

Equity Based Crowdfunding

Determinants of Successful Campaign: the Case of Crowdcube Platform in the United Kingdom

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SUMMARY

The study is aimed at exploring what influences the amount of money raised which can either lead to the success or failure of equity-based crowdfunding using Crowdcube. The study used Pearson correlations and multiple regression analysis. The regression model was considered a good fit as it was statistically significant. The findings of the paper revealed that the number of investors, target amount, and pre-money valuation strongly and positively influence the success of equity-based crowdfunding campaigns. Additionally, equity, display of share price information, and online social media presence are other factors that influence the success of equity-based crowdfunding campaigns. However, previous crowdfunding history was negatively associated with the success of campaigns. The uniqueness of the study will benefit investors and founders who aim at running or investing in successful equity-based crowdfunding campaigns in the UK and globally. The study recommends further research using other equity-based crowdfunding platforms in different countries and continents.

KEYWORDS: Crowdfunding, Equity-based crowdfunding, Crowdcube, Amount Raised, Success

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Crowdfunding emerged as a result of the financial crisis of 2008. This led to the development of alternative financial markets where most startups turned to external sources of financing (Drover et al. 2017). Alternative financial markets included raising capital from outside the incumbent financial intermediaries such as banks and traditional markets. Crowdfunding platform was therefore seen as an alternative for new innovative businesses and startups that lacked credit history or enough resources to establish a competitive business outlet. Additionally, crowdfunding has rapidly grown as an online capital raising activity to individuals, institutions, and professionals that lack or have limited assets holdings and more often than not experience business failure (Lee, 2019). It can therefore be argued that crowdfunding is good news for investors who face external financing challenges particularly from traditional financial institutions that prove to be an uphill task. Traditional banks or financial institutions view that investing in startup businesses is an extreme risk as they lack adequate collateral to secure funding (Wachira & Wachira, 2021). According to *Lee and Sorenson* (2016), crowdfunding platforms are internet-based markets places that connect individuals or businesses seeking finances with a base of supporters who invest a small portion of their funds towards the projects. In support, *Ferreira et al.* (2021) argue that crowdfunding platforms act as intermediaries that bring together campaign organizers seeking funds and investors who finance the projects.

The use of crowdfunding platforms as alternative financial markets has rapidly transformed startup companies by offering the opportunity for businesses to raise finances online without involving traditional financial institutions. However, the notion of crowdfunding is still relatively new and is on continuous evolvement. This has caused the business environment to observe the

emergence of a wide range of crowdfunding models. According to *Lee and Sorenson*, (2016), these models are classified based on what the investors receive in exchange for their funds. Investors may receive a reward (reward-based crowdfunding), debt (lending-based crowdfunding), equity (equity-based crowdfunding), or just a feeling of satisfaction (donation-based crowdfunding).

Equity-based crowdfunding is a form of funding made through the internet by backers and investors when banks turn them down and private financing is no longer sufficient, (Hornuf & Schwiendbacher 2018). According to *Kuti et al.* (2017) and Kuti and Madarász (2014), equity-based crowdfunding is the model where the investors get part of the company by purchasing shares through the internet. Hence allowing private companies to raise funds from crowd investors through selling financial securities like stock, shares, or debt without involving traditional financial intermediaries (Yasar 2021). Equity crowdfunding operates on two main models namely the 'all or nothing' and 'keep it all'. The 'all or nothing' model is a model which allows the founder of the campaign to keep all the funds raised once the campaign meets its target and vice versa if the campaign does not meet its target (Yasar 2021). While the 'keep it all' model allows the founder of the campaign to retain all the funds raised regardless of whether the campaign met its target or not. Campaigns normally run for 30-60 days depending on the specifications of the crowdfunding platform. Additionally, equity-based crowdfunding comprises three main actors namely; the investors are also known as a crowd, the platform (aids in launching the campaigns and fundraising), and the entrepreneurs also known as founders (Kuti & Madarász, 2014 and Reichenbach & Walther 2021). Equity-based crowdfunding platforms are classified as entrepreneur-led platform or investor-led platform. Investor led platform,

list the offering once the investment terms have been negotiated and agreed upon by a lead investor. The entrepreneur-led platform differs in the funders' primary motives as there is no lead investor.

