (Kuppawamy and Bayus, 2015; Agrawal *et al.*, 2015).

2.10 - Signalling quality in Equity crowdfunding

As stated previously, there are more similarities between a reward based crowdfunding campaign and an equity one than differences. Nonetheless, it is important to understand better those differences and look to the specifics of equity crowdfunding. It happens very often that the main target of startups raising money, through equity crowdfunding, are small investors that do not have the necessary skills or time to deeply evaluate the real potential of the ventures. It is therefore crucial, for the investment seeking ventures, to clearly signal their value in order to be successful in raising money. For those ventures, it is essential to know which kind of signals lead investors to invest in certain projects instead of others. The way entrepreneurs signal to small investors is likely to be very different than the way they do it with bigger investors such as VC's, since the knowledge, experience and characteristics of these two types of investors are very different (Ahlers, Cumming, Gunther and Schweizer, 2015).

Information asymmetry is a bigger concern in crowdfunding than in other kind of investments, and it varies according to the different types of crowdfunding, mainly because it is not easy to evaluate and monitoring the potential, financials, product's quality and evolution of a venture from a distance, but also because the crowd might not be very well informed to make a clear evaluation, since some might lack the experience, mainly comparing to professional investors. This raises again the question whether or not the crowd is investing in ventures with potential or, by contrast, the crowd cannot evaluate correctly the potential of the startups and, therefore, are investing in low potential ventures, leaving high potential ones without funding. Nevertheless, as discussed earlier, there are scientific evidences that in equity crowdfunding, just like in reward based crowdfunding, the crowd is being wise while choosing their investments (Ahlers, Cumming, Gunther and Schweizer, 2015; Mollick, 2014; Kuppuswamy and Bayus, 2015). Since the quality of early stages startups cannot be easily observed directly, backers focus in observable characteristics that might be related to venture success such as, for example, the characteristics of the entrepreneur. To be successful, entrepreneurs have to convince crowdfunders to invest in their venture, using persuasively non-observable attribute such as the perspective of future cash flow and profit generation (Ahlers, Cumming, Gunther and Schweizer, 2015).

Ahlers, Cumming, Gunther and Schweizer (2015) developed the most comprehensive framework to date covering the variables that can determine crowdfunding success, in the specific case of an equity crowdfunding campaign. Although, it is important to notice that this work focus only in one unique equity crowdfunding platform. According to the authors, funding success is influenced, positively, by signals of venture quality and negatively by the level of uncertainty, consequence of the information asymmetries. An effective signal of venture quality, that influence investment decision, has two crucial features, which are *observability*, that refers to how deep and clear the information is perceived by the investors, and *signal cost*, which refers to the potential costs that the signal might have and to its impact in the venture. An effective signal is one that, apart from being observable, is reasonable and do not offset its benefits. As an example, it is always good to show a huge increase in sales during the previous month, right before a presentation to the investors, but if the entrepreneur specifically lowered the price of the product that month, just to show a positive signal to the investors, without thinking about the costs, the possible future outcomes might be severely adverse for the venture, in the long term. More specifically, the authors divided the determinants of funding success in equity crowdfunding in two big areas. The venture quality, comprising human capital, social capital and intellectual capital. And the level of uncertainty, comprising equity share and financial projections. They conclude their hypothesis based on previous literature on the topic of venture investment. Nonetheless, their findings showed that equity crowdfunding success is, somewhat, achieved differently compared to the traditional sources of finance. Their most important findings were that, a high offer of equity from the entrepreneur and the absence or the omission of important information about risks and the future outlook of the venture were negatively related to its success. Correspondingly, they found that, the higher the uncertainty or the capital offers, the longer it takes for the project to be funded. Therefore, to improve the chance of success of a venture, the entrepreneur should provide more information about risks and about the future prospects, since it is an effective signal that can powerfully influence the investment decision of the investor. Also important is to define a balanced amount of equity to offer, not too small to make the investment undesirable, but not too big to make the investor feel a lack of commitment or confidence, from the entrepreneur, towards the project. This assumes extra importance since the

authors also found a negative relation between the amount of equity offered and the number of investors. These two important success factors reduce information asymmetry and the level of uncertainty, increasing the desirability of the investment for the investors. In line with their hypothesis, the authors found that there is an empirical evidence that human capital, in other words, the academic experience of the entrepreneurial team, in this specific case the amount of MBA graduates in the executive board, is positively related with the number of investors in the venture. A higher number of board member is positively related with both, the number of investors, and a higher funded amount. However, and unlike the authors' hypothesis, there was not found any relationship between intellectual capital, referring to the number of patents granted, and funding success. This might be explained by the fact that equity crowdfunding is still in an early stage and the data available is limited but also because there was no assessment of neither the quality, nor the number of patents of the analysed ventures. According to the authors, two important details, that increase the success rate of an equity crowdfunding campaign, are the inclusion of a proposed exit channel, as an explicit desired way to make money and redistribute it to the investors, and stating a short time horizon for that proposed exit. This was expressed through a negative relation between the speed of funding and information given by the entrepreneur, such as the previously mentioned exit channel statement. So, the more information, the shorter the time it takes until the campaign is fully funded. Not in accordance to what was already discussed in previous chapters for reward based crowdfunding, the authors found empirical evidence that smaller projects are more likely to be funded than larger projects.

Conclusion

In a nutshell, observable signals, displaying higher venture quality, mainly through the existence of qualified human capital and the reduced level of uncertainty are fundamental for the success of an equity crowdfunding campaign. The reduction of uncertainty can be achieved by providing information to potential shareholders, about the risks and the future projections on the performance of the venture. Important information is a proposed exit channel with a short time horizon until that exit, since this information increases the desirability of the venture for possible shareholders. Another way to reduce uncertainty is to show commitment to the venture by sharing the risks, investing personal money and directly holding shares. Also,

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it is important to notice that high equity offerings, by the entrepreneur, are associated with lack of confidence in the venture and prejudicial to its success. The above-mentioned factors, together with those discussed earlier, that are common to equity and reward crowdfunding, are very important indicators for the success of an equity crowdfunding venture.

Chapter 3 - Methodology

3.1 – Research problem

Analysing the two most used European equity crowdfunding platforms, Seedrs and Crowdcube, it is possible to validate the findings discussed in the literature, using practical knowledge and data collected from the websites and from the entrepreneurs that successfully crowdfunded a venture using those platforms. The existence of a video and regular updates, the elaboration of a very well-prepared campaign that signals quality, the need to widely use the entrepreneurs network, the necessity to raise investment online and offline to create a momentum, that influences others to invest, and the requirement to set a balanced valuation and target amount, are mentioned as crucial elements for a successful campaign. The literature on crowdfunding and the data collected by the crowdfunding platforms provide evidence about some of the success factors on a crowdfunding campaign. Even though it is very important to know which are the success factors of a crowdfunding campaign, it is also very important to understand which are the underlying reasons why are investors influenced by those factors and there are not a lot of studies, in the literature, about crowdfunding, to answer this important part of crowdfunding psychology. Mainly, if we are discussing, in specific, the equity crowdfunding industry. It is therefore of utmost importance to understand if the underlying motivations for investors to invest in reward based crowdfunding are the same as for those investing in equity based crowdfunding. Also fundamental, is to understand which are the deterrents for investment, so it will be possible to build campaigns that can, if possible, address those issues.

