

Success Factors in Title II Equity Crowdfunding in the United States

Full Paper

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Abstract

Equity-based crowdfunding is a growing global phenomenon, however little is known about the factors that may affect venture fundraising success in equity crowdfunding platforms in the United States. We develop a novel theoretical framework for understanding equity crowdfunding success by drawing on research in traditional risk capital investments that emphasizes market, execution and agency risks as the key determinants of investment decisions. We expand the framework to include computer-mediated communication challenges that can arise in internet-based equity crowdfunding. We evaluate the framework using data from a leading equity crowdfunding platform in the United States. We find that investors appear to focus on the market and agency risks in screening the potential investments in equity crowdfunding platforms. We also find that the use of video narratives by the entrepreneurs is positively correlated with equity crowdfunding success.

Keywords

Crowdfunding, equity crowdfunding, risk capital, information asymmetry.

Introduction

New business ventures typically require funding to develop from ideas into successful businesses. Business angel (BA) investors, who are typically wealthy individuals with substantial investible financial resources, play an important role in this process. Estimates suggest that over 300,000 angel investors committed \$24.6 billion in capital to new entrepreneurial ventures in the United States in 2015 (Ortmans 2016). Prior to 2013, the process of raising funding from angel investors typically required the entrepreneurs to meet with potential angel investors in person because of legal restrictions on public solicitation by new ventures (Foley and Paul 2015). Recent regulatory changes have significantly expanded public fundraising opportunities for entrepreneurial ventures to include internet-based equity crowdfunding platforms that are open to accredited investors who have typically served as business angels. Estimates reveal that over \$1.4 billion has been raised by entrepreneurs from accredited investors through online equity crowdfunding platforms since the passage of the Jumpstart Our Business Startups Act (JOBS Act) in the United States (Mamonov et al. 2017).

It is important to distinguish *equity-based* crowdfunding, in which the early investors receive equity in early stage ventures in exchange for capital, from *rewards-based* crowdfunding, in which project backers typically receive a discount on a product that the entrepreneurs are planning to develop, but receive no equity in the company. Whereas rewards-based crowdfunding had always been legally feasible, equity-based crowdfunding was prohibited by the Securities and Exchange Acts of 1933 and 1934. The passage of the JOBS Act in 2012 directed the Securities and Exchange Commission (SEC) to relax the rules on public solicitation for new ventures to make it easier for entrepreneurs to raise funds (SEC 2015). The JOBS Act contains several provisions. Title II of the JOBS Act became effective in September 2013 and it removed the public solicitation restriction and the requirement for securities registration for new ventures seeking

to raise funds from accredited investors. Accredited investors are individuals with annual income exceeding \$200,000 or having assets in excess of \$1 million excluding the primary residence (SEC 2013).

The passage of the JOBS Act spurred the evolution of many equity-based crowdfunding platforms which connect entrepreneurial ventures with potential investors. While there is a substantial body of research on the rewards-based crowdfunding exemplified by KickStarter (Mollick 2014), much less is known about the equity-based crowdfunding. A theoretical analysis of equity-based crowdfunding suggested that information asymmetry problems are amplified in internet-mediated contexts and this may lead to adverse selection and moral hazard risks undermining the viability of online equity crowdfunding platforms (Agrawal et al. 2013). However, very little is known about the types of ventures that can be successful in equity-based fundraising from accredited investors in these marketplaces. This is the research gap that we seek to address with the present study.