Recent studies have investigated Equity-based crowdfunding platforms and their effect on finance sustainable-oriented companies. Most studies reveal that Equity-based crowdfunding is a feasible financing alternative for businesses to access external resources in terms of capital. Scholars argue that crowdfunding has helped investors in investment decisions, entrepreneurs, policymakers, and academicians (Barbi & Mattioli, 2019; Sabia et al., 2021; Yasar, 2021) and consequently becoming a reputable source of financing especially for new firms (Hornuf & Schwienbacher, 2018). Additionally, a report by *Cambridge Centre for Alternative Finance* (2021), ranks equity-based crowdfunding as an alternative source of finance in the 10th position globally with a trading volume of \$1,520,444,679 as of 2020. In line with this report, the United States and Canada topped in the alternative finance market trading at \$70.84 billion with \$1.83 billion being raised from equity-based models. The United Kingdom (UK) was ranked the second largest market globally raising \$6.15 billion with \$656 million being raised from equity-based models as of 2020 (Cambridge Centre for Alternative Finance, 2021). This shows that the concept of equity-based crowdfunding is still relatively new but gradually gaining momentum in Europe particularly in the UK.

This has continued to attract the attention of the academic and research community and has focused on various topics such as success factors, market mechanisms and funding dynamics (Hornuf & Schwienbacher, 2018), structure and attraction of venture capital investors (Buttic et al., 2020), institutional characteristics and development of crowdfunding (Waltho et al., 2018), a systematic review of equity-based

crowdfunding (Mochkabadi & Volkmann, 2020). Notably, academic research on the factors of success has also increased over time (Lukkarinen et al. 2016; Piva & Rossilamastra, 2018; Crescenzo et al., 2020 and Reichenbach & Walther, 2021) with research articles providing diverse factors that influence the success, failures, and risks of equity-based crowdfunding. However, according to *Ralcheva and Roosenboom* (2019), despite the existing research on the different success factors of equity-based crowdfunding, the '*list of success factors is far from complete*' (Ralcheva & Roosenboom, 2019). This study, therefore, aims at weighing in this research area by exploring what influences the amount of money raised which can either lead to the success or failure of equity-based crowdfunding. To achieve this objective, the study used a sample of 250 funded companies in the largest UK equity-based crowdfunding platform (Crowdcube) for a period of 2 years between 2020-2021. Crowdcube is the largest equity-based crowdfunding platform in the UK and was first launched in 2011. The platform is regulated by the Financial Conduct Authority and currently has investments of approximately £1 billion, over 300,000 active investors, over 200 campaigns attracting over £1 million, and 1,200 fundraises with four campaigns raising over £20 million.¹ Crowdcube falls in the category of entrepreneur-led crowdfunding platform and uses the 'all-or-nothing' model² where the business plans or pitches are vetted by the diligence team and per the Crowdcube statistics (Vismara, 2019).

EQUITY-BASED CROWDFUNDING IN THE UK

Equity-based crowdfunding introduces a new approach to investing and capital raising process and has been viewed as a vital tool for young, new, and innovative businesses

to acquire early-stage funding (Block et al., 2018). It provides an 'opportunity early-stage financing' hence bridging the financing gap for the new and innovative businesses (Kuti et al., 2017). Being a new and alternative financing method, equity-based crowdfunding provides some benefits making it more appealing and attractive than traditional financing methods. In addition, equity crowdfunding, provides an opportunity for businesses to tap into their social networks (family, friends, customers, and existing shareholders) as well as a wider pool of investors in an attempt to raise external finances in exchange for a small percentage of the company (Ralcheva & Roosenboom, 2019). There is no doubt that equity-based crowdfunding can reach a larger audience enabling businesses to raise capital faster. Moreover, investors are able to diversify their portfolio by investing small amounts in various businesses with potentially high returns (Cumming et al., 2018). Besides, the founders of equity-based crowdfunding can monitor the progress of their campaigns and receive feedback through social media (Kuti & Madarász, 2014). Notwithstanding the advantages of equity-based crowdfunding, this model is also associated with some limitations. According to *Yasar* (2021), only private companies are allowed to raise funds through equity-based crowdfunding platforms. Furthermore, crowd funders are high-risk takers as they seek to reduce uncertainty by offering finances due to their inadequate capability of evaluating investment opportunities or projects (Ralcheva & Roosenboom, 2016; Troise et al., 2021).

In comparison with other traditional methods of financing such as venture capital and business angels, equity-based crowdfunding represents a rapidly advancing phenomenon. Equity-based crowdfunding allows investors to invest and own shares

without necessarily having a high net worth as compared to traditional methods. One of the key features of equity-based crowdfunding offerings is open to the general public, unlike venture capital which attracts capital from a small portion of professional investors through a negotiated process (Block et al., 2021). Equity-based crowdfunding investors base their investment decisions mainly on the information provided by the founders unlike the business angels or venture capitalists who make their investment decisions after meeting the business founders.