The purpose of this thesis is to collect the information available on how to create a successful crowdfunding campaign and to apply it to the specific case of equity crowdfunding. There are several studies about this topic regarding reward based crowdfunding but not about equity based crowdfunding. Studying and comparing the underlying motivation of investors in equity and reward crowdfunding helps to understand, whether or not, an equity crowdfunding campaign can be built the same way as a reward crowdfunding campaign. If the underlying motivations are the same, or at least similar, it will be possible to do so. If the motivations

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are different between investors, different campaign characteristics should be present, in order to acquire the investment of investors with different motivations.

For reward based crowdfunding it is expected, according to the existent studies, that the main motivations will be the access to a reward, usually a product that is still not available in the market, and the community based benefits. For equity crowdfunding there is less information, nonetheless, there are some studies that suggest that the motivations to invest in reward based and equity based crowdfunding are common on several aspects, mainly in those related to the community based benefits. A different result, as a consequence of the natural differences between these two types of crowdfunding, is expected in the extrinsic motivation expected from the investors. A reward, in the reward based crowdfunding, and a financial return, in equity crowdfunding investments. In order to try to understand better those underlying reasons, and to assess if, in fact, community based benefits are as important in reward based crowdfunding as in equity based crowdfunding, an online survey was made to people that have already invested in crowdfunding and equity crowdfunding.

3.2 - Research question

To find an answer to the proposed research problem it is necessary to find the correspondent research question. The most important research question that this survey aims to answer is: “Are the underlying motivations of investors, who invest in reward based crowdfunding, the same motivations as those investors, that invest in equity based crowdfunding?” For that, it is crucial to know which are the primary motivations of the investors when investing in equity crowdfunding and in reward base crowdfunding. Consequently, it was conducted an online survey to collect primary data in order to find out which are those motivations. The survey can be seen in the appendix.

3.3 - Procedure

Since this survey was supposed to be straight forward, the simplest possible approach was used. By simply asking, using an online survey, those that have already invested in crowdfunding or equity crowdfunding, which were their motivations to do so and, by asking those that have never invested on it, why haven't they done so, it is possible to have an overall idea about the motivations to invest or not in crowdfunding.

The target of the survey can be divided in two groups. The group of people without investment experience in crowdfunding, to understand their reasons not to invest on it. And the group of people with experience in equity crowdfunding and reward crowdfunding, to compare their motivations. To reach those people with experience, was mainly used equity crowdfunding and reward crowdfunding platforms, but also social networks such as Facebook and LinkedIn, specifically in groups about crowdfunding. To reach those that have never used crowdfunding or equity crowdfunding, several social network platforms were used, mainly social networks such as Facebook and LinkedIn.

3.4 – Sample characteristics

The survey participants are a mix composed by people that have never invested in equity crowdfunding or crowdfunding, those who have only invested in crowdfunding or equity crowdfunding and those who have invested in any. The reason why it is also important to collect data for crowdfunding in general and not only for equity crowdfunding, is to have data to compare the results between equity crowdfunding and the rest of crowdfunding, in order to solve the gap of information about the underlying motivations of investors in equity crowdfunding.

The survey is composed by 53 individuals, from 19 to 67 years old, with 71.7 % of them being males and 28.3% females. While 18.9% of the interviewees has a level of education correspondent to secondary education or lower, 32.1% has bachelor degree or higher, in the business or management field and 49.1% has a bachelor degree or higher, in a different field than business or management. So, 71.2% have a level of education correspondent to a bachelor degree or higher.

Academic Qualifications

53 responses

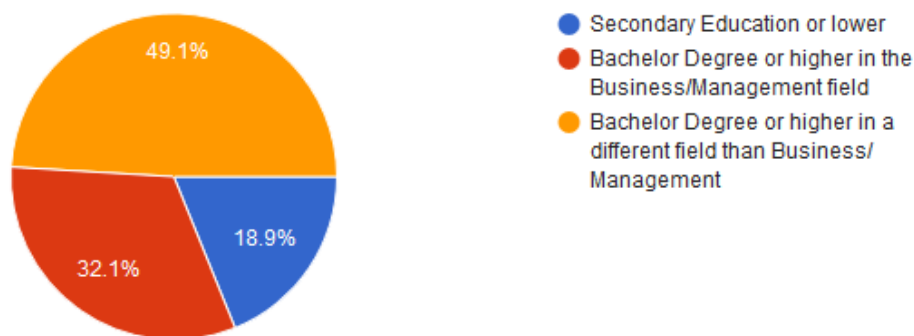


Figure 1 - Academic qualifications of the respondents (own source).

It is interesting to notice that, the majority of the respondents, 60.4%, has no professional experience dealing with financial instruments, while 22.6% currently have or had in the past a profession slightly connected with financial instruments and 17% of the respondents has or

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had a profession deeply involved with financial instruments. This might be important for the discussion about whether or not investors in crowdfunding are investing in ventures with value, or even if they are making the right choice while being responsible in the allocation of their money, since they lack experience dealing with financial instruments, professionally.

Investment knowledge acquired through professional activities

53 responses

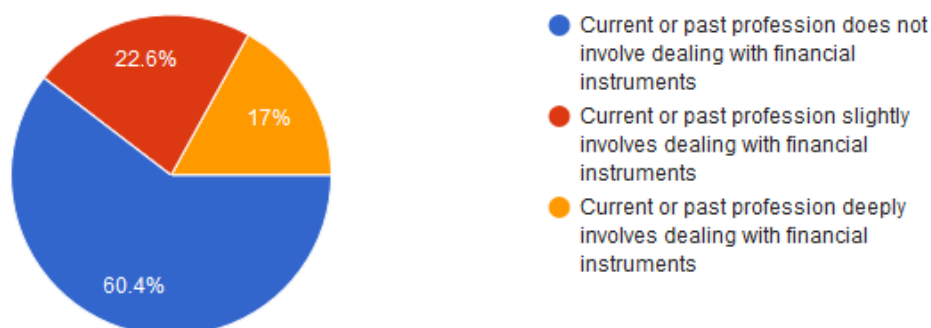


Figure 2 - Investment knowledge acquired through professional activities (own source).

The value of the current assets of the respondents is deeply heterogenic, ranging from less than 10.000 euros to superior than a million. Nonetheless, it is possible to observe a prominence of respondents with less than 10.000 euros in current assets. It is possible to understand that this sample is mainly composed by small investors. One of the issues that it is important, for future research, to study, is about the possible differences between small and big investors, in their motivations to invest and also about the importance that some specific success factors have for the investment decision of each of the investor type. Another interesting issue is related to the border between small and big investor. From which investment amount is an investor considered small or big?

Which is the value of your current assets? (52 responses)

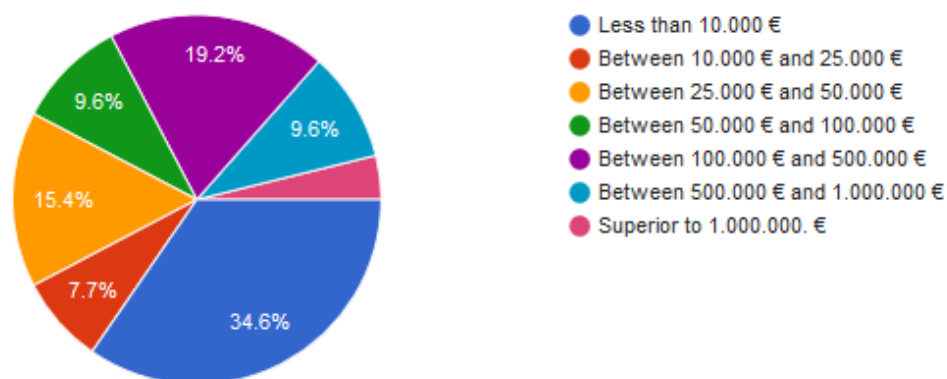


Figure 3 - Respondents' current assets (own source).