We draw on research in traditional (offline) entrepreneurial finance that recognizes that three distinct types of potential risks affect investors in early stage ventures: market, execution and agency risks (Carpentier and Suret 2015). Market risks are external to the venture and they reflect the uncertainty facing a new product or service in the market. Among other concerns, market risks include market size, growth trends and existing competition. Execution risks are internal to the entrepreneurial venture. This category of risks emphasizes the importance of the entrepreneurial team in executing a business strategy and proving the viability of the business model. Agency risk highlights the potential misalignment between investor and entrepreneur interests which in conjunction with information asymmetry can undermine the investor's ability to capture financial benefits from their investments. We extend the risk framework to acknowledge additional challenges that emerge in computer-mediated communications that make it challenging to transmit non-verbal cues. We examine the effects of specific market, execution, agency and computer-mediation factors by using data on 337 projects that sought to raise funding on an equity crowdfunding platform in the United States. We find that all four types of risks can affect the success of fundraising by entrepreneurial ventures, but investors in equity crowdfunding platforms appear to focus specifically on the market and agency risks. We discuss the theoretical contribution of our work as well as the implications of our work for entrepreneurs seeking funding, investors and the operators of the equity crowdfunding platforms. The remainder of the manuscript is structured as follows. First, we review the emergent research on equity crowdfunding. Then we draw on the entrepreneurial finance literature to develop the theoretical framework in our study. Next, we describe the data and the methodology in our study and we present the empirical results. We conclude with the discussion of emergent insights as well as our contributions to theory and practice.

Crowdfunding types and equity crowdfunding literature review

Crowdfunding generally refers to “a financing method in which money is raised through soliciting relatively small individual investments or contributions from a large number of people” (SEC 2016). Crowdfunding covers a broad range of existing and emergent phenomena. Four general types of crowdfunding are commonly recognized. Donation-based crowdfunding allows individual donors to engage in philanthropic endeavors. For example, GoFundMe.org's platform facilitates donations to a variety of individual and organizational causes. Rewards-based crowdfunding, exemplified by KickStarter, enables project backers to commit funds to a wide variety of entrepreneurial and artistic projects. The project backers are incentivized by different types of rewards, but receive no equity in the projects. For example, backers may receive tickets to attend an artistic performance funded through the commitments or they may receive a discount on a gadget that the entrepreneurs plan to develop. Rewards-based crowdfunding also encompasses royalty-based models. For example, BandBackers.com allows music fans to fund their favorite bands in exchange for a royalty from future music sales. Loan-based crowdfunding is the third type of crowd-supported financing that is available to both businesses and individuals. Kabbage and OnDeck are examples of companies that enable businesses to borrow from individual lenders through online lending marketplaces. LendingClub operates a very successful peer-to-peer lending marketplace for unsecured loans made to individuals.

Equity-based crowdfunding is the forth type of crowdfunding and it captures crowdfunding that involves issuance of any type of securities (equity, convertible preferred equity, etc.) that give the holders an ownership stake in the company in exchange for capital. Equity-based crowdfunding has a very different profile from other types of crowdfunding in terms of motivations of capital providers as well as associated risks and rewards. For example, whereas donation-based capital contributions are typically driven by philanthropic motives (Mollick and Robb 2016), equity-based capital commitments are motivated by profit seeking. Although loan-based and equity-based crowdfunding share the profit motive, they differ in terms of the risk/reward profile. Lending to businesses or individuals via crowdfunding platforms is generally done on a fixed, relatively short-term period, typically 6-36 months, with an interest rate that is specified at the time of loan origination. Equity-based investments in early stage ventures carry much more uncertainty compared to loan-based crowdfunding. Equity holders in early stage ventures typically have a much more uncertain liquidity horizon and much higher risk of losing their investment. Research in informal capital investments suggests that at least 45% of investments lead to losses and 27% of investments in early stage ventures result in complete loss of invested capital. Studies also show that it typically takes 5-7 years for early investors to achieve liquidity (Mason and Harrison 2002).

In part because equity crowdfunding is a relatively recent phenomenon in the United States, much of the published research has been done in other countries. Australia was a pioneer in equity crowdfunding. The Australian Small Scale Offering Board was established in 2005 as the first platform of its kind brokering fundraising by small businesses (Sandlund 2012). A study of factors that affect successful crowdfunding in the Australian Small Scale Offerings Board showed that the number of board members and the size of the equity offering (negative coefficient) were significantly correlated with the amount of funding received (Vismara 2016). Focusing on the dynamics of fundraising, a study followed 492 projects on a crowdfunding platform in Switzerland showed that the first days after a project is announced serve as a good indicator of the project's chances of success. Successful projects gather support quickly, and the early support translates into successful fundraising campaigns (Beier and Wagner 2016). The United Kingdom legalized equity crowdfunding in 2011 which led to the emergence of several equity crowdfunding platforms (Ahlers et al. 2015). An analysis of 541 equity crowdfunded projects on Crowdcube (UK) showed that prior awards, professional investor backing, previous crowdfunding experience, grants, patents and an advisory board are all positively correlated with crowdfunding success (Ralcheva and Roosenboom 2016).