Alternative online financial markets have witnessed continuous growth in market volume from \$1.5 billion in 2013 to \$23.2 billion in 2019. The UK has remained the main contributor towards this growth. The alternative online financial markets in the UK have witnessed continuous growth from \$4.9 billion in 2015 to \$12.6 billion in 2020. The market dynamics indicate that equity-based crowdfunding accounted for 11.1% and 11.4% of business funding in 2019 and 2020 respectively (\$478 million in 2019 and \$593 million in 2020). The equity crowdfunding proportion of total seed and venture stage funding in the UK increased from 14.73% in 2019 to 15.08% in 2020. The UK is currently leading as the hub of equity-based crowdfunding, with majority of the users been drawn from the real estate and the SME industry³ as tabulated in *Table 1* below.

The rapid growth and acceptance of equity-based crowdfunding in the UK can be greatly attributed to the existence of the regulatory framework established in 2011 (Latinovic, 2020). However, in comparison to other forms of crowdfunding, debt-based crowdfunding dominated the market. Debt-based crowdfunding model recorded \$6.15 billion in 2020 compared to \$656 million recorded from the equity-based crowdfunding model in 2020 as tabulated in *Table 2* below.

EQUITY-BASED CROWDFUNDING PLATFORMS IN THE UK

Equity-based Crowdfunding Platform	Industry
Crowdcube	SME
Shojin	Real Estate
Seedrs	SME
Simple Crowdfunding	Real Estate
Property Moose	Real Estate
Property Crowd	Real Estate
Coates Finance	SME
Eureeca	SME
Funderbeam	Real Estate
Crowd With Us	Real Estate
BrickVest	Real Estate
Crowd For Angels	Startups
CrowdLords	Real Estate
Crowd2let	Real Estate
Yielders	Real Estate
Property Partner	Real Estate
CapitalRise	Real Estate
Crowdfunding Place	Real Estate
Bricksave	Real Estate
JaeVee	Real Estate
Igloo Crowd	Real Estate
AxiaFunder	Litigation
Brickowner	Real Estate
Hilltop Credit Partners	Real Estate
Co-lend	Real Estate
Turnaround Ventures	SME

Source: Own tabulation based crowdspac.com (2022)

LITERATURE REVIEW

The concept of crowdfunding, in general, has attracted the attention of academic scholars and researchers. Previous studies have focused

on the models of crowdfunding. For instance, *Kuti and Madarász* (2014) conducted an empirical study on crowdfunding and identified the number of founders, amount raised, advertising, previous backers and project

Table 2

A COMPARATIVE ANALYSIS OF EQUITY-BASED CROWDFUNDING WITH OTHER FORMS OF FINANCING IN EUROPE

Country/ Region	Debt based crowdfunding		Non-investment-based crowdfunding		Equity based crowdfunding	
	2019	2020	2019	2020	2019	2020
UK	\$8.3 billion	\$6.15 billion	\$2.1 billion	\$5.8 billion	\$624 million	\$656 million
Benelux region (Belgium, Netherlands, Luxembourg)	\$2.9 billion	\$589 million	\$29 million	\$33 million	\$25 million	\$31 million
Germany	\$953 million	\$1 billion	\$54 million	\$103 million	\$410 million	\$375 million
Italy	\$1.5 billion	\$1.8 billion	\$21 million	\$24 million	\$62 million	\$74 million
Nordics	\$905 million	\$845 million	\$21 million	36 million	\$34 million	\$43 million
Baltics	\$684 million	\$607 million	\$1 million	1 million	\$31 million	\$28 million
Eastern Europe	\$550 million	\$441 million	\$45 million	\$86 million	\$7 million	\$8 million
Central Europe	\$43 million	\$46 million	\$22 million	\$31 million	\$26 million	\$61 million
Central Europe	\$43 million	\$46 million	\$22 million	\$31 million	\$26 million	\$61 million

Source: Own tabulation based on Cambridge Centre for Alternative Finance Report (2021).

quality as the success factors of crowdfunding. Additionally, *Ferreira et al.* (2021), conducted a comparative study on 50 crowdfunding platforms pooled from the four types of crowdfunding platforms (reward-based, lending-based, equity-based, and donation-based). The study found diverse organizational practices aimed at generating trust towards the platform, project, users, and the overall notion of crowdfunding. While other studies focused on specific models of crowdfunding such as *Ram* (2020), who analyzed success factors in reward-based crowdfunding projects revealed that location, experience, human, and capital had a statistically significant effect on the success of reward-based crowdfunded projects. While, *Wachira and Wachira* (2021), investigated the factors of a successful reward-

based crowdfunding campaign in Kenya using the Kickstarter crowdfunding platform. The study found a strong positive correlation between updates, amount pledged, backers, and successful reward-based crowdfunding campaigns. *Outeda and Gonz* (2021) conducted a study on political crowdfunding which is a part of donation-based crowdfunding and the study revealed that the intensity of campaign posts through Twitter, the organizational and communicative role of the promoters are some of the key success factors of political crowdfunding campaigns.