The same balance exists in relation to the percentage of savings correspondent to those assets. Although, 43.1%, have savings that correspond to less than 10% of their assets. This is likely due to the fact that, currently, the interest rate on savings is very low and, in some cases, even zero.

From the above mention assets which percentage correspond to savings? (51 responses)

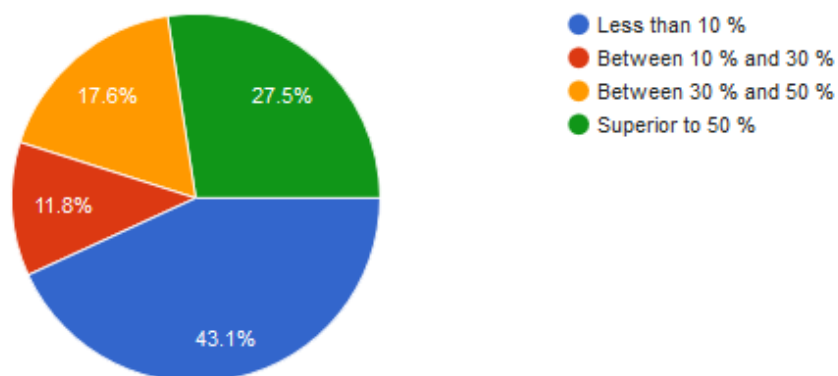


Figure 4 - Percentage of savings related to assets (own source).

The heterogeneity of the sample can also be observed from the fact that, there is also a balance on the amount of months of current expenses that could be covered by the savings of the respondents.

Do you have cumulative savings? If yes, how many months of your current expenses can your savings cover?

(50 responses)

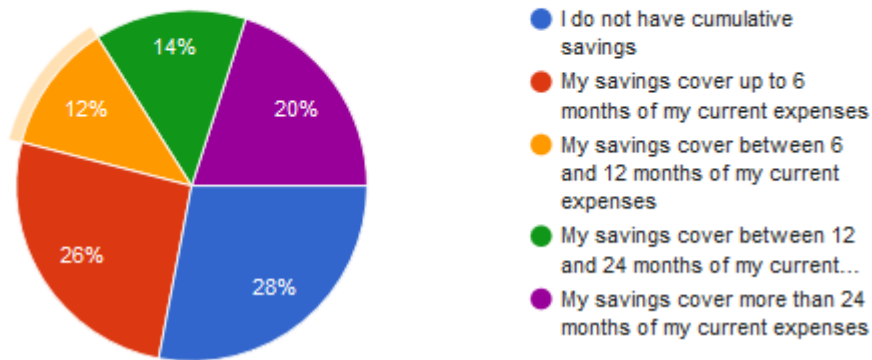


Figure 5 - Number of months that respondents' current expenses can be covered by own savings (own source).

The small amount of respondents' savings could have been explained by a risk seeking profile of the majority of the respondents. Although, as the following graphic shows, the risk seeking profile of the respondents is also very balanced.

From the following portfolios with different profitability which one would you prefer ?

(51 responses)

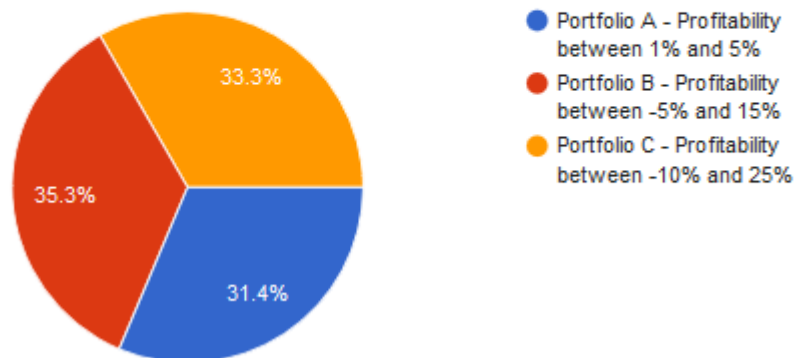


Figure 6 - Distribution of respondent's portfolio preferences (own source).

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Furthermore, the majority of the respondents has long term savings, 54.7 %, and has invested in the stock exchange, 50.9%. In overall, the participants in the survey are very heterogenic, not only on their personal characteristics and assets, but also on how they deal with their money and investments.

Chapter 4 - Findings and discussion

The phase following the description of those that participated in the survey, is the analysis of the results, regarding the crowdfunding experience, that were produced by their answers. Those who have invested in equity crowdfunding, expect a return on those investments from 0% to 700%, although, eliminating extreme results, it is possible to understand that, the majority, is expecting a return between 0% and 25%. To those that have never invested in equity crowdfunding, it was asked which would be the minimum annual return that would convince them to invest. The results show that, 73% of the respondents, specified a value between 5% and 30% and, 49.9% of the respondents, specified a value between 5% and 10%. It is also important to notice that, 71.2% of the respondents, were not aware that the most recent data (even though there is not enough sufficient data for uncontroversial conclusions) shows that the average return on equity crowdfunding is 14.44 % (Seedrs, 2016) annually, while for savings is 0.77% (ECB, 2016). Since the minimum return expected, for those that have never invested in equity crowdfunding before, to invest in it, is between 5% and 30%, and that the return on equity crowdfunding is in the middle of that interval, it is likely that, knowing this fact, some of those respondents would have invested in equity crowdfunding before. In fact, 47.8% of the respondents stated that, if they would have known that the average return on equity crowdfunding is 14.44 % annually, they would have invested in it, while 39.1% stated maybe. This can be very important for the crowdfunding platforms, so that they can do an effort to pass this message to attract more users.

If you were not aware, does this data make you more willing to invest in equity Crowdfunding?

46 responses

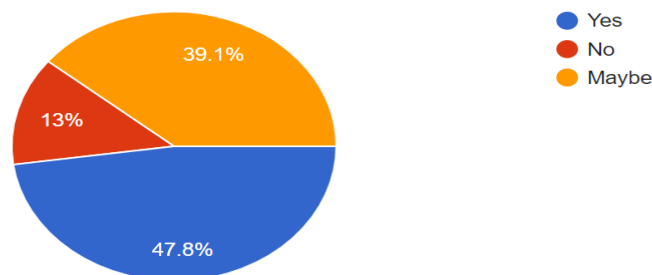


Figure 7 – Respondents' willingness to invest in equity crowdfunding, after knowing the average return on it (own source).

4.1 - Deterrents to invest

Also interesting for the crowdfunding industry, in particular the crowdfunding platforms, are the reasons stated for those that have never invested in crowdfunding, 31 respondents, not to have done so. A significant number of the respondents, 41.9%, stated that they don't know enough about the concept to invest or they are not aware of it at all, 22.6%. Lack of money, 25.8%, and lack of interest, 19.4%, are also important reasons. The idea that crowdfunding is too risky, 16.1%, the preference for safer investments, 19.4%, the distrust on the existing crowdfunding platforms, 12.9%, or the dissatisfaction with the current projects available, 9.7%, are also important factors. This can be attributed, at least partially, to the distrust of how the creators of the campaigns will, in fact, use the money they will receive (Gerber and Hui, 2013). Less important factors are the access to crowdfunding platforms, the preference for investments with higher returns and the dislike of the concept.

