

# The influence of quality factors on Crowdfunding Success

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## **ABSTRACT,**

The research question which is going to be answered in this paper is *‘To what extent is crowdfunding success explained by quality factors?’* This research is on how crowdfunding success is influenced by the social network of the project leader and the quality of preparation. The social network of the project leader will be tested via their Facebook friends and LinkedIn connections, while the quality of preparation will be tested via the business plan and the business video. This paper uses data extracted from Kickstarter projects. Based on our sample, we conclude that the amount of friends on Facebook has a positive influence on crowdfunding success. However, our data does not suggest a positive effect of the amount of LinkedIn connections on crowdfunding success. Furthermore, based on our sample, we conclude that the quality of preparation positively affects crowdfunding success.

## **Graduation Committee members:**

**Dr. X. Huang, Prof. Dr. M.R. Kabir, Dr. H.C. Van Beusichem**

## **Keywords**

Crowdfunding, Crowdfunding Success, Quality factor(s), Social Network, Quality of preparation and Kickstarter Projects

# 1. INTRODUCTION

One of the biggest challenges an entrepreneur faces is to get funding for the project (Crosetto, 2014). However, in recent years, crowdfunding emerged as a novel way for ventures to receive funds, instead of looking for funds via the traditional sources (Mollick, 2014). In this report the definition of crowdfunding stated by Schwienbacher et al. (2010) will be used:

*Crowdfunding is an open call, primarily through the internet, for the provision of financial resources, either in the form of a donation or in exchange for some kind of reward and/or voting rights in order to support initiatives for specific purposes.*

So, crowdfunding capital is raised through (typically) online internet platforms from a large number of small investors (Cumming, 2019).

However, receiving the funds is not always a success. This can be partially explained by a lack of sufficient value that can be pledged to investors, and partially because of unsuccessful attempts to convince the investors (Hellmann, 2007; Casamatta, 2010). But what is crowdfunding success?

According to Mollick (2014), crowdfunding success is determined by the percentage of a project's goal that is actually raised by founders. Crowdfunding is seen as a success when the project raises at least their goal, and the project is paid the total amount pledged to them.

This research will be focused on how crowdfunding success is influenced by certain factors. In the literature review part, several factors will be elaborated on, but this paper will be mainly focused on factors which are a sign of quality since crowdfunding success is associated with a higher quality level (Ahlers, 2015; Crosetto, 2014; Mollick, 2014).

The quality of young companies often cannot be observed directly. Investors must therefore judge on the observable attributes of a project which are expected to give a sign of quality (Stuart et al. 1999). Moreover, quality is often only just perceived after consumption, which requires a certain confidence level of funders in the proposal (Ward et al. 2010). Furthermore, there are three main disincentives for funders to invest in a crowdfunding project: (1) creator incompetence, (2) fraud and, (3) project risk (Agrawal et al. 2014). Creator incompetence deals with the relatively optimistic view of founders about their own abilities to bring a project forward (Agrawal et al. 2014). Crafting a fraudulent page on a platform is relatively easy which increases the potential for fraud (Agrawal et al. 2014). Moreover, risk is inherently connected with new projects (Agrawal et al. 2014). These disincentives are aggravated by the high degree of information asymmetry (Agrawal et al. 2014).

Prior research suggests that the social network of the project leader and the quality of preparation are a sign of the quality level. Projects of a lower quality will receive little to no backers, while projects of a higher quality will receive sufficient funding (Mollick, 2014). The quality of the social network will be assessed via their amount of Facebook friends and LinkedIn connections, while the quality of preparation will be assessed via the quality of the business plan, and the quality of the video. The literature review part will encompass further elaboration about the stated factors.

The goal of this paper is to determine the influence of quality factors on crowdfunding success. Based on prior research, these quality factors are (1) *the social network of the project leader* and (2) *the quality of preparation*. The following research question will be addressed: *'To what extent is crowdfunding success explained by quality factors?'* The main results show that the amount of friends on Facebook has a positive effect on crowdfunding success. However, *LinkedIn Connections* does not

show a positive effect on crowdfunding success. Furthermore, *the quality of preparation* is showing a significant influence on crowdfunding success. Thus, projects with a high *quality level of the business plan and video* have a higher probability of success on funding their crowdfunding projects.

This thesis is structured as follows. First, previous literature regarding crowdfunding and factors influencing crowdfunding success are reviewed. This gives information about current theories.