Other studies have focused on other aspects of equity-based crowdfunding such as economic policies on the success of equity-based crowdfunding (*Hsieh et al.*, 2021), Equity-based crowdfunding as a new investment

landscape (Yasar, 2021), organizational barriers, with *Di et al.* (2021) study aimed at investigating the organizational barriers and how to overcome these organizational barriers in equity-based crowdfunding. The study performed a qualitative study on 69 European-based crowdfunding platforms and found resource, trust, and information gaps as the barriers towards crowd openness while coordination technology, crowd satisfaction, mapping investor's expertise, network, and proactive communication were identified as the specific bridges towards crowd openness. Additionally, scholars have also focused on outcomes of the post-campaign period. *Waltho et al.* (2018) argued that businesses or startups turn to equity-based crowdfunding platforms as a 'last resort'. The study found that businesses seeking financing from equity-based crowdfunding platforms are less profitable and have extreme levels of debt. This was in line with the *Signori and Vismara* (2018) findings that businesses with successful equity-based crowdfunding campaigns are most likely to launch a follow-on offering.

According to *Ralcheva and Roosenboom* (2019), many businesses rarely succeed in meeting the amount targeted by the equity-based campaign. This has attracted the attention of many academicians as outlined in *Table 3* below summarizing existing academic research work on the probable determinants of the success of equity-based crowdfunding.

RESEARCH METHODOLOGY

The study used data from Crowdcube which is the largest equity-based crowdfunding platform in the UK. A sample of 250 equity-based crowdfunded campaigns between 2020 and 2021 was used. The data was collected from the Crowdcube website under the

section of funded campaigns. A multiple regression model was used for data analysis. The dependent variable of this study was the amount raised while the independent variables were Investors, Target amount, Equity, Pre-money valuation, Share price information, social media presence, and crowdfunding history (*Table 4*).

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + e$$

Where;

- Y = Amount Raised
- β_0 = Constant
- X_1 = Investors
- X_2 = Target amount
- X_3 = Equity
- X_4 = Pre-money valuation
- X_5 = Share price information
- X_6 = Social media presence
- X_7 = Crowdfunding history
- e = error
- $\beta_1, \beta_2, \beta_3$ = parameters used

VARIABLE DESCRIPTION

The study performed the analysis about the amount raised as the main interest (dependent variable). The study defined the amount raised as the total amount raised by the investors by the close of the crowdfunding campaign period. For purposes of analysis, the study measures the success of the equity-based campaigns if the total amount raised is equal or more than the target amount and unsuccessful if the total amount raised is not equal to the target amount. The target amount is typically the amount of funds the founders of the equity-based crowdfunding campaigns aim to raise at the close of the campaign. Social media presence refers to the number of links to social media platforms and web pages that the company uses such as Facebook, Twitter,

PREVIOUS LITERATURE ON THE DETERMINANTS OF THE SUCCESS OF EQUITY-BASED CROWDFUNDING

Author(s)	Research Topic	Equity-based Crowdfunding Platform and Country-based	Sample Size	Results
Lukkarinen et al. (2016)	Success drivers of online equity crowdfunding campaigns	Investor Oy (Europe)	Data from Investor Oy between 2012-2014.	Pre-selected crowdfunding campaign characteristics and the utilization of both private and public networks influence the success of equity-based crowdfunding while investment criteria decisions used by traditional venture capitalists or business angels do not influence the success of equity-based crowdfunding
Ralcheva és Rouseboom (2016)	On the road to success in Equity Crowdfunding	Crowdcube (UK)	541 campaigns between January 2012-March 2015	Business angel backers, win grants, and protection of intellectual capital significantly affects the success chances. However, retaining capital does not influence the success chances.
Block et al. (2018)	Which updates during an equity crowdfunding campaign increase crowd participation	Seedmatch and Companisto (Germany)	71 funding campaigns and 39,399 investment decisions	Updates positively and significantly affect the number of investments and amounts collected during equity-based crowdfunding campaigns. Easier language in updates positively affects participation unlike the length of the updates. Updates on new developments (campaign development, new funding, and business development) positively affect the success of equity-based crowdfunding. Start-up teams, business models, product development, and product campaigns do not necessarily affect the success of equity-based crowdfunding.