If applicable, why haven't you ever invested in Crowdfunding?

31 responses

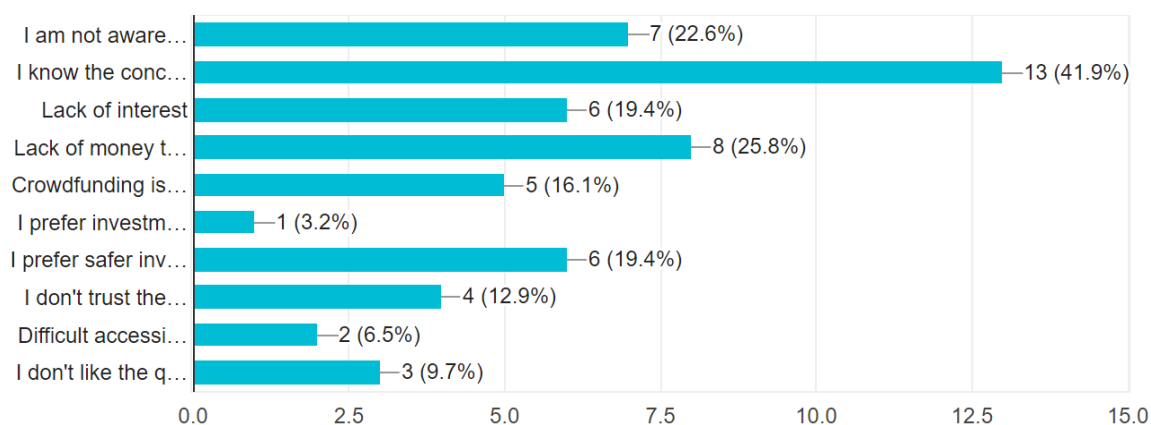


Figure 8 - Reasons why respondents have never invested in crowdfunding (own source).

For equity crowdfunding the results are similar but slightly different. The number of respondents was 30, and the percentage of those that are not aware of equity crowdfunding is 53.3%, while 20% knows the concept but not enough to invest. Lack of money is also an important reason, 16.7%, and the difficulty to access crowdfunding platforms was given as a

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reason by 20% of the respondents. In the answers, there are two important facts that are important to notice. The fact that half of the respondent doesn't know equity crowdfunding, probably because it is a specific part of crowdfunding, and the fact that a big percentage of the respondents choose the difficulty of access to equity crowdfunding platforms as a problem. Less important reasons are the lack of interest, the distrust of existing equity crowdfunding platforms and the dislike of the concept. Besides the lack of money to invest, which is beyond crowdfunding agent's control, an important aspect to take into account, is the difficulty to access equity crowdfunding platforms. This is, very likely, due to the restrictions, from governmental sources but also from platforms, which results in the existence of several equity crowdfunding platforms that are only open for accredited investors. Interesting fact is that crowdfunding is perceived as riskier than equity crowdfunding, it can be due to the stricter risk awareness policy employed by equity crowdfunding platforms or due to the fact that investors in equity crowdfunding have power to influence management decision and, therefore, have bigger control.

If applicable, why haven't you ever invested in Equity-crowdfunding?

30 responses

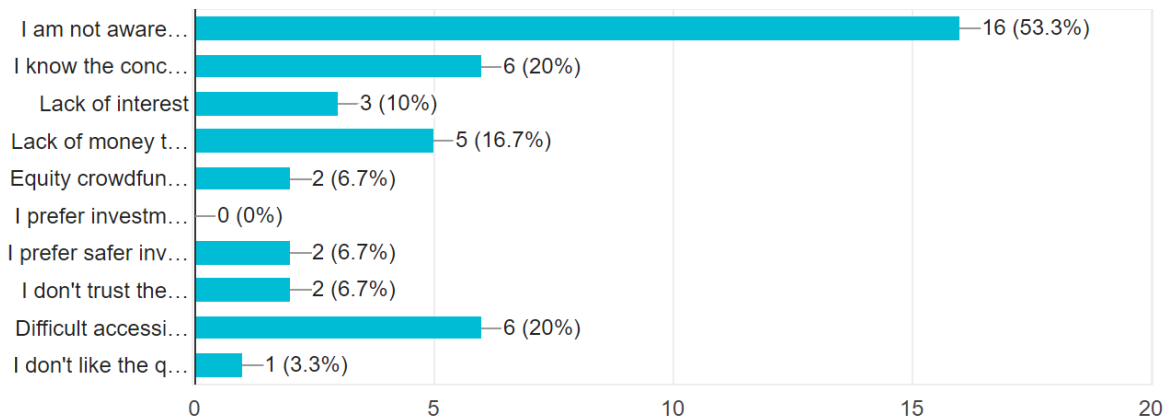


Figure 9 - Reasons why respondents have never invested in equity crowdfunding (own source).

As conclusion, the main reason for people not to invest in crowdfunding or equity crowdfunding is the lack of awareness, although it is important to notice that for equity crowdfunding the lack of awareness is total, for the majority of the respondents, while for

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crowdfunding is only partial. This lack of awareness is concerning, not only the concept of equity crowdfunding, but also the average returns on it. The lack of money, the preference for safer investments and, applicable only to equity crowdfunding, the difficulty of access to some platforms are other significant reasons.

4.2 - Motivations to invest

The most important motivations to invest in Crowdfunding is to follow an entrepreneurial journey since its beginning, 78.8%, followed by the access to innovative products, still not available in the market, 57.6%. Possible experience gains and to feel part of the entrepreneurial community, 36.4%, are also important factors, together with personal satisfaction, 30.3%, extending personal network, 18.2%, personal recognition, 12.1%, and the possibility to choose features of the product, 9.1%.

If applicable which are the reasons why you invest in Crowdfunding?

33 responses

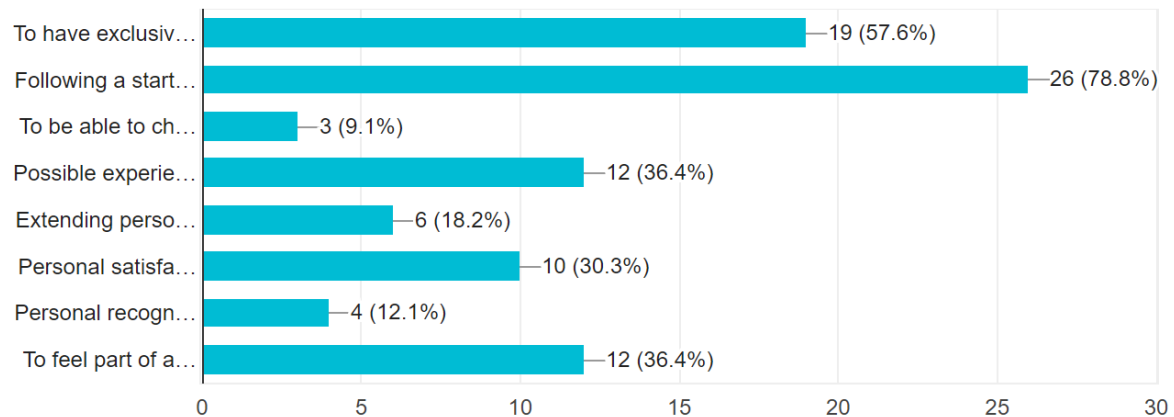


Figure 10 - Reasons why respondents have invested in crowdfunding (own source).