Whereas much of the previous research focused on how entrepreneurs can signal the venture quality to potential investors (Courtney et al. 2017), this approach has largely overlooked the fact that different types of ventures have inherently different risk/reward profiles independent of what entrepreneurs signal to potential investors. Title II equity crowdfunding is only open to accredited investors and angel investors have adopted the new investment opportunities available to them under Title II (Agrawal et al. 2014). In the next section, we draw on extant research on angel investors and we develop our research framework that highlights different types of risks that can arise in equity investments as well as recognizes the additional challenges that exist in the context of online equity crowdfunding platforms.

Research framework and hypotheses

Research in informal risk capital has established that investor risks fall into three general categories: market risk, execution risk and agency risk (Carpentier and Suret 2015). Market risk reflects the inherent uncertainty about the market success of early stage ventures. Market risk is largely due to factors that are beyond management control. For example, overall market size, growth trend, unforeseen competition, etc. Market risk has been shown to be the top reason for the rejection of investment opportunities by professional angel investor groups (Carpentier and Suret 2015; Maxwell et al. 2011). The stage of the proposed venture is frequently cited as the key reason for investment rejection. Ventures in the idea/concept stage carry the largest risk because ideas entail uncertainty about both the founders' ability to develop the idea into a product/service and its market potential. The progression of a venture from an idea/concept to a prototype removes some uncertainty about the venture's ability to actually develop the product, however the market risk, i.e. whether the product/service will be commercially successful,

remains. As ventures continue to develop their products, the next challenge is to “show traction” in the market, i.e. to demonstrate sales potential to consumers for business-to-consumer (B2C) ventures or to show success in signing corporate clients for business-to-business (B2B) ventures (Feld and Mendelson 2016). As the ventures progress from a concept to prototype to an actual business that has clients, market risk is reduced. Successful consumer product launches and signings of marquee corporate clients are commonly interpreted by risk capital investors as market validation signals (Maxwell et al. 2011) and we expect a similar behavior among the accredited investors in the context of equity crowdfunding platforms.

H1a. Ventures that have completed product/service development are more likely to raise funding in online equity crowdfunding campaigns than early stage ventures (ideas and prototypes).

H1b. Ventures that have large corporate clients are more likely to raise funding in online equity crowdfunding campaigns than ventures lacking such clients.

Research on venture funding has also highlighted that potential investors are looking for disruptive innovations as an important criterion for venture funding (Metrick and Yasuda 2010). Incremental innovations are perceived to be at a disadvantage when entering established markets because incumbents typically react very aggressively to the introduction of incremental innovations by upstarts and possess greater resources to market their own products (Kuester et al. 1999). Consequently, startups offering incremental innovations are unlikely to succeed in head-to-head competition with incumbents. Disruptive innovations that can offer a substantive competitive advantage to new entrepreneurial ventures have greater chances of success and they are more likely to attract funding (Christensen et al. 2002). Patents often serve as the strongest evidence of significant practical innovation (Häussler et al. 2012). Patents also provide protection for startups from potential imitation by others and thus they can offer a source of sustainable competitive advantage.

H2a. Ventures offering disruptive innovations are more likely to raise funding in online equity crowdfunding campaigns than ventures offering incremental innovations.

H2b. Ventures that hold patents are more likely to raise funding in online equity crowdfunding campaigns than ventures that do not have patents.