Second, the hypotheses are presented. This is followed by the methodology & data section describing the research method, data collection, and variables. Following that are the results from the logistic regression analysis, and an interpretation of these tables. Then lastly, a discussion is presented ending with addressing the limitations and providing directions for future research.

## 2. LITERATURE REVIEW

### 2.1 Crowdfunding

Crowdfunding is deduced from alternative financing methods such as microfinancing and crowdsourcing (Belleflamme, 2014; Mollick, 2014). The phenomenon emerged because of the financial crisis in 2008 (Heijnen, 2017). Rules regarding lending where sharpened, which resulted in individuals struggling with gaining access to small capital (Heijnen, 2017).

However, crowdfunding has its own specifics, namely that crowdfunding is facilitated by a growing number of internet sites (Mollick, 2014). Another difference pointed out by Harms (2007) is that crowdsourcing focuses on pooling labor resources, while crowdfunding focuses on pooling capital. So, crowdfunding is focused on gaining capital. Moreover, crowdsourcing uses the "crowd" to obtain ideas, feedback and solutions in order to develop corporate activities (Howe, 2008; Kleemann et al. 2008), whereas crowdfunding focuses on collecting money for investments where the social network (Twitter, Facebook, LinkedIn) is commonly used (Belleflamme et al. 2014). Crowdfunding could be seen as an evolution of the social mode of resource acquisition addressing anyone interested in the project instead of only using personal relations (Hekman et al. 2013).

Yet, crowdfunding is not solely focused on gaining the necessary capital resources since it also positively influences the development process of the product or service (Harms, 2007). Firstly, the reaction of the market on the proposal of the project will indicate whether the project is demanded by customers. So, it could be seen as a market pre-test (Harms, 2007). Secondly, consumers could possibly be financially triggered to contribute into the development of the project since (dependent on the project design), they may participate in the possible market success. In conclusion, engagement in an early stage could result in a better fit towards the needs of the customers (Harms, 2007). Lastly, engagement of consumers themselves in the project will probably mean that they are more easily triggered to diffuse the innovation via word of mouth (Harms, 2007).

As stated before, the definition of Schwienbacher et al. (2010) of crowdfunding is used since this is the most recurrent one (Cordova et al. 2015). However, some scholars point out that certain characteristics are excluded in this definition. According to Mollick (2014), this definition lacks characteristics such as internet-based peer-to-peer lending and fundraising initiatives. Mollick (2014) defines crowdfunding as *'the efforts by entrepreneurial individuals and groups – cultural, social, and for-profit – to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using*

*the internet, without standard financial intermediaries.* Nevertheless, the goal of investors and the goal of the crowdfunding projects are not present in this definition when comparing it to the proposed definition (Mollick, 2014). Both types of goals are left out since these aspects of crowdfunding tend to diverge (Mollick, 2014). Concludingly, keeping the remarks of Mollick (2014) in mind, this paper will be based on the definition by Schwienbacher which is most recurrent in the papers about crowdfunding.

## 2.2 Crowdfunding success and information asymmetry

Deciding to invest in a start-up is heavily influenced by face-to-face interactions and personal relationships (Cumming et al. 2015). However, crowdfunding is done online which limits the possibility to have personal contact with potential investors (Vismara, 2016). Moreover, crowdfunders often do not possess the experience and capabilities required to overcome information asymmetry problems. (Ahlers et al. 2015). Information asymmetry refers to the fact that external investors usually do not possess complete and perfect information compared to the entrepreneur (Courtney et al. 2016). Furthermore, since crowdfunders are often first-time entrepreneurs, they cannot rely upon reputation gained via financial intermediaries, such as an investment bank (Vismara, 2016). Information asymmetries matter when one party is not aware of the precise quality of the project (Stiglitz, 2000; Vismara, 2016). Signaling quality is vital in gaining finance in a market burdened with a high degree of information asymmetry (Vismara, 2016). The quality of the project eventually depends on the feasibility of the project (Courtney et al. 2016). However, since a crowdfunding proposal is a startup, the feasibility is not observable until the product or service is experienced (Courtney et al. 2016).