For equity crowdfunding, the financial return, 77.4%, and to follow an entrepreneurial journey since its beginning, 67.7%, were the most important reasons for investment, followed by possible experience gains and to feel part of the entrepreneurial community, 38.7%. Personal satisfaction, 25.8%, extending personal network and to be part of the decision making, 16.1%, are also important motivations.

If applicable, which are the reasons why you invest in Equity Crowdfunding?

31 responses

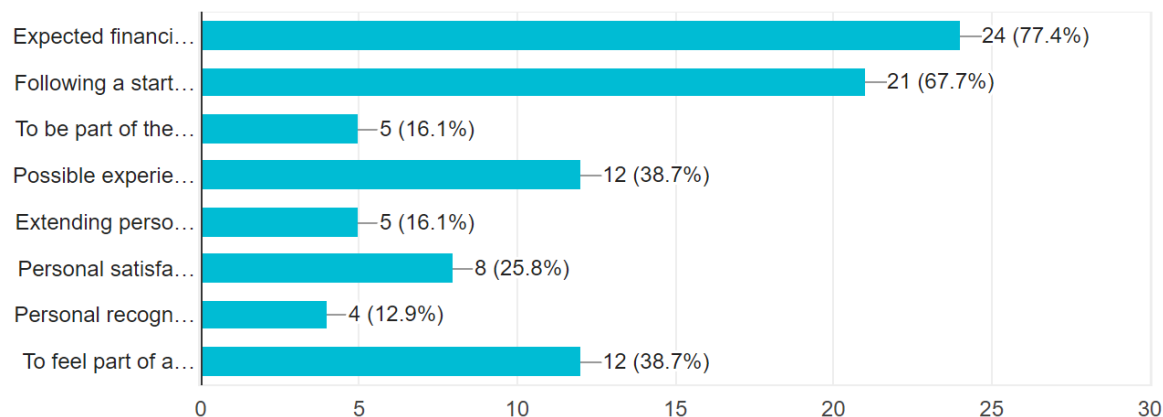


Figure 11 - Reasons why respondents have invested in equity crowdfunding (own source).

Apart from the extrinsic motivation, which is the most obvious reason to invest in crowdfunding and in equity crowdfunding, to have exclusive access to innovative products, in reward crowdfunding and expected financial returns, in equity crowdfunding, there are other important aspects that must be taken into account when creating a crowdfunding or an equity crowdfunding campaign. The most important is that investors are keen to be part of the journey and that is one of the biggest motivations that startups looking for finance must attend and cannot neglect. To be successful, entrepreneurs looking for finance, should also have in mind and prepare a crowdfunding campaign that makes possible experience gains and personal satisfaction for the investors and that makes them feel part of the entrepreneurial community.

4.3 - Conclusion

In a nutshell, the main reason not to invest in crowdfunding or, more specifically, in equity crowdfunding, is either the fact they don't know the concept, regarding equity crowdfunding, or the fact that they don't know enough about it, regarding crowdfunding in general. The lack of knowledge about the returns in equity crowdfunding is also a very important issue. Those who invested in equity crowdfunding expect a lower return for their equity crowdfunding investments than the minimum return that would make those, who have never invested on it, to do so. The equity crowdfunding industry, should make sure that, the returns achieved so far, are advertised. Furthermore, the industry should work to try to increase the average return of 14.44% to increase interest from investors, which is likely to happen as the industry matures. Even though the majority of the respondents were not aware of the average return on equity crowdfunding, when confronted with the value, the majority stated that would invest or might invest. This leads to a very important question which is the lack of awareness among people for these phenomenon and respective characteristics, which is a huge drawback for the industry.

One other important aspect, is the perceived difficulty to access equity crowdfunding platforms, and this is an issue that depends mainly on the law makers and their restrictions to the industry. For crowdfunding in general, some issues are the quality of the platforms and projects, that might be due to the bigger size of the platforms and to the fewer restrictions to which projects can be available in the platforms.

Apart from the motivation to have exclusive access to innovative products and expected financial returns, respectively for reward based crowdfunding and equity crowdfunding, there are several intrinsic and extrinsic motivations that entrepreneurs should take into account when trying to create a successful campaign, such as the feeling to belong to the entrepreneurial community, personal recognition and satisfaction, experience gains, expanding network but, most importantly, the motivation to follow a successful entrepreneurial journey from its early beginning. Those results are in accordance to the literature available on crowdfunding, discussed in the literature review, mainly in relation to

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the importance of the community based benefits, translated in the fact that, for most of the investors, follow an entrepreneurial journey since its beginning is one of the main reasons why they invest in crowdfunding. In a smaller scale, being part of a group, which allows to expand the network of the participants, is another community based benefit that is also confirmed in the survey as an important motivation to invest. It is therefore safe to say that, while the extrinsic motivations are different, depending on the type of crowdfunding, the intrinsic motivations are the same. The underlying motivations, regarding the community based benefits, are the same for reward based and equity based crowdfunding investors.

4.4 - Limitations

There are some limitations in this survey and its results. First of all, it is a small and limited sample. Apart from the small number of respondents, the sample is composed mainly by investors using the equity crowdfunding platform Seedrs. Although very unlikely, there might be differences in the motivations of investors between different platforms. Furthermore, the geographical location of the respondents is also limited and there might be differences on the motivations to invest in crowdfunding, depending on the geographical location of the investor, possibly due to cultural issues.

Second, there might be a difference between the stated answers and the real motivations. This might happen due to the motivated reasoning, an emotion-biased decision-making process, which occurs because people want to perceive their inner self as consistent and good, to be part of group membership and to form and maintaining interpersonal relationships, among others reasons (Kunda, 1990). This raises two issues. The first one is related to the fact that the respondents might have reduced the weight of their financial motivations and exaggerated their intrinsic motivations. However, the fact that the survey was completely anonymous is likely to have limited this potential bias. The second issue is about the influence of motivated reasoning in crowdfunding investing decisions.

A third limitation is associated to the way the questions were made. By using a multi answer format, instead of an open question format, in order to understand the results in a clearer way, there might have been some possible motivations that were left out of the available choices, among those that the respondents could choose. Nevertheless, the options available were chosen having in consideration previous academic research and the information available by the platforms and, consequently, there is a scientific and a practical reasoning behind the choices.

A fourth limitation is regarding the lack of data available, mainly, on equity crowdfunding. This limits the results of the survey, since it makes impossible to use data that has already been studied and accepted. As an example, the returns and exits on equity crowdfunding are

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still very few, so it is hard to assess the average return that this type of investment provides. For the survey, the return on investment rate used, was the one provided by Seedrs and that was reviewed by Ernst & Young, which considers that the portfolio valuation policy adopted by Seedrs is according to the industry standard, international private equity and venture capital valuation (IPEV) guidelines. Nevertheless, it is very important to notice that, those valuations, do not represent a net income for the investors resulting from the exit of the ventures they invested but the valuation of their portfolio at a certain point in time, which maybe represent a zero return, if the venture do not succeed in the following years.