Execution risk captures the factors related to the difficulty of execution or implementation of a product or service as well as challenges that may arise with the execution of the business strategy and business model. Entrepreneurial ventures require a diverse portfolio of management skills to succeed: product development, sourcing, manufacturing, marketing and financial management among them (Lazear 2004). Single entrepreneurs are unlikely to possess the full complement of required skills. Prior research has shown that venture capitalists prefer entrepreneurial teams over single entrepreneurs (Hsu 2007). Angel investors are also known to look for entrepreneurs with prior industry experience in the target market and preferably prior entrepreneurial experience (Maxwell et al. 2011). Founder entrepreneurial experience is important for potential investors because early stage investors are typically dependent on the new venture either being sold or offered to the public in a public stock offering to realize the financial rewards of their investment. Entrepreneurs with prior experience of successful exits are aware of the structural requirements and the liquidity/exit expectations among the investors. Research has also shown that venture capitalists prefer balanced teams that are comprised of both young entrepreneurs with new ideas and more seasoned executives who can guide successful execution of the entrepreneurial vision (Hsu 2007).

H3a. Single entrepreneurs are less likely to successfully raise funding in online equity crowdfunding campaigns than entrepreneurial teams comprised of 2 or more members.

H3b. Serial entrepreneurs are more likely to successfully raise funding in online equity crowdfunding campaigns.

H3c. Entrepreneurs with prior experience in the target industry are more likely to raise funding in online equity crowdfunding campaigns.

H3d. Balanced entrepreneurial teams are more likely to successfully raise funding in online equity crowdfunding campaigns.

Agency risk arises from information asymmetry between the entrepreneurs and the potential investors. Entrepreneurs know more about the business prospects of their venture and the potential challenges than the investors. This can lead to opportunism which is more common among younger, smaller firms (Noe and Rebello 1996). Angel investors typically mitigate the agency risk by close involvement in the entrepreneurial ventures in which they invest, but online platform-mediated investment in geographically distant ventures makes active angel investor engagement in the entrepreneurial ventures very challenging (Morrissette 2007). In such circumstances, potential investors would be looking for another professional angel investor or a venture capital firm to take the lead role in providing close monitoring of the early stage ventures. Research on an angel-oriented equity crowdfunding platform Angel.co has shown that syndicate-based investments in which a well-known angel investor or a venture capitalist takes the lead role, dominate successful fundraising (Agrawal et al. 2014). Consequently, we expect that companies that attracted funding from an experienced angel or a VC investor would be more likely to receive capital commitments from other accredited investors on equity crowdfunding platforms.

H4a. Ventures that have already attracted funding from established angel investors would be more likely to successfully raise funding in online equity crowdfunding campaigns.

H4b. Ventures that have already attracted funding from professional venture capital firms would be more likely to successfully raise funding in online equity crowdfunding campaigns.

Prior research on the venture screening process by angel investors and venture capitalists has frequently highlighted the importance of the entrepreneur characteristics in the investment decisions (Chen et al. 2009). For example, prior research has noted the importance of entrepreneurial passion and determination as well as trustworthiness in successful venture fundraising (Murnieks et al. 2016). Lack of passion and determination undermines investor confidence that entrepreneurs can persevere through many challenges likely to be faced by their ventures. Entrepreneur trustworthiness is also critical for the investors to feel confident that the entrepreneur can be trusted with investor funds (Maxwell et al. 2011). Computer-mediated contexts pose a significant challenge in allowing the entrepreneurs to communicate with potential investors. The use of videos has been highlighted as an important tool available to entrepreneurs in rewards-based crowdfunding (Mollick 2014). We expect that successful entrepreneurs will make use of video in communication with potential investors in equity crowdfunding platforms as well.

H5a. Ventures that use video in their project descriptions will be more likely to successfully raise funding in online equity crowdfunding campaigns.

H5b. Ventures that use video featuring the founders in their project descriptions will be more likely to successfully raise funding in online equity crowdfunding campaigns.