### 2.2.1 Social network

However, a factor reducing uncertainty and attracting attention towards the new project is the social network of an entrepreneur (Leyden et al. 2014; Shane et al. 2002; Vismara, 2016). Communicating information through media implies the technical feasibility and the project's market readiness which helps the potential funder to assess the quality of the project (Courtney et al. 2016). Appealing to your social network is even seen, by fundraisers on UK crowdfunding platforms, as the most important way for crowdfunding success (Nesta, 2014). The social network of an entrepreneur is also seen as an effective indicator of the quality of a project (Kromidha et al. 2016; Vismara, 2016; Kunz et al. 2017). Paradoxically, the quality of a project also indicates the network of the entrepreneur and his or her experience (Aprilia et al. 2017).

Furthermore, Investors' judgement about the quality of a project is not only influenced in the stated way (reduction of information asymmetry and/or addressing built relationship), but it is also influenced via the cognitive social capital (Chiu et al. 2006). Cognitive social capital consists of shared values, shared culture, shared language and shared narratives (Butticè et al. 2017). The cognitive social capital stimulates narrative behavior amongst group members, which affects the assessment of a projects' quality (Chiu et al. 2006). Narrative behavior is referred to as understanding the language of the people in the organization which helps to absorb from the social capital (Nahapiet et al. (1998).

Moreover, the network of an entrepreneur could enhance the legitimacy and reputation of the project, and indicates the quality of the project (Hoang et al. 2015). Also, legal issues are less likely to occur due to relationships since the partnership relies on 'implicit and opened contracts' which are supported by social

mechanisms (Hoang et al. 2015). A well-established relationship also increases the probability that the information exchanged is of a higher quality (Blau, 2017; Hoang et al. 2003). Besides, the reputation of a project leader could be seen as a signal of venture quality (Baum et al. 2004).

According to Mollick (2014) there are two reasons why the social network of an individual will have a positive influence on the success of the project. (1) The social network of the project leaders helps to garner more attention among possible funders, and (2) having social ties to a possible funder gives them more assurance of a project's quality. Leyden et al. (2014) complements these findings by stating that the social network of an individual yields experimental knowledge, which could positively influence the innovation process. This is also confirmed via a survey which pointed out that two-thirds of UK fundraisers saw their social network as an important driver of their crowdfunding success (Nesta, 2014).

Giudici et al. (2013) suggests that the social network, measured via their contacts on Facebook, has a positive influence on the probability of reaching the target of the fund. This research is based on data extracted from 461 project posted in 11 Italian crowdfunding platforms. Using data of Kickstarter projects, Mollick (2014) is also measuring the social network of the projects leader by studying the amount of friends on Facebook. His research also supports the findings of Giudici et al. (2013). In contrast to the study of Mollick (2014), Kunz et al. (2017) also included projects outside the US. In this research, all currency-related values were converted into US-Dollar. The database included 116,863 projects, which also resulted in the confirmation of social network positively influencing crowdfunding success.

The social network is not only measured by looking at the Facebook Friends of the project leader. Prior research also suggests that LinkedIn connections should be taken into account. A study performed by Roma et al. (2017) claims that the social network of an entrepreneur attracts professional investors based on research studying the total LinkedIn connections. Data in this research is collected regarding projects seeking for funding on Kickstarter in the 'technology' category. Vismara (2015) also studied the influence of LinkedIn connections on crowdfunding. His study showed that the average amount of LinkedIn connections the entrepreneur has, were 330 while in the study of Colombo et al. (2014), the mean average of LinkedIn connections were 49. Concludingly, prior research suggests that a higher amount of LinkedIn connections will increase the probability of a success (Roma et al. 2017; Vismara, 2015).

### 2.2.2 Quality of preparation

Prior research on the quality of preparation suggests that the quality of preparation influences the outcome of the crowdfunding proposal (Ahlers et al., Chen et al. 2009; Colombo et al. 2014; Dorffleiner et al., 2016; Mollick, 2014).

According to Chen et al. (2009), a business plan will show the time, effort, and resources invested in the project which indicates the preparedness. Important aspects here are: is the demand of the market carefully considered, whether the product or service is fitting the needs, possible difficulties that could arise, which market segment is targeted, and the expected financial returns (Chen et al. 2009). A proposal which contains a significant amount of text also shows time and effort and is associated with a higher probability of success (Bi et al. 2017; Dorffleiner et al. 2016). A higher word count also results in a more extensive explanation of the proposal which also helps to minimize information asymmetry (Dorffleiner et al. 2016). However, spelling mistakes should be minimized since this is also an

important indicator of the quality of the project (Dorfleiner et al. 2016; Mollick, 2014). The business plan will also provide information about whether the entrepreneur would be ready to take the proposed venture forward, if resources were provided (Chen et al. 2009).

