

Decoding success in Equity crowdfunding: The impact of lead founders' signals on campaign outcomes

Abstract

Purpose:

Drawing on signaling theory, this paper emphasizes the role of lead founders' human capital signals in the success of equity crowdfunding (ECF) campaigns, measured by the number of investors and the amount of capital raised.

Design/methodology/approach:

We conduct a set of regression analyses using Ordinary Least Squares (OLS) and Quantile Regressions for a sample of 1,072 initial and seasoned campaigns launched on four ECF platforms: Republic and Crowdcube from the UK, Mamacrowd from Italy, and Invesdor from Finland, spanning the period from 2014 to 2024.

Originality/value:

We contribute to the literature by analyzing a dataset that encompasses both initial and seasoned campaigns launched on four ECF platforms. Furthermore, our study delves deeper, focusing primarily on the lead founder.

Findings:

We find that a lead founder's education and experience in the fields in which the firm operates positively affect the number of investors, and the amount of capital raised, suggesting that such a founder is more convincing and credible to potential investors. However, we find no significant evidence that a lead founder's entrepreneurial experience contributes to the success of an ECF campaign. Additionally, our data indicate that women-led firms tend to attract fewer investors and smaller amounts of funding, suggesting that female founders often garner less interest from investors.

Practical implications:

Our findings provide valuable implications. Lead founders should include information about their educational backgrounds and work experience in their ECF campaigns. Platforms could enhance their due diligence processes by inducing founders to post these elements on the campaign pages and in an organized format particularly for initial campaigns, as these attributes can help potential investors to recognize the ventures' unobserved quality. For seasoned campaigns, platforms may

encourage entrepreneurs to provide previous funding outcomes or performance data rather than human capital characteristics. Additionally, our findings could prompt calls for policymakers to mandate the disclosure of lead founders' backgrounds to protect investors against information asymmetry. Policymakers may also promote initiatives that incentivize and prioritize financing for firms owned by women.

Keywords: Equity crowdfunding, Signaling theory, lead founders' signals.

Paper type: Research paper