Data and methodology

We collected the data for our study from Crowdfunder, a Los Angeles based equity crowdfunding platform. Crowdfunder was established in 2011 with the anticipation of the JOBS Act passage and it has grown to become among the most active equity crowdfunding platforms in the United States. We scraped the data about the individual projects directly from the Crowdfunder web site. Two graduate assistants were engaged in analyzing the project descriptions and coding data. To assess the venture success in its crowdfunding campaign we focused on the following two measures. First, we accessed whether the venture attracted the full amount of minimum issue amount (*success*), i.e. the company fully met or exceeded its fundraising objectives. Further, because Crowdfunder releases all committed funds to the entrepreneurs irrespective of whether the campaign met the minimum issue amount and because research on equity crowdfunding on European platforms suggested that ventures that are able to attain at least half of the required funding tend to be successful in raising the remaining amount (Vismara 2015),

we defined *partial_success* as a binary variable reflecting whether at least half of the minimum issue amount was raised as the second target variable in our study. Table 1 summarizes the list of variables, coding schema and the descriptive statistics for the data that we collected on 337 ventures posted on Crowdfunder September 2013 through December 2016.

Variable name	Coding schema	Descriptive statistics
<i>Single_entrepreneur</i>	1 – single entrepreneur 0 – otherwise	43.3% of the ventures are led by a single entrepreneur
<i>Industry_experience</i>	Founder(s) have experience in the target industry 1 – yes 0 – no	81.3% of the entrepreneurial teams have experience in the target industry
<i>Serial_entrepreneur</i>	At least one of the founders has prior entrepreneurial experience 1 – yes 0 – no	9.5% are serial entrepreneurs
<i>Venture_stage</i>	Idea – venture is at the idea/concept stage Beta – a beta or a prototype has been developed Product – the product or service has been developed and it is offered to potential clients	Ideas – 12.2% Beta / Prototype – 25.2% Product – 62.6%
<i>Innovation_type</i>	1 – Disruptive 0 – Incremental	Disruptive – 23.7% Incremental – 76.3%
<i>Angel_investors</i>	1 – the company has received funding from a professional angel investor 0 – none	15.4% received funding from a professional angel investor
<i>VC_investment</i>	1 – the company has received funding from a venture capital firm 0 – none	12.2% received funding from a venture capital firm
<i>Video</i>	1 – venture description contains a video 0 – none	63.8% of the campaigns included a video
<i>Entrepreneur_video</i>	1 – founder(s) appears in the video 0 – the founder(s) is not in the video	30.6% of the campaigns included a video of the entrepreneur
<i>Patents_issued</i>	1 – the company has received patents 0 – none	14.5% of the ventures had patents
<i>Industry_sector</i>	Commerce & industry Consumer goods Energy Financial Healthcare Materials Services Technology	Commerce & industry – 5.3% Consumer goods – 12.2% Energy – 2.4% Financial – 11.9% Healthcare – 3.9% Materials – 1.5% Services – 30.6% Technology – 32.3%
<i>Pre-issue_market_cap</i>	Company value prior to receiving funding, in \$	Average: \$16.3 million Min: \$0, Max: \$500 million
<i>Minimum_issue_amount</i>	The minimum amount of funding sought by the venture, in \$	Mean: \$2.07 million Max: \$40 million Min: \$40,000 Mode: \$500,000
<i>Success</i>	The campaign met or exceeded the minimum issue amount	8.9% of the campaigns reached or exceeded their minimum issue amount
<i>Partial_success</i>	The campaign met at least 50% of the minimum issue amount	23.1% of the campaigns reached at least 50% of their minimum

	issue amount
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Table 1. Variables, coding schema and descriptive statistics

Results

To evaluate the effects of individual variables on the success and partial success of capital fundraising in our dataset, we performed logistic regression modeling. Logistic regression estimates the effects of individual variables on the log likelihood of the outcome of interest. We ran separate regressions for each variable and we also ran separate regressions to estimate the effects of each variable on the likelihood of a venture reaching at least 50% of the funding goal (*partial success*) as well as the likelihood of the venture reaching the full funding goal (*success*). Positive coefficients reflect a positive effect of the variable on the likelihood of the outcome.