The business plan is not the only indicator of preparation, a qualitative video is also associated with a higher probability of crowdfunding success (Colombo et al. 2014; Mollick, 2014).

Bi et al. (2017) also states that electronic word of mouth has a positive effect on crowdfunding success. Their research suggest that video counts make the investors associate the project with a higher quality. Kickstarter even promotes including a video to the proposal. Monetary expenses in creating a video can be marginal because of the recent advancement of information technologies, but it shows a certain level of preparedness and efforts by the project leader which enables a project to be developed towards a high quality project (Courtney et al. 2017).

### 3. HYPOTHESES

Concludingly, there is quite some research done in the area of quality factors influencing crowdfunding. However, still not all crowdfunding projects succeed in reaching their targeted funds. This paper will test whether the suggested association is confirmed with the used sample.

Based on prior research, the following hypotheses arise:

1. *The social network of the project leader has a positive effect on the likelihood of achieving crowdfunding success.*
2. *The quality of preparation has a positive effect on the likelihood of achieving crowdfunding success.*

## 4. METHODOLOGY & DATA

### 4.1 Methods

The research is based on data extracted from a webtool (Biggercake) which extracts projects and their data from the Kickstarter site. Kickstarter is one of the biggest names when it comes to crowdfunding. Since 2009, it has raised over \$4 billion with more than 155.000 projects funded (Nguyen, 2019). All project categories are included (comics, crafts, dance, design, fashion, film & video, food, games, journalism, music, photography, publishing, and technology).

#### 4.1.1 Regression model

Since our dependent variable, *Success*, is binary, this research will employ logistic regressions to test our hypotheses.

A binary variable can only take two values, namely, a 0 or 1. Since, crowdfunding can be seen as a success if the targeted monetary goal is achieved (Mollick, 2014), the dependent variable, *Success* will be given a 1 if the goal is achieved. A 0 will be given if the amount funded (in %) is lower than 100.

To test the influence of quality factors on crowdfunding success, logistic regressions will be estimated via four models: (1) Control variables only, (2) Social network signals + Control variables, (3) Quality of preparation signals + Control variables, (4) All explanatory variables. Testing the control variables firstly will make sure that I have set a baseline. Afterwards, each quality factor is tested solely, to see if there is any significant difference.

#### 4.1.2 Variables

As stated before, previous studies have shown several factors which indicate a certain quality level. The indicators of these quality factors are described below.

#### 4.1.2.1 Dependent variable

The dependent variable, *Success*, is a dummy variable, equal to 1 if the project was able to reach the targeted monetary goal set by the project founder and a 0 otherwise. Measuring crowdfunding success via this binary way has been used in prior studies (Ahlers et al. 2015; Colombo et al. 2014; Mollick, 2014).

#### 4.1.2.2 Independent variables – Social Network

I used two variables to measure the *social network of the project leader*:

1. *Facebook Friends*

Due to data collection limitation, friends on Facebook are based on the time of data collection<sup>1</sup> instead of the time the project was initiated. However, friends on Facebook are not expected to substantially increase as a result of the project (Mollick, 2014). Moreover, only projects of the past 4 years are used in our sample.

2. *LinkedIn Connections*

As stated before, LinkedIn connections are also based on the time of data collection, instead of the time the project was initiated.

A “0” under “Facebook Friends” or “LinkedIn Connections” means that there is no knowledge available that the project leader is on Facebook or LinkedIn. This could also occur if the specific person has protected his friends by choosing the option that only friends or friends of friends can access the amount of friends. This also occurs if the individual does not have an account on Facebook or LinkedIn.

#### 4.1.2.3 Independent variables – Quality of preparation

I will consider two measures for the quality of preparation:

1. *Quality of the Business Plan*

The business plan will be judged on its word count (Bi, et al. 2017; Dorfleiner et al. 2016), but I will also look at spelling mistakes (Dorfleiner, 2016; Mollick, 2014).

2. *Quality of the Video*

The video will be judged on its existence (Mollick, 2014), but I also want to add a certain quality level. Just a video is not enough, because the video should be clear, elaborative, creative and has to look graphically well.