Continued from Table 3

Author(s)	Research Topic	Equity-based Crowdfunding Platform and Country-based	Sample Size	Results
Hornuf és Schwienbacher (2018)	Market mechanisms and funding dynamics in equity crowdfunding	Companisto, United Equity, Seedmatch and Innovestment (Germany)	89 funding campaigns November 6th, 2011–August 28th 2014	Updates, investment behavior, comments from other crowd investors, and allocation of securities in the portal
Li et al. (2018)	Factors affecting successful equity crowdfunding	Dajiatou , (China)	64 Equity crowdfunding projects	Financing objectives, assignment of shares, number of inquiries significantly affect the investor's willingness to invest. Minimum investment amount and number of inquiries significantly affect financing efficiency
Barbó és Mattioli (2019)	Human capital, investor trust, and equity crowdfunding	Crowdcube (UK)	521 founded companies between 2011-2017	The study identified education, professional experience, number of investors, and gender of the team affect the total capital raised in equity-based crowdfunding platforms.
Ralcheva és Roosenboom (2019)	Forecasting success in Equity crowdfunding	Crowdcube and Seedrs. (UK)	2171 campaigns between 2012-2017	Equity, external funding, accelerator attendance, number, and age of directors are determinants of equity crowdfunding success
Vismara (2019)	Technological Forecasting & Social Change Sustainability in equity crowdfunding	Crowdcube and Seedrs. (UK)	345 initial equity offerings between 2014-2015	Sustainability orientation does not increase the success of equity-based crowdfunding but rather attracts a higher number of restricted investors
dos Santos Felipe és Franca Ferreira (2020)	Determinants of the success of equity crowdfunding campaigns	Kria- Agente de Estruturação Ltda (Brazil)	99 equity crowdfunding campaigns from 2014-2017	Venture category, goal, advisor participation, campaign duration, and equity as the determinants of equity-based crowdfunding success

Continued from Table 3

Author(s)	Research Topic	Equity-based Crowdfunding Platform and Country-based	Sample Size	Results
Crescenzo et al. (2020)	Exploring the viability of equity crowdfunding as a fundraising instrument: A configurational analysis of contingency factors that lead to crowdfunding success and failure	Crowdcube (UK)	344 projects	The success of an equity-based crowdfunding campaign was associated with large numbers of founders and numerous pictures while failure was associated with lack of pictures and low presence of women founders.
Hörisch és Tenner (2020)	Technological Forecasting & Social Change How environmental and social orientations influence the funding success of investment-based crowdfunding: The mediating role of the number of funders and the average funding amount	USA and Germany	318 investment-based crowdfunding platforms	Higher levels of environmental orientation increase the success of investment-based crowdfunding. However, no significant influence of social orientation on the success of crowdfunded investment-based crowdfunding
Latinovic (2020)	Determinants of equity crowdfunding success	Crowdcube (UK)	35 equity-based crowdfunded campaigns between 18th March 2019 -27th March 2019	Team size, financing target, and the number of backers positively affect the success of equity-based crowdfunding projects.

Continued from Table 3

Author(s)	Research Topic	Equity-based Crowdfunding Platform and Country-based	Sample Size	Results
Mamonovés Malaga (2020)	A 2020 perspective on "Success in Title III equity crowdfunding in the United States".	Title III equity crowdfunding in the United States.	15 in Title III equity crowdfunding in the United States"	Mature companies with corporate clients and larger teams had higher chances of success in equity-based crowdfunding campaigns. There was a positive effect of the involvement of professional angel and VC investors on successful equity-based crowdfunding campaigns. There was no effect of gender on successful equity-based crowdfunding campaigns..
Troise et al. (2021)	Investigating investment decisions in equity crowdfunding: The role of projects' intellectual capital	CrowdFundMe, BacktoWork24, Mamacrowd, Muumlalab, Nextequity, StarsUp, and 200crowd (Italy)	110 projects from January 2014–February 2018	Relational capital has a positive effect on the decisions to invest by equity crowd funders. Additionally, the study found a positive but limited impact of human capital and structural capital on investment decisions.
Cumming et al. (2021)	Does equity crowdfunding democratize entrepreneurial finance?	Crowdcube London's Alternative Investment Market (UK)	167 equity offerings in Crowdcube, 99 equity offerings in London's Alternative Investment Market	Remotely located companies have higher chances of successful equity-based crowdfunding campaigns. Companies with female directors do not have higher chances of successfully raising funds for the equity-based crowdfunding campaign.
Coakley et al. (2021)	Strategic entrepreneurial choice between competing crowdfunding platforms	Crowdcube, Seeds, SyndicateRoom (UK)	Equity-based crowdfunding campaigns between 2013–2018	Companies with large, heterogeneous teams and involve professional investors are most likely to raise more equity crowdfunding funds.