	Partial success	Success	Hypotheses
Market risk			
Company stage			
Idea	- 2.3 (1.03) *	ns	H1a partially supported
Prototype	ns	ns	
Product	1.250 (0.626) *	ns	
Market validation (corporate clients)	0.995 (0.27)***	1.352 (0.422) ***	H1b supported
Innovation (incremental/disruptive)	ns	ns	H2a not supported
Patents issued	ns	ns	H2b not supported
Execution risk			
Single entrepreneur	- 0.620 (0.273) *	ns	H3a partially supported
Serial entrepreneur	0.940 (0.387) **	ns	H3b partially supported
Founders have industry experience	ns	ns	H3c not supported
Team composition	ns	ns	H3d not supported
Agency risk			
Professional angel investors	1.600 (0.318) ***	1.659 (0.406) ***	H4a supported
VC investors	1.939 (0.354) ***	2.557 (0.421) ***	H4b supported
Computer-mediated communication risk			
Video	0.860 (0.310) **	1.258 (0.553) *	H5a supported
Entrepreneur in the video	0.588 (0.273) *	0.877 (0.398) *	H5b supported

* - $p < 0.05$, ** - $p < 0.01$, *** - $p < 0.001$

Table 2. Results summary

Focusing on the market risk, we find only partial support for the role of the venture stage. Ventures at the idea stage are less likely to achieve 50% funding target, whereas ventures at the product stage are more likely to achieve 50% of the funding target. However, we find no statistically significant association between the venture stage and the likelihood of a venture achieving the full target amount of funding. (H1a is partially supported.) We find that market validation signaled by corporate clients is positively associated with the venture reaching the full target funding amount. H1b is supported. Neither the level of

innovation offered by the venture nor ownership of patents have statistically significant relationship with funding success. We find no support for H2a or H2b.

Focusing on the execution risk, we find partial support for the negative effect of single-entrepreneur ventures and positive effect of prior entrepreneurial experience on the likelihood of a venture achieving at least 50% of the funding target, but we find no statistically significant effects on the likelihood of full funding commitments. H3a and H3b are partially supported. H3c and H3d are not supported.

Venture ability to attract professional angel investors or venture capitalists prior to the initiation of an equity crowdfunding campaign is strongly positively associated with the likelihood of reaching both the 50% and the full funding target amount. H4a and H4b are supported. We also find support for the important role of video-based communication in equity crowdfunding platforms. The presence of a video in the project description and the entrepreneur being present in the video are positively correlated with partial and full funding success. H5a and H5b are supported. Table 2 summarizes the results.

Discussion

In this study, we drew on research in traditional (offline) informal risk capital that emphasizes that investors in the entrepreneurial ventures face three different types of risk: market risk, execution risk and agency risk, and we examined factors that can affect successful equity-based capital fundraising by entrepreneurial ventures in equity crowdfunding platforms. We expanded the framework to reflect specific challenges that can arise in computer-mediated communications. We evaluated the proposed framework in the context of a successful equity crowdfunding platform in the United States. We analyzed venture-level data from 337 entrepreneurial investment solicitations by focusing on the specific market, execution, agency and computer-mediated communication risks. We find that market traction and successful fundraising from other professional investors are predictive of successful equity crowdfunding. We also find that entrepreneur use of video to communicate the information about their venture to potential investors is also strongly correlated with successful fundraising. We also find that several other venture characteristics, e.g. the stage of the venture (idea/prototype/completed product), entrepreneurial team composition (single entrepreneur, prior entrepreneurial experience) receive partial support in their effects on the successful equity crowdfunding. Ventures in the idea stage and ventures comprised of a single entrepreneur are less likely to be successful in attracting at least half of the requested capital, whereas serial entrepreneurs are more likely to attract at least half of the requested capital.

The results of our study suggest that potential investors in equity crowdfunding platforms rely on a relatively small set of rules (heuristic) to make their investment decisions. The two key factors that are correlated with successful equity crowdfunding are 1) whether the venture has demonstrated market viability by signing marquee clients and 2) whether other professional investors made capital commitments to the venture. The second criterion likely reflects investor perceptions that ventures that successfully raised funding offline prior to engaging with the equity crowdfunding platforms navigated the due diligence process and will benefit from close engagement of other angel or venture capital investors in execution of the business strategy. In essence, investors on Crowdfunder appear to be freeriding on the work done by other professional investors in venture quality assessment.