These two variables are given a ‘1’ when the quality is high and a ‘0’ when the quality is poor.

#### 4.1.2.4 Control Variables

Control variables is a variable that is held constant in an experiment to make sure that we can test the relative relationship between the dependent and independent variables. The following control variables could skew the results and are therefore used in the logistic regression analysis as control variables.

1. *Funding Goal*

*Goal of funding* is the monetary targeted goal set by the project leader. Since there is a wide variation of goals set, I used this as a control variable in logistic regression (Mollick, 2014).

2. *Duration of the proposal*

*Total amount of days* is the amount of days a project is open for funding. This variable could vary a lot and is therefore also used (Mollick, 2014).

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<sup>1</sup> Data is collected between 22/04/2020 and 10/05/2020.

## 4.2 Data

Firstly, the main database I used consisted of 250 Kickstarter projects. These projects vary from 01/02/2017 to 25/04/2020. Cordova et al. (2015), suggests that data should also be extracted from other sites, but I will follow Mollick (2014) by only using projects from Kickstarter. This sample (N=250) consists of every project category listed on Kickstarter (art, comics, drafts, dance, design, fashion, film & video, food, games, journalism, music, photography, publishing, technology, and theater). However, after removing the outliers, 207 projects remained. Table 1A shows the descriptive statistics of the whole sample, while Table 1B shows the dependent variables characterized by the amount of successful projects and projects who failed to reach their goal. Afterwards, the minimum, maximum, mean, standard deviation, and median (only at Table 1B) are showed.

In total, 140 projects were successful (67,6%) and there were 67 projects (32,4%) who failed to reach their targeted goal.

**Table 1A: Descriptive Statistics (N=207)**

<i>Dependent Variable</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Std. Deviation</i>	<i>Median</i>
<i>Facebook Friends</i>	0	11136	1673.29	2012.658	1029
<i>LinkedIn Connections</i>	0	618	98.76	172.052	0
<i>Quality of the Business Plan</i>	0	1	0.75	0.435	1
<i>Quality of the Video</i>	0	1	0.71	0.455	1

**Table 1B: Descriptive Statistics**

<i>Dependent Variable</i>	<i>Success/Failure</i>	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Std. Deviation</i>	<i>Median</i>
<i>Facebook Friends</i>	Success	140	0	11136	2031.58	2183.481	1313
	Failure	67	0	6527	924.61	1327.481	343
<i>LinkedIn Connections</i>	Success	140	0	618	105.92	173.789	5
	Failure	67	0	500	83.79	168.667	0
<i>Quality of the Business Plan</i>	Success	140	0	1	0.89	0.310	-
	Failure	67	0	1	0.45	0.501	-
<i>Quality of the Video</i>	Success	140	0	1	0.84	0.365	-
	Failure	67	0	1	0.43	0.499	-

**Table 2: Independent t-test**

<i>Variables</i>	<i>Levene's Test for Equality of Variances</i>		<i>t-test for Equality of Means</i>			
	<i>F</i>	<i>Sig.</i>	<i>t</i>	<i>df</i>	<i>Sig. (2-tailed)</i>	
<i>Facebook Friends</i>	Equal Variance Assumed	11.174	.001*	-3.823	205	.000**
	Equal Variance Not Assumed			-4.506	193.451	.000
<i>LinkedIn Connections</i>	Equal Variance Assumed	.400	.528	-.865	205	.388
	Equal Variance Not Assumed			-.875	133.714	.383
<i>Quality of the Business Plan</i>	Equal Variance Assumed	101.086	.000*	-7.837	205	.000**
	Equal Variance Not Assumed			-6.684	91.017	.000
<i>Quality of the Video</i>	Equal Variance Assumed	52.664	.000*	-6.681	205	.000**
	Equal Variance Not Assumed			-5.998	101.000	.000
<i>Goal of funding</i>	Equal Variance Assumed	.072	.788	-.555	205	.580
	Equal Variance Not Assumed			-.497	100.707	.620
<i>Total amount of days</i>	Equal Variance Assumed	.922	.338	.629	205	.530
	Equal Variance Not Assumed			.662	148.614	.509

\*. Significant at the 0.05 level, \*\*. Significant at the 0.01 level (2-tailed)