Source: own editing

Table 4

VARIABLE DESCRIPTION

Variable	Variable Description
Amount Raised	Total amount raised by the campaign
Target	The amount targeted by the campaign
Equity	The percentage of equity offered
Share Price Information	Dummy Variable that equals 1 if the company has provided the share price information and 0 if the company has not provided the share price information
Social Media Presence	The number of social media platforms that the company such as but not limited to: (Facebook, Twitter, LinkedIn, Company website)
Crowdfunding history	Dummy Variable that equals 1 if the company has the previous history or previously launched in Crowdcube and 0 if the company has no previous history or previously launched in Crowdcube
Pre-Money Valuation	Value of businesses or how much the company is worth before they go public.
Investors	Number of people who have invested in the campaign

Source: own editing

LinkedIn, Company website, Instagram, and companies’ houses directly accessible from the equity-based crowdfunded campaign. The study measured investors as the number of people who have invested in the crowdfunding campaign regardless of whether the campaign was successful or not. Equity is the percentage of equity offered by the company in exchange for the amount raised. The share price is the price to buy one share of the company and normally fluctuates depending on market conditions. The study used the variable of share price information using a dummy variable 1 if the company has provided the share price information and vice versa. Crowdfunding history is the previous encounter with the Crowdcube platform in a bid to raise capital while pre-money valuation refers to the valuation of businesses or how much the company is worth before they publicly go to solicit funds. A pre-money valuation can also be defined as the total equity of firms.⁴

DATA ANALYSIS

Out of the 250 sampled, 18 projects were live, 214 projects had successfully raised the target amount while 18 projects were not successful in raising the target amount by the time of closing the campaign. *Table 5* below outlines the status of the equity-based campaigns sample.

In cleaning out the data, the study excluded the live equity-based crowdfunded projects and hence used a total of 232 equity-based crowdfunded projects (successful or unsuccessful) in Crowdcube for a period of 2 years between 2020-2021.

DESCRIPTIVE STATISTICS

Table 6 below shows the descriptive statistics of the sampled equity-based crowdfunded projects in Crowdcube. Approximately 71%

Table 5

STATUS OF EQUITY-BASED CROWDFUNDING CAMPAIGNS

Status of the project	Number
Live Projects	18
Successfully funded Projects	214
Not Successful	18
Total	250

Source: own editing

Table 6

DESCRIPTIVE STATISTICS

	N	Minimum	Maximum	Mean	Std. Deviation
Raised	232	0	6,550,006	699,900.49	944,218.324
Investors	232	0	8,387	619.64	919.591
Target	232	20,000	2,400,000	383,129.76	381,231.854
Equity, %	232	0.00	43.34	10.0442	6.92013
Pre-money valuation	232	284,000	191,442,598	9,742,508.74	18,861,638.325
Social media presence	232	2	6	4.76	1.077
Crowdfunding history	232	0	1	.13	.341
Share price info	232	0	1	.71	.456
Valid N (listwise)	232				

Source: own editing

of the equity-based crowdfunded projects were successful. The success rate in this study is higher than the success rate revealed by other academic scholars who have previously used the Crowdcube data such as (Ralcheva & Roosenboom, 2016; Barbi & Mattioli, 2019; Crescenzo et al., 2020; Latinovic, 2020). This indicates that equity-based crowdfunding is gradually increasing despite the challenges posed by the COVID-19 pandemic. The average capital raised was approximately £699,900 against an average target amount of £383,130. Additionally, an average of approximately 620 investors invested in the

campaigns. According to *Vismara* (2019), the high number of investors is a reflection of the presence of a higher number of small investors in equity-based crowdfunding campaigns in the UK. Further descriptive analysis reveals that approximately £9.7 million was the pre-money evaluation, equity offered by the companies was on average of 10%. It is also worth noting that approximately 13% of the companies have previous crowdfunding history in Crowdcube, while 71% of the companies had displayed the share price information and had social media presence in 5 social media platforms.

