EQUITY CROWDFUNDING’S ROLE IN REDUCING INFORMATION ASYMMETRIES AND INCREASING ENTREPRENEUR SUCCESS (SUMMARY)

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FINANCING

SUMMARY

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Principal Topic

The skill required to predict the feasibility of an entrepreneurial opportunity limits most individual because of significant information asymmetries in new ventures. We study the degree to which crowdfunding is an effective means to successfully fund new ventures by examining how the interaction between the crowd and the entrepreneur affects information asymmetries. The research also shows how technology impacts the equity investment through crowdfunding because it creates a greater level of information asymmetry for some potential investors in the crowd.

Method

Data was collected from Crowdcube, an equity-based crowdfunding platform that offers the crowd the chance to make an equity investment in a UK business. Our sample includes 50 successful and 50 unsuccessful firms that range from basic to more technologically sophisticated. The firm’s online profile provided information used in data collection. Logistic regression was used to regress investment success or failure from technology sophistication and degree of information provided while controlling for investment goal, equity ownership offered and expected third year sales. Success was a measure of entrepreneurs meeting their predetermined funding goal in a specific period of time. Other variables included technology, information and control variables related to third year sales, equity ownership and investment goal.

Results and Implications

The results show that the amount sought by a firm is the only control variable that has a significant impact on success. The negative relationship between amount and success suggest that firms that ask for higher and higher amounts will decrease their likelihood of success. We found a positive and significant relationship between information provided and success which suggests that the degree of information provided to a large number of individuals increases the likelihood of success. Technology has a negative and significant relationship with success.

The contributions of this research shows that due diligence is a process that public investors complete prior to making investment in new ventures and are able to do it at a low cost when working in a crowd. It also shows that crowdfunding is an efficient way to communicate information and raise funds.

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