**Table 3: Regression analysis**

Variables	(1)		(2)		(3)	
	B	SE	B	S.E.	B	S.E.
Constant	0.730	.102	.613	.104	.206	.105
Goal of funding	2.355	.000	2.352	.000	-3.794	.000
Total amount of days	-.002	.000	-.002	.003	-.001	.002
Facebook Friends			5.913***	.000	3.499*	.000
LinkedIn Connections			9.682	.000	8.433	.000
Business Plan					.369***	.077
Quality of the video					.212***	.074
Adjusted R-Squared	-.006		.052		.271	
F	.364		3.849		13.754	
Highest VIF	1.001		1.011		1.451	

\*. Significance at the 0.1 level (2-tailed), \*\*. Significance at the 0.05 level, \*\*\*. Significance at the 0.01 level (2-tailed)

Noteworthy, as stated before, the quality of preparation indicators are rated with a '0' or a '1'. So, for example, a mean amount of 0,89 represents that the mean amount tends to have a preference towards a high quality.

Furthermore, the correlation matrix can be found in the appendix, table A. Accordingly, the correlations between *Facebook Friends*, *Quality of the Business Plan*, *Quality of the Video*, and *Crowdfunding Success* are statistically significant. The control variables do not show correlation with the indicator of success. Among the dependent variables, *Facebook Friends* is found to be correlating with the *Quality of the Business Plan*, and *Quality of the Video*.

The control variable *Total amount of days* is showing a negative correlation with our dependent variable. Which means that if the *Total amount of days* increases, *Crowdfunding Success* decreases or vice versa. Furthermore, among independent variables, pairwise correlations are relatively low except for the correlation between the *Quality of the Business Plan* and *Quality of the Video*.

## 5. RESULTS

When diving more deeply into the statistics, we can see that the mean amount of *quality of the business plan* is slightly higher than *quality of the video*. So, in our sample, the *quality of the business plan* was of a high quality in 74.9% of the cases, while in comparison the *quality of the video* was only high in 71% of the cases. Moreover, when looking at the mean scores of the *social network* indicators, we can see that entrepreneurs tend to have more friends on Facebook in comparison to LinkedIn. In our sample, the mean amount of friends on Facebook is 1673,29, while the mean amount of connections on LinkedIn is 98,76. The mean amount of friends is relatively high in comparison to Kunz et al. (2013) and Giudici et al. (2013) since their sample had a mean amount of friends on Facebook of relatively 489,74 and 433. Zhen et al. (2014) research comes closer to our research since their sample has a mean amount of friends on Facebook of 835,51.

Also, the findings regarding LinkedIn Connections are different in comparison to several studies. Roma et al. (2017) find that their mean amount of LinkedIn connections is 580,78. However, as stated before, the mean amount of connections on LinkedIn is 49 in the study performed by Colombo et al. (2014).

Furthermore, the statistics between 'success' and 'failure' tend to differ. All variables score a higher mean and median at the 'successful projects' in comparison to the ones who failed to reach their goal. Noteworthy, the median amount of friends on Facebook for successful projects is even 970 higher.

To further investigate the influence of the variables, an independent t-test was performed. When starting to interpret this table, we first have to look at the outcome of the Levene's Test. The Levene's test shows us whether the groups we're comparing have all have equal population variances. Equal variance is assumed if  $P \leq 0,05$ . Otherwise ( $P > 0,05$ ), equal variance is not assumed which makes us use this row.

Firstly, we can see that 3 out of our 4 variables are statistically different. Successful crowdfunding projects are associated with higher scores on the following three dependent variables: *The amount of friends on Facebook*, *the quality of the business plan*, and *the quality of the video* (difference is significant at the 1% level). This is strong evidence which can be used to suggest that on average these 3 variables significantly differ between the successful and unsuccessful projects in our sample. However, *LinkedIn Connections*, and our 2 control variables are not statistically different. Concludingly, our sample does not show strong evidence to suggest that on average these 3 variables do differ between successful and unsuccessful projects.

To further investigate the influence of our variables on the dependent variable, I performed a logit regression analysis. The results of this analysis are shown in Table 3. Colom 1 shows only the control variables. Colom 2 shows the control variables and the H1 variables, and Colom 3 shows all the variables. The regression analysis is performed with *Crowdfunding Success* as the dependent variable.

Firstly, there was no issue regarding collinearity since the VIFs for all of the variables were less than 2 (Zheng et al. 2014).