REGRESSION ANALYSIS

Table 7 below shows the regression analysis results. The dependent variable of this study was the amount raised at the end or close of the equity-based campaigns. The amount raised in this study showed the success of the equity-based campaigns if the total amount raised is equal or more than the target amount and unsuccessful if the total amount raised is not equal to the target amount. The R^2 was 0.874 (87.4%) while the adjusted R^2 was 0.87 (87%). The results indicate that 87% variation of the amount raised in the campaigns can be explained by the model. The adjusted R^2 was 0.87 (87%) was slightly lower than the R^2 indicating the precise relationship between the dependent and independent variables. The predictors in the model were statistically significant with a p -value < .000.

The study found a statistically significant regression equation [$F(7,224)=224.141$, $p<0.000$] with an adjusted R^2 was 0.87 (87%). The regression model was hence considered a good fit for our data as it statistically and significantly predicts the outcome (amount raised) of the equity-based crowdfunding campaigns (Table 8).

The study further conducted a Pearson correlation analysis (Table 9) to test the relationship between the dependent variable (amount raised) and the independent variables (Investors, Target amount, Equity, Pre-money valuation, Share price information, social media presence, and crowdfunding history).

The study found a strong, positive, and statistically significant relationship between investors and the amount raised ($r=0.832$, $p<0.001$), these results are in line with *Vismara* (2019), *Barbi & Mattioli*, (2019), and *Latinovic* (2020) findings. There was a strong, positive, and statistically significant relationship between target amount and amount raised ($r=0.746$, $p<0.001$), these results correlate with previous study findings by *Latinovic* (2020). The study also found a strong, positive, and statistically significant relationship between pre-money valuation and the amount raised ($r=0.711$, $p<0.001$). There was a moderate, positive but insignificant relationship between social media presence and amount raised ($r=0.045$, $p>0.001$). *Lukkarinen et al.* (2016) and *Barbi and Mattioli*, (2019) studies also found a positive relationship between social media presence and the amount raised in equity-based crowdfunding campaigns. The

Table 7

REGRESSION ANALYSIS

Modell összegzése										
Model	R	R-Square	Adjusted R-Square	Std. Error of the Estimate	Statisztika megváltoztatása					Durbin-Watson
					R-Square Change	F Change	df1	df2	Sig. F Change	
1	.935a	.874	.870	340,245.534	.874	222.141	7	224	.000	2.035
a Predictors: (Constant), Share price info, social media presence, Pre-money valuation, crowdfunding history, Equity, Target, Investors										
b Dependent Variable: Raised										

Source: own editing

ANOVA

ANOVA						
Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	180015831141239.160	7	25716547305891.310	222.141	.000 ^b
	Residual	25931813249624.810	224	115767023435.825		
	Total	205947644390863.970	231			
^a Dependent Variable: Raised						
^b Predictors: (Constant), Share price info, social media presence, Pre-money valuation, crowdfunding history, Equity, Target, Investors						

Source: own editing

study also found a positive, weak, statistically significant relationship between share price information and the amount raised ($r=0.152$, $p>0.001$). Additionally, the study found a positive, weak but insignificant relationship between the equity offered and amount raised ($r=0.109$, $p>0.001$), these results were in line with *Ralcheva and Roosenboom* (2019) findings but contradicts *Vismara* (2019), which showed a relative and significant relationship between equity offered and success of equity-based crowdfunding campaigns. However, the study found a negative insignificant relationship between crowdfunding history and amount raised ($r=-0.019$, $p>0.001$).

DISCUSSION OF THE RESULTS

The equity-based crowdfunding model allows businesses especially new innovative businesses and startups to acquire funds from crowd investors. These investors are diverse from family, friends, customers, and the crowd at large. The main motivation of these investors is largely the financial return they receive after investing in the business. The number

of investors hence influences the success of equity-based crowdfunding campaigns and hence an increase in the number of investors leads to an increase in the amount raised by the campaign. Additionally, the amount of money set by the funders as the target amount is positively associated with the success of equity-based crowdfunding campaigns. This implies that with a higher target amount, the campaign has a greater chance of raising more funds hence leading to success. Pre-money valuation is the value of the business before publicly requesting funds and the basis of the share price in the equity-based crowdfunding campaigns. For new and innovative businesses, the pre-money valuation is mainly on demand and supply. Therefore, if a business is highly innovative, it will have a higher valuation and attract more investors. The study positively associates the pre-money valuation, display of share price information, and the success of equity-based crowdfunding campaigns. Consequently, it becomes difficult for businesses to decide how much funds they intend to raise through equity crowdfunding and the equity percentage. A lower equity percentage is an indication that the founders

