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“LEMONS” OR “PEACHES”: WHICH ENTREPRENEURIAL VENTURES ATTRACT EQUITY CROWDFUNDING? (SUMMARY)

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EQUITY FINANCING

SUMMARY

“LEMONS” OR “PEACHES”: WHICH ENTREPRENEURIAL VENTURES ATTRACT EQUITY CROWDFUNDING?

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Principal Topic

Equity crowdfunding plays an increasingly important role in the financing of early-stage entrepreneurial ventures. While research on equity crowdfunding is quickly developing, no study has focused on how ventures that (successfully or unsuccessfully) applied for funding through equity crowdfunding platforms differ from ventures that never applied for funding from these platforms. Thus, we lack a deep understanding of the supply and demand in the equity crowdfunding market (Bruton, Khavul, Siegel & Wright, 2014).

Existing theories differ in their predictions about which ventures attract equity crowdfunding. Theories drawing on informational asymmetries, suggest that ventures will only raise external equity financing as a last resort (Myers, 1984). Thus, ventures of low quality or “lemons” (Akerlof, 1970) are expected to dominate equity crowdfunding platforms. However, by listing on crowdfunding platforms, entrepreneurs get more than only financing. They may obtain feedback from key stakeholders (e.g., future customers) and the “wisdom of the crowd” (Schwienbacher & Larralde, 2010) may serve as a superior selection filter so that some of the most promising ventures search for equity crowdfunding and get funded.

Method

We identified 134 equity crowdfunded UK ventures that raised financing on Crowdcube between 2012 and 2015. We further identified 108 UK ventures that unsuccessfully tried to raise equity crowdfunding on Crowdcube over the same time period. Financial data were collected through Companies House and Amadeus, a database that includes high quality data on public and private firms across Europe. Using propensity score matching, we matched the 242 Ventures that (successfully or unsuccessfully) tried to raise equity crowdfunding with 242 UK ventures that never applied for equity crowdfunding.

Results and Implications

Ventures that apply (successfully or unsuccessfully) for equity crowdfunding lack internal funds and have limited debt capacity relative to ventures that did not apply for crowdfunding, suggesting equity crowdfunding is pursued as a last resort. Within the group of ventures that apply for equity crowdfunding, ventures with long-term debt have a greater probability of attracting equity crowdfunding, but excessively high debt ratios are associated with a decreased likelihood of attracting equity crowdfunding. This study contributes to our understanding of the supply and demand side of the equity crowdfunding market.

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