Furthermore, we can see that *the amount of friends on Facebook* is significant at the 2<sup>nd</sup> Colom ( $\alpha=0.1$ ) and in the third Colom ( $\alpha=0.01$ ). This shows us that there is a significant influence of *the amount of friends on Facebook* on *Crowdfunding Success*, thus supporting H1. However, *LinkedIn Connections* does not show a significant effect of the variable on *Crowdfunding Success*, thus not supporting H1. So, projects leaders with an adequate *amount of friends on Facebook* have a slightly higher probability of success on funding their crowdfunding projects than project leader with a fewer amount of friends on Facebook. This finding

is consistent with prior studies (Giudici, 2013; Kunz et al. 2017; Mollick, 2014; Zheng et al. 2014). However, our data does not support prior studies regarding the influence of *LinkedIn Connections* on *Crowdfunding Success*.

*Quality of the Business Plan* and *Quality of the Video* are both significant (at the 0,01 level), thus showing a significant influence of the variables on *Crowdfunding Success*. Resulting in the fact that H2 is supported. Thus, projects with a high *quality level of the business plan and video* are having a higher probability of success on funding their crowdfunding projects.

## 6. DISCUSSION

This study is based on a database that is collected manually for all 250 crowdfunding projects on the crowdfunding platform Kickstarter. The dependent variable measured is the extent to which the projects was a success in reaching the monetary goal.

The first hypothesis tested during the analysis is the hypothesis that assumes that if the project leader has an extensive social network, the likelihood of crowdfunding success will increase. This hypothesis was based on prior studies. These studies suggested that a broader social network would reduce uncertainty by showing the trustworthiness of the individual. In our study, H1 is supported by our regression analysis on the amount of friends on Facebook, however H1 is not supported by the regression analysis on the amount of LinkedIn connections. This outcome confirms the study performed by Colombo et al. (2014), who also did not find a significant influence of the amount of LinkedIn connections on crowdfunding success.

The second hypothesis tested the influence of the quality of preparation on crowdfunding success. To test the quality of preparation we looked at the business plan and the video (if there was a video in the proposal). The quality of the business plan was firstly assessed by taking a look at the length of the proposal. A higher word count shows effort made by the initiator. After this, I checked the proposal on spelling mistakes. The proposal was rated with a '1' when the quality was high, and a '0' was given if the proposal was of poor quality. The quality of the video was firstly based on its existence. When assessing the video, I looked at the graphical quality and creativity of the video. The rating procedure corresponds to the judgement of the quality of the business plan.

The regression analysis showed that both variables were positively influencing crowdfunding success. So, H2 is supported by our sample. Meaning that if the quality of preparation is high, the likelihood of crowdfunding success is significantly increased.

### 6.1 Strengths, limitations and future research

The main strength of this research is that successful and unsuccessful projects are taken into account since our sample consisted of both. Differences could therefore be studied. This also made the sample more representative.

However, there are also some limitations to this research. The first limitation to keep in mind is the sample size. Our sample consisted of 250 projects, and after removing the outliers, the remained sample consisted of 207 projects. However, due to time limitation, it was not possible to increase the sample size. Another limitation would be the fact that the *quality of preparation* is assessed in a subjective way. At last, our sample consisted of projects only from Kickstarter. There could be potential differences between crowdfunding platforms. In this study, these potential differences are not taken into account.

For this study, I have chosen two quality factors based on prior literature. However, it is possible that I missed certain papers which were considering other quality factors as well.

Future research should increase the sample size to make the sample more representative. Future research could also dive more deeply into differences between project categories and/or types of crowdfunding.

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## 9. APPENDIX

**Table A: Correlation matrix**

<i>Variables</i>	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. <i>Success (I=Successful)</i>	1						
2. <i>Facebook Friends</i>	0,258**	1					
3. <i>LinkedIn Connections</i>	0,060	0,092	1				
4. <i>Quality of the Business Plan</i>	0,480**	0,176*	0,024	1			
5. <i>Quality of the Video</i>	0,423**	0,215**	0,038	0,538**	1		
6. <i>Goal of funding</i>	0,039	-0,001	0,049	0,115	0,024	1	
7. <i>Total amount of days</i>	-0,44	-0,025	0,013	-0,075	0,007	0,038	1

\*. Significant at the 0.05 level (2-tailed), \*\*. Significant at the 0.01 level (2-tailed)