Chapter 5 - Conclusions

5.1 - Future issues for crowdfunding

Now that crowdfunding is becoming more popular and more widely used, some issues have arisen, mainly divided in two areas. The first issue concerns the legal aspects of crowdfunding legislation. Governments cannot avoid facing crowdfunding as only a temporary trend any longer, mainly knowing that it is still growing and it surpassed traditional venture capital, in amount financed to startups. Consequently, laws have started to be discussed and in some countries crowdfunding is already legislated. In USA, a very important market for the industry, it has just been enacted the most recent law on crowdfunding. Although, allowing only unaccredited investors to invest in crowdfunding, the Title III of the JOBS Act still has some limitations (Forbes, 2016).

The second area of discussion is related with the sustainability of the crowdfunding success. More specifically, how the increasing number of projects affect the behaviour of crowdfunders. Kuppuswamy and Bayus (2015), studied that the “*Block buster effect*”, a theory stating that, projects with a big number of backers, steal backers from other projects, does not have a practical influence, which means that there is still space for all the new crowdfunding campaigns to get funding and, consequently, there is still space for growth. Even though, the authors also argument that, with so many new projects asking for money, potential backers might become tired and might stay away from supporting new ventures. This is designated as the *Kickstarter fatigue*. Furthermore, the large number of competing projects leads to an increase in the difference of the number of backers in successful and unsuccessful campaigns. The authors suggest that, the conclusion made by Simon (1971) that “*a wealth of information creates a poverty of attention*” might be applicable to the recent boost on crowdfunding, since the growing number of crowdfunding projects is creating a poverty of attention in backers, which might also explain the U-shaped pattern. The above-mentioned findings might suggest that there is a limit for the financial support of the backers, which will definitely be a decisive challenge for the crowdfunding industry.

5.2 - Further research

Crowdfunding is an alternative financing method that is rapidly growing in importance, becoming a major solution for both, investors and entrepreneurs. Despite its importance, there are still not a lot of studies regarding it, leaving several question marks around different aspects of this activity. This is mainly due to the fact that it is a recent topic, this characteristic is even more accurate if we refer to equity crowdfunding. Since it is a recent but significant topic, with growing importance, it is vital to explore which details, characteristics and specifics should be studied, in order to better understand the dynamics of crowdfunding. Through this work some questions, which answers are either inexistent or unclear, were raised and some future research on those questions will be important for the academic and applied use and development of crowdfunding and equity crowdfunding. The main gap concerning crowdfunding studies is related to the underlying motivations of the investors. The focus on crowdfunding studies has been focused initially around the concept, the discussion about what is crowdfunding, its dynamics and boundaries, and more recently on the success factors of a crowdfunding campaign. The natural step from this situation is to start studying the underlying motivations of the investors. Not only the reasons why they invest in some campaigns instead of others, because there are already some studies and conclusions about that, such as the survey presented here, but mainly, which are the reasons why some factors of success have bigger influence in the decision making process than others. There are already some conclusions about which are the characteristics of a successful crowdfunding campaign and which are the required elements for it to succeed in attracting investment, but it is necessary to investigate deeper and understand more about the psychology of crowdfunding. Which are the mental constructions that influence the investment decisions? Why is a video very important for a successful campaign? Is it because it shows quality or professionalism to the investors? Is it important because investors are easily persuaded by a video introduction of the team and the project than a written one? Is it because it is clearer? Why are some personal characteristics of the entrepreneur important for the success of the campaign? Is it because some personal characteristics signal more trust, experience or dedication than others? Does gender, age, religion or other demographic characteristics matter? If yes, how? There are many more questions like those that can be studied in order to better understand crowdfunding. This can be applied to all the success

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factors of a crowdfunding campaign, such as the narrative, the personal characteristics, the updates, etc., changing the questions depending on the characteristic. But there are other aspects, apart from the crowdfunding specific success factors, that would benefit from a deeper understanding of the crowdfunding's psychology. To discover which is the importance and weight of other cognitive processes or heuristics that can influence the dynamics of crowdfunding, can assume a huge importance on the development of crowdfunding. For example, how important is motivated reasoning, when investors have to choose in which projects to invest their money? Which influence has the wisdom of the crowds in the funding cycle of a crowdfunding campaign? In this particular aspect there are some contradictions in the literature. Fishbach *et al.*, (2011) wrote that when the group identification is weak, just like in crowdfunding, the individuals decide to pursue a group goal. If they believe the goal is worthwhile, the fact that other people have already supported a certain crowdfunding campaign, works as a validation for new potential backers. Agrawal *et al.*, (2015) added that, after the goal is achieved, backers tend to stop to contribute to the venture, since the success of it has already been achieved. This raises some questions. Why would new investors not invest in a campaign that was already validated by other investors, just because its target has already been reached? If the campaign was already validated by others, either because the product seems to be valuable, in the case of reward crowdfunding, or because the venture seems to have an interesting prospect in term of financial returns, in equity crowdfunding, or because the community benefits are strong enough to make a lot of investors invest their money, why would a new investor not be willing to be part of that venture? Why would a new investor lose all those benefits that were already validated by the crowd? One might believe that overfunding is a sign of validation of the project and would, therefore, attract even more costumers. It is important to clarify if overfunding is a deterrent or an incentive for the investor, and if there are some differences about its role in an equity crowdfunding campaign and in a reward crowdfunding campaign. It is not only the cognitive process of the investor's decisions that must be studied. It will also be positive to understand the cognitive reasons that influence the decisions of the creators of a crowdfunding campaign. For example, Gerber and Hui (2013) studied that, one of the deterrents that influence the decision to create a crowdfunding campaign, was fear. Some people are afraid of failing, when creating a crowdfunding campaign and that makes them to give up on the idea of using

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crowdfunding to fund their venture. Knowing more about the investor's psychological constructs when investing in crowdfunding will help entrepreneurs to design the campaigns in a way that they can be more appealing to investors. But for the industry in general, it will also be interesting to study the psychology of the creators of crowdfunding campaigns.

It is therefore very important to start developing more knowledge about the crowdfunding psychology.

Apart from the importance of the crowdfunding psychology, another part of crowdfunding that would benefit from further research are the differences between equity and reward based crowdfunding. There are plenty of opportunities to study the differences between those two types of crowdfunding. Although there are some studies that can be very helpful in it, several issues are still unclear, mainly related to the specific success factors. Not only about which are they, but also about their importance in each type of crowdfunding. How do entrepreneurs choose which type of crowdfunding to use and when? Which are the perceived advantages for creators in choosing equity instead of reward or vice versa? Some ventures, such as torch, used both types of crowdfunding in different phases of their growth (Seedrs, 2017). Is there a better time for a venture to search for funding using equity crowdfunding and a different time for reward? Literature states that equity crowdfunding is better for early stages, since it is costly to build a prototype, to present to possible investors in reward base crowdfunding, while in equity crowdfunding the main focus is not in the product but the possible returns that the venture might deliver. Is it still true nowadays, when technological developments allow the creation of prototypes with much smaller costs? Also important are the differences between investors in both types. Are there differences in the profile of the investors that use reward crowdfunding and equity crowdfunding? If yes, which are the differences between them? The profile differences can be divided in several subgroups, even inside the same type of crowdfunding. Are there relevant profile differences between investors of different platforms of the same kind of crowdfunding? Apart from the available money to invest, are there important differences between big and small investors? From which investment amount is an investor considered small or big? Do they have the same motivations? This profile segmentation can be very important for creators to better understand the investors and to target them more accurately.