Our study makes a number of contributions to theory and practice. First, we draw on the research on traditional risk capital investments to develop a novel theoretical lens for examining venture success in equity crowdfunding. Much of the published research on equity crowdfunding has focused on information asymmetry, i.e. the entrepreneur knowing more than potential investors about the prospects of the venture, as the key challenge in equity crowdfunding. The focus on potential information asymmetries largely ignored the fact that entrepreneurial ventures vary greatly in objective quality and that there is a substantial body of research on how professional risk capital investors approach potential investment evaluation. Prior research in this domain has identified three different types of investor risks that can affect the funding decision. We show that while all three types of risk may play a role in equity crowdfunding, the investors appear to focus on market and agency risks. We also expanded the

framework to acknowledge the unique challenge that arises in computer-mediated communications. Assessment of individual entrepreneur quality plays a key role in investment decisions. Entrepreneurial passion cannot be easily captured in textual narratives and therefore it becomes essential for the entrepreneurs to use rich media (video) to engage with potential investors and communicate the individual level of experience, passion and commitment.

Our second contribution to theory is the provision of empirical evidence from an equity crowdfunding platform in the United States. Except for the study conducted by Agrawal et al. (2014), all other published work on equity crowdfunding has been done outside of the United States. Prior theoretical work has noted that internet mediation amplifies information asymmetries between entrepreneurs and potential investors and questioned the potential viability of equity crowdfunding as a whole (Agrawal et al. 2013). Our results demonstrate that equity crowdfunding can be successful from the entrepreneur perspective. 337 ventures in our dataset have raised \$183 million on Crowdfunder. 78 of 337 ventures raised at least 50% of the target capital and 30 ventures raised the full amount of target capital.

Our third theoretical contribution stems from the empirical insights that emerge from our study. While we identified a long list of potential factors that may affect the investors' decision to commit capital to a particular venture via equity crowdfunding platforms, we find that only a few variables are strongly predictive of a venture being funded. Key among these is the ability of the venture to attract professional investors offline. These findings echo the results from offline and online context which demonstrated that investors engage in deal syndication to lower the due diligence costs and maybe willing to pay a premium for expert investors to conduct due diligence on certain types of ventures (Agrawal et al. 2014).

Our study also has a number of implications for practice. First, entrepreneurs seeking funding through equity crowdfunding platforms would be well advised to advance to the product stage prior to engaging with the equity crowdfunding platforms. Further, the entrepreneurs would also be well served if they are able to attract traditional angel or early stage venture capital funding from traditional sources prior to engaging with the equity crowdfunding platforms. Our results also indicate that video-based communications play a critical role in securing investor commitments. The insights relevant for the individual entrepreneurs also have implications for the operators of equity crowdfunding platforms. The passage of the JOBS Act led to the creation of at least 17 different equity crowdfunding platforms (Mamonov et al. 2017). Our results suggest that to be successful equity crowdfunding platforms likely need to engage in due diligence to assure that the funding solicitations posted on the platforms would not be immediately disqualified by potential investors for relative immaturity or potential agency risks.

Lastly, we should note that no research is without limitations. While we examined venture-level success factors in one of the largest equity crowdfunding platforms in the United States, our analysis is limited to a single platform and the generalizability of the findings would need to be assessed across other platforms.

Conclusion

By drawing on the research on traditional risk capital we developed a novel theoretical lens for understanding venture success in internet-based equity crowdfunding. The framework identifies market, execution, agency and computer-mediation as the four general types of risks that can affect fundraising in equity crowdfunding platforms. The empirical evaluation of the proposed framework supports the importance of the individual risk types and it also suggests that investors are likely relying on a limited set of criteria in evaluating potential investment opportunities in equity crowdfunding. The key factors that are correlated with successful fundraising include the demonstration of market traction and successful procurement of funds from professional angel investors or venture capitalists. We also find that videos play a critical role in the communication with potential investors.

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