Table 9

PEARSON CORRELATION MATRIX

Correlations		Raised	Investors	Target	Equity	Pre-money valuation	Share price info	Crowdfunding history	Social media presence
Raised	Pearson Correlation	1	0.832**	0.746**	0.109	0.711**	0.152*	-0.019	0.045
	Sig. (2-tailed)		0.000	0.000	0.097	0.000	0.020	0.771	0.496
	N	232	232	232	232	232	232	232	232
Investors	Pearson Correlation	0.832**	1	0.446**	0.016	0.767**	0.185**	-0.090	0.071
	Sig. (2-tailed)	0.000		0.000	0.803	0.000	0.005	0.171	0.283
	N	232	232	232	232	232	232	232	232
Target	Pearson Correlation	0.746**	0.446**	1	0.137*	0.455**	0.135*	0.107	-0.022
	Sig. (2-tailed)	0.000	0.000		0.037	0.000	0.040	0.105	0.735
	N	232	232	232	232	232	232	232	232
Equity	Pearson Correlation	0.109	0.016	0.137*	1	-0.275**	0.215**	-0.059	-0.086
	Sig. (2-tailed)	0.097	0.803	0.037		0.000	0.001	0.375	0.191
	N	232	232	232	232	232	232	232	232
Pre-money valuation	Pearson Correlation	0.711**	0.767**	0.455**	-0.275**	1	0.082	-0.035	0.074
	Sig. (2-tailed)	0.000	0.000	0.000	0.000		0.212	0.600	0.260
	N	232	232	232	232	232	232	232	232
Share price info	Pearson Correlation	0.152*	0.185**	0.135*	0.215**	0.082	1	-0.304**	-0.001
	Sig. (2-tailed)	0.020	0.005	0.040	0.001	0.212		0.000	0.987
	N	232	232	232	232	232	232	232	232
crowdfunding history	Pearson Correlation	-0.019	-0.090	0.107	-0.059	-0.035	-0.304**	1	0.004
	Sig. (2-tailed)	0.771	0.171	0.105	0.375	0.600	0.000		0.950
	N	232	232	232	232	232	232	232	232
social media presence	Pearson Correlation	0.045	0.071	-0.022	-0.086	0.074	-0.001	0.004	1
	Sig. (2-tailed)	0.496	0.283	0.735	0.191	0.260	0.987	0.950	
	N	232	232	232	232	232	232	232	232

Note: * Correlation is significant at the 0.05 level (2-tailed), **Correlation is significant at the 0.01 level (2-tailed).

Source: own editing

are more confident in their business model and future success. This may impact the success of equity-based crowdfunding campaigns through the amount raised. The study found a positive and insignificant relationship between equity and the amount raised. This can be explained by the fact that equity-based crowdfunding campaigns attract non-professional investors who mainly do little or no due diligence, unlike professional investors.

Online presence is positively associated with the success of equity-based crowdfunding campaigns. The more social media platforms, the more the chances of attracting investors leading to increasing the amount raised. Businesses use these social media platforms to post updates of the campaign and interact with the investors. However, the previous crowdfunding history in the equity-based crowdfunding platform was negatively associated with the success of campaigns.

CONCLUSION AND RECOMMENDATION

While there is extensive existing literature provides a list of the factors linked to the success of equity-based crowdfunding campaigns, the list is not conclusive. This study, therefore,

weighs in this research area by exploring what influences the amount of money raised which can either lead to the success or failure of equity-based crowdfunding. We found that the number of investors, target amount, and pre-money valuation strongly and positively influence the success of equity-based crowdfunding campaigns through the amount raised. Other factors that influence the success of equity-based crowdfunding campaigns through the amount raised include equity, display of share price information, and online social media presence. Interestingly, previous crowdfunding history was negatively associated with the success of campaigns through the amount raised.

The findings of this study will add value to the developing literature on equity-based crowdfunding. The uniqueness of this study will be of benefit to the investors and founders who aim at running or investing in successful equity-based crowdfunding campaigns not only in the UK but globally. Consequently, based on the fact that equity-based crowdfunding is still new, growing, and a developing sensation, the study recommends further research using other equity-based crowdfunding platforms in different countries and continents. ■

NOTES

- ¹ <https://www.crowdcube.com/explore/investing/>, Accessed on 19th November 2021
- ² <https://www.crowdcube.com/>, Accessed on 23rd November 2021
- ³ <https://thecrowdspace.com/equity-crowdfunding-platforms-in-uk/>, Accessed on 5th February 2022
- ⁴ <https://corporatefinanceinstitute.com/resources/knowledge/valuation/pre-money-valuation/>, Accessed on 22th November 2021

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