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Further research should also focus deeply on the characteristics and success of crowdfunding campaigns and how can investors use it to be more successful. For example, how can investor and entrepreneurs use better information asymmetry to achieve their goals? The same applies to the community base benefits. How can entrepreneurs and investors use better community based benefits to achieve their goals? How can they use them to create value? Are the signals of quality of a campaign, such as a video, updates, etc., equal to a campaign with quality? There are the logical questions about whether or not good ventures are not being funded because of a bad designed campaign or if bad ventures are being funded due to a very well organized and advertised campaign. Literature says that investors are rational but until which point can they distinguish between the quality of the venture and the quality of the campaign? Why exactly are campaigns with a bigger target amount of investment more successful than those campaigns with a lower target? Is it because there is more at stake? Is it because, since the amount to be raised is higher, more professional means are used to develop the campaign? Is this completely true?

Literature do not show very clear proofs about the reason why crowdfunding campaigns have a U-shaped form. Apart from the importance about friends and family in the begging and in the end of the campaign as investors, and from the deadline effect and the marginal contribution perception in the end, aren't there more variables influencing this pattern? Which is, after all, the importance of the sorting possibilities available in the crowdfunding platforms, such as sort as newest? Despite some literature stating that patents do not influence crowdfunding success, is it completely true? One would assume that, for equity crowdfunding, patents add value to the venture and would be more appealing for investors. Isn't the influence of patents in crowdfunding success dependent on the type of patent? Doesn't it also depend on the state of the patent?

Relating to the platforms, it would be important to discover why do some investors perceive it as difficult to access equity crowdfunding platforms. Is it too bureaucratic to create an account? Is it because in some countries it is only accessible to high network investor? Is it due to legal reasons? If yes, which? And how can they be solved? The future of crowdfunding

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has also plenty of opportunities to develop future research. Which laws can be developed to make the access and use of crowdfunding more widespread and democratic? How can policy makers protect those that invest through crowdfunding? Which laws do apply to crowdfunding? How to regulate equity crowdfunding secondary markets? What will happen when industry matures? Is there still space to grow? Is there really a Kickstarter fatigue? There are several future research possibilities in crowdfunding that could be addressed. Only few of them are stated here and only one thing is certain, with the constant growing of crowdfunding more research will be done in the near future.

5.3 - Conclusion

Due to crowdfunding, and in particular to equity crowdfunding, it is now possible for small investors to invest their money, in several different ways, which were not reachable for those investors some years ago. For companies, organizations and individuals it is now possible to raise money using a possibly less costly and easier approach, than those available before the emergence of crowdfunding. This thesis had the purpose to be, not only, a guide for those looking to raise finance through crowdfunding to be successful, but also to gather dispersed information about the dynamics in crowdfunding, useful to all those interested in crowdfunding, from investors to entrepreneurs and academics, and to study its application to equity crowdfunding. The main focus were the motivations of entrepreneurs to choose crowdfunding, the motivations of investor to invest through reward based crowdfunding and equity crowdfunding, the main differences between reward crowdfunding and equity crowdfunding and the specific success factors of a crowdfunding campaign, with emphasis on equity crowdfunding.

According to the available studies, the **motivations of the entrepreneurs** for choosing, more often, crowdfunding instead of traditional finance was because they lack financial resources, usually harder to get from traditional sources, to share the risk of the venture, to get free or cheap access to the skills and support of the crowd, to form long term connections, to get feedback from the consumers, to keep control of the venture, to get public attention, advertising, feedback and validation, because it is becoming easier to cope with the legal issues and, last but not the least, because crowdfunding can be used as a self-revelation mechanism, to test the product and to find out the profile of those investors that have the biggest interest in the product.

Depending on the type of crowdfunding, the **motivations of investors** to invest in crowdfunding are mainly three. In equity crowdfunding to get financial resources. In reward based crowdfunding to access an exclusive product. One common reason, and probably the most

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import one, is the community benefits. Even though they are common to both types of crowdfunding, they differ depending on the type. While in reward based crowdfunding, community benefits are linked to the product development, in equity crowdfunding they are connected with the belonging of a group that is part of the entrepreneurial project. Last but not least, the motivation to help others or to support specific causes that are according to the beliefs of the investor, are also important motivations for some of the investors, when investing in crowdfunding.

Regarding the **differences between equity and reward crowdfunding**, that are relevant for entrepreneurs to know which and when to use, the information available shows that, when choosing which type of crowdfunding to use, entrepreneurs must be aware that equity crowdfunding is better for early stages and when big amounts of capital are needed, while reward crowdfunding is more successful for smaller amounts. Information asymmetry in the product favours equity crowdfunding, while information asymmetry about the financial or about the entrepreneur tend to impact more an equity crowdfunding campaign. Even though several characteristics are shared between reward base and equity crowdfunding there are same important differences. One of those important differences are the characteristics of the backers in each type of project. While in the reward based model most backers are investing in crowdfunding for the first time, in the equity model the majority of the investors have prior experience in crowdfunding.

The **funding cycle** of a crowdfunding campaign has a U-shaped distribution, where most of the investments occur in the beginning and in the end of the campaign, both for successful and non-successful campaigns. After the funding goal is achieved, investors are less likely to make a contribution. This happens due to the investments of the entrepreneur's close network, to the goal gradient behaviour, to the deadline effect and to the fact that people feel that a contribution is more useful if the project is almost completely funded than in the beginning of the funding cycle, and not due to the sorting possibilities as one might automatically assume. This explain why two thirds of the campaigns are funded in the last week.

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When planning a crowdfunding campaign there are **specific success factors** that must be taken into account. The existence of a video and regular updates is essential, just like the inexistence of spelling mistakes. For obvious reasons, the bigger the investment goal, the harder it is to achieve it. Although, unlike common perception, the longer the time span the campaign is open to the public the worse. The most important is not the time available for investment but the project narrative and an effective communication, embracing the Web 2.0. The personal characteristics and network, together with the social contacts within the platform, are also very important factors.

For the specific case of **equity crowdfunding**, observable signals, displaying higher venture quality, mainly through the existence of qualified human capital and the reduced level of uncertainty, are fundamental for the success of an equity crowdfunding campaign. The reduction of uncertainty can be achieved by providing information to potential shareholders about the risks and the future projections on the performance of the venture. Important information is a proposed exit channel and a short time horizon until that exit, since this information increases the desirability of the venture for possible shareholders. Another way to reduce uncertainty is to show commitment to the venture by sharing the risks, investing personal money and directly holding shares. It is important to notice that high equity offerings, by the entrepreneur, are associated with lack of confidence in the venture and prejudicial to its success. The above-mentioned factors, together with those discussed earlier, that are common to equity and reward crowdfunding, are very important indicators for the success of an equity crowdfunding venture.

According to the survey, the main reason for people **not to invest in crowdfunding or equity crowdfunding** is the lack of awareness. Although, it is important to notice that, for equity crowdfunding, the lack of awareness is total, for the majority of the respondents, while for crowdfunding is only partial. This lack of awareness is concerning, not only the concept, but also the average returns on equity crowdfunding. The lack of money, the preference for safer investments and, applicable to equity crowdfunding, the difficulty of access to some platforms are other significant reasons. One other important aspect is the difficulty perceived to access equity crowdfunding platforms and this is an issue that depends mainly on the law

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maker and its restrictions to the industry. For crowdfunding some issues are the quality of the platforms and projects, which might be due to the bigger size of the platforms and to the fewer restrictions to which projects can be available in the platforms.

There are several **motivations to invest** expressed by the respondents that participated in the survey, apart from the motivation to have exclusive access to innovative products and expected financial returns, respectively for reward based crowdfunding and equity crowdfunding, there are several intrinsic and extrinsic motivations that entrepreneurs should take into account when creating a successful campaign, such as the feeling of belonging to the entrepreneurial community, personal recognition and satisfaction, experience gains, expanding network but, most importantly, the motivation to follow a successful entrepreneurial journey from its early beginning. Through the survey, it was possible to realize that the importance of the community based benefits are as important in equity based crowdfunding as in the reward based model. In a smaller scale, being part of a group, which allows to expand the network of the participants, is another community based benefit that is also confirmed in the survey.

Crowdfunding democratized the access to investment but there is still a lot to be done and studied about it. Despite its growth and, consequently, use and publicity, almost half of the campaigns fail (Crowdrating, 2017). In several cases, due to the ignorance of the entrepreneur about the success factors of a crowdfunding campaign. It was therefore necessary to summarize the available information to facilitate the work of those that choose crowdfunding to finance their ventures, mainly those using equity crowdfunding. With some limitations, this thesis can be an important guideline for those seeking to use crowdfunding, either as investors, entrepreneurs or academics.

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Appendix

Appendix 1 – Survey's questions

Investing in Crowdfunding and Equity Crowdfunding

This survey is part of an academical research and its goal is to understand what motivates people to invest through Crowdfunding and Equity Crowdfunding but also to understand which are the reasons why some people do not invest through this types of alternative finance. Furthermore this survey will help to understand when, how much and how can these types of alternative finance become interesting for those that currently do not invest on it.

Crowdfunding involves an open call, for the provision of financial resources either in the form of donation or in exchange for the future product or some form of reward to support initiatives for specific purposes.

Equity-crowdfunding is a method of financing that allows entrepreneurs to offer shares, equity or some kind of future profits to a group of investors in exchange for money. In this survey we focus on non accredited investors.

Thanks for your help, please answer only the questions that apply to your situation. All questions are optional.

In case of any doubt, question or suggestion please do contact me: francisco.sm.ferreira@gmail.com

How old are you?

Short-answer text

Which is your gender?

☐ Female

☐ Male

Academic Qualifications

☐ Secondary Education or lower

☐ Bachelor Degree or higher in the Business/Management field

☐ Bachelor Degree or higher in a different field than Business/Management

Investment knowledge acquired through professional activities

☐ Current or past profession does not involve dealing with financial instruments

☐ Current or past profession slightly involves dealing with financial instruments

☐ Current or past profession deeply involves dealing with financial instruments

Which is the value of your current assets?

Including savings, investments, houses, cars, etc

- ☐ Less than 10.000 €
- ☐ Between 10.000 € and 25.000 €
- ☐ Between 25.000 € and 50.000 €
- ☐ Between 50.000 € and 100.000 €
- ☐ Between 100.000 € and 500.000 €
- ☐ Between 500.000 € and 1.000.000 €
- ☐ Superior to 1.000.000. €

From the above mention assets which percentage correspond to savings?

- ☐ Less than 10 %
- ☐ Between 10 % and 30 %
- ☐ Between 30 % and 50 %
- ☐ Superior to 50 %

Do you have cumulative savings? If yes, how many months of your current expenses can your savings cover?

- ☐ I do not have cumulative savings
- ☐ My savings cover up to 6 months of my current expenses
- ☐ My savings cover between 6 and 12 months of my current expenses
- ☐ My savings cover between 12 and 24 months of my current expenses
- ☐ My savings cover more than 24 months of my current expenses

Which of the following are your income sources?

- ☐ Work as employer
- ☐ Work as self-employed
- ☐ Capital Revenue
- ☐ Income from property
- ☐ No income source

From the following portfolios with different profitability which one would you prefer ?

- ☐ Portfolio A - Profitability between 1% and 5%
- ☐ Portfolio B - Profitability between -5% and 15%
- ☐ Portfolio C - Profitability between -10% and 25%

Have you ever invested through Crowdfunding?

Any type of Crowdfunding

- ☐ Yes
- ☐ No

Have you ever invested through Equity Crowdfunding?

- ☐ Yes
- ☐ No

If applicable, which is your expected return in percentage of the total investment in Equity Crowdfunding?

in % (percentage)

Short-answer text

.....

Do you have any long term savings?

Maturity superior than 6 months

☐ Yes

☐ No

Have you ever invested in the stock exchange?

☐ Yes

☐ No

If applicable, why haven't you ever invested in Crowdfunding?

Excluding Equity Crowdfunding

- ☐ I am not aware of the concept of Crowdfunding
- ☐ I know the concept but I don't know enough about it to invest my money
- ☐ Lack of interest
- ☐ Lack of money to invest
- ☐ Crowdfunding is too risky
- ☐ I prefer investments with higher returns
- ☐ I prefer safer investments (savings,etc)
- ☐ I don't trust the existent Crowdfunding platforms
- ☐ Difficult accessibility to Crowdfunding platforms
- ☐ I don't like the quality of the existent projects available to invest

If applicable, why haven't you ever invested in Equity-crowdfunding?

Choose all that apply

- ☐ I am not aware of the concept of Equity crowdfunding
- ☐ I know the concept but I don't know enough about it to invest my money
- ☐ Lack of interest
- ☐ Lack of money to invest
- ☐ Equity crowdfunding is too risky
- ☐ I prefer investments with higher returns
- ☐ I prefer safer investments (savings,etc)
- ☐ I don't trust the existent equity crowdfunding platforms
- ☐ Difficult accessibility to Equity Crowdfunding platforms
- ☐ I don't like the quality of the existent projects available to invest

If applicable which are the reasons why you invest in Crowdfunding?

Excluding Equity Crowdfunding

- ☐ To have exclusive access to an innovative product that is still not available in the market
- ☐ Following a start-up and its entrepreneurial journey since its first steps
- ☐ To be able to chose some attributes of the product
- ☐ Possible experience gains
- ☐ Extending personal network
- ☐ Personal satisfaction
- ☐ Personal recognition
- ☐ To feel part of an entrepreneurial community

If applicable, which are the reasons why you invest in Equity Crowdfunding?

Choose all that apply

- ☐ Expected financial return
- ☐ Following a start-up and its entrepreneurial journey since its first steps
- ☐ To be part of the decision making process (resulting from shares' voting rights)
- ☐ Possible experience gains
- ☐ Extending personal network
- ☐ Personal satisfaction
- ☐ Personal recognition
- ☐ To feel part of an entrepreneurial community

If you have never invested in Equity Crowdfunding which would be the minimum annual return for you to invest?

In % (percentage)

Short-answer text

With a return that satisfies you, which percentage of your savings would you be willing to invest?

In % (percentage)

Short-answer text

Are you aware that the most recent data (even though there is not enough sufficient data for uncontroversial conclusions) shows that the average return on Equity Crowdfunding is 14,44 % annually while for savings is 0,77%

Sources: Seedrs and EBF/MFI

☐ yes

☐ No

If you were not aware, does this data make you more willing to invest in equity Crowdfunding?

☐ Yes

☐ No

☐ Maybe

