

SUCCESS FACTORS FOR MUSIC-BASED CROWDFUNDING IN THE FINNISH CONTEXT

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Master's Thesis

Major Social and Public Policy

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ABSTRACT

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Summary

This thesis paper builds on the knowledge that vast majority of crowdfunding campaigns fail to reach their fundraising goals. Hence, current research intends to determine a variety of factors influencing the success of crowdfunding projects. The study is particularly interested in music-based crowdfunding initiatives in the Finnish context. The specific research question is as follows: what factors are associated with the success of music-based crowdfunding campaigns in Finland?

Current research is an empirical study which follows a quantitative research tradition and applies logistic regression analysis of data. Empirical data was collected from the leading Finnish reward-based crowdfunding platform Mesenaatti.me. Research findings indicate that such factors as number of mentions on Facebook and number of reward types are associated with the success of crowdfunding campaigns.

Keywords: crowdfunding, reward-based crowdfunding, success factors, music industry, quality signals, social networks, funder motivations

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I. INTRODUCTION

1.1. Background of the study

The last two decades have been arduous for the music industry, and it has changed dramatically due to emerging technological advancements. Digitalization has fundamentally transformed the way music is produced and consumed. The introduction of peer-to-peer file sharing in the last years of the 20th century opened up free access to music when Internet users became able to simply download music files from each other's computers. Initially major record companies resisted the development of digital music and regarded it as a threat, bringing cases to courts (Dumbreck 2016, 25). The tremendous rise of the digital 'musicscape' (Roberts 2014; Lashua and Cohen 2010; Oakes 2000) led to the collapse of the traditional recorded music business model. In the USA, the world's largest music market, album sales dropped "from 800 million in 2002 to 316 million a decade later" (Cameron 2015, 33). Global recorded music industry revenues decreased from \$25.2 billion in 1999 to \$14.3 billion in 2014 (IFPI 2018). Moreover, the 2008 global financial crisis made the situation even more complicated for those trying to make a living through music.

Though at first it seemed that predictions of the impending doom of the music industry would become a reality, the ongoing unprecedented technological progress opened new opportunities for the music sector. The emergence of legal online distribution allowed to reduce illegal downloading and to partially recover lost revenues of music companies. The advent of social media played an essential role in the formation of online communities. Additionally, Internet technologies revealed new effective ways of communication and promotion.

In 2018 the global recorded music market showed the highest growth rate since 1997 (9.7%) and accounted for \$19.1 billion - it was the fourth successive year of global growth (IFPI 2019). Although physical and download revenues continued to decline, digital music share of global revenue reached 58.9%. The mainstream model for music business nowadays is 'streaming and subscription': 255 million paying subscribers in 2018 in comparison to 8 million in 2011, and streaming share of global revenues was 46.9% in 2018 (IFPI 2019).

European market showed a modest growth of 0.1% in 2018, comparing to 16.8% in Latin America, 14.0% in North America and 11.7% in Asia and Australasia. However, the situation was really different across various European countries: for instance, revenues grew by 2.8% and 1.7% in Sweden and Norway respectively and by 20.0% in Austria, while decreased by 9.9% in Germany. The Finnish domestic music sector has increased by about 5.4% since 2014 and reached €905 million in 2016 with live music accounting for more than half of the total market value (Music Finland 2017a). The long-lasting downturn in record sales came to a halt in 2015, and the growth of the recorded music sector was 1.6% in 2016, reaching €59.1 million, which was mostly driven by the streaming services (72%) (Music Finland 2017b).

The aforementioned numbers vividly illustrate that the role of digital formats in today's music industry is tremendous. Nowadays people can listen to any music they want at any time. This has evidently been made possible by the global expansion of the Internet. The number of Internet users grew from 2.3 billion in March 2012 to 4.3 billion in March 2019 (which accounts for 56.1% of the world population) (Internet World Stats 2019). Online community continues to grow fast day by day, and we will definitely face more changes in the coming years in the music industry and other sectors.

1.2. Problem formulation and aim of the study

Music industries are generally seen as part of the broader cultural and creative sectors which are defined as “all sectors whose activities are based on cultural values or artistic and other individual or collective creative expressions” (European Commission 2018c, 21). Creative product, according to Howkins (2013), is “an economic good or service that results from creativity and has economic value”. The European Union supports cultural and creative sectors through a variety of initiatives and financial funds (European Commission 2012). The scope of the national support depends on economic and historical development of a particular country. The US state support for the arts and culture has generally been modest, making the idea of fundraising from private persons a commonplace. European countries, on the contrary, view public funding as a facilitator of artistic expression and an alternative to the marketplace (Osborne 2004). However, economic recession inevitably reduced public expenditure on culture in many countries.

Public sector plays a significant role in Finnish cultural industries. The arts council system, as a part of Arts Promotion Centre Finland, provides direct financial support through various grants to individual artists and project groups (Ministry of Education and Culture). Additionally, art professionals may apply for funding from such organizations as The Finnish Cultural Foundation, The Alfred Kordelin Foundation, The Jenny and Antti Wihuri Foundation, KONE Foundation.

I am highly concerned with the sustainability aspect of the actors in the music sector. How can artists balance creative and financial dimensions of their careers? Can it be possible for musicians to have freedom of expression and creation and to make a living through their music in a long-term perspective?

The unstable environment of the music sector, as well as the decrease in state support of creative industries facilitated active development of alternative forms of funding. Though the system of cultural sector support in Finland is rather well developed, grants can not be distributed among all those who seek for funds. In the traditional music business model it is not easy to get signed by a record label, and if the deal gets signed, it usually means for young musicians giving up ownership for their music. That is why more and more people are seeking funds for their cultural projects through crowdfunding.

Crowdfunding is generally understood as a practice of raising small amounts of money from large numbers of people for the purpose of starting new businesses, funding initiatives and projects. Some experts predict that crowdfunding will be able to replace traditional financial institutions, while others consider it as a viable alternative for banks and venture capital, especially in the cultural sector. Crowdfunding is very convenient for smaller projects. It gives more freedom to creative professionals and allows them to retain copyright for their works.

Success of entrepreneurial ventures has been extensively examined by scholars. Crowdfunding is a relatively new phenomenon and, though having some similarities with traditional forms of financing, it has a set of specific features. To be successful in fundraising initiatives through crowdfunding platforms, one needs to understand what factors may influence crowdfunding success.

This thesis project intends to determine a variety of factors influencing the success of crowdfunding efforts. The study is particularly interested in music-based crowdfunding

initiatives in the Finnish context. The specific research question is as follows: what factors are associated with the success of music-based crowdfunding campaigns in Finland?

1.3. Research approach

Current research is an empirical study which follows a quantitative research tradition and applies logistic regression analysis of data. Empirical data was collected from the leading Finnish reward-based crowdfunding platform Mesenaatti.me. The subject was approached by preliminary examination of the literature and online discussion about crowdfunding, moreover, broad screening of diverse crowdfunding campaigns was conducted. Data was analyzed using binary logistic regression analysis to identify a number of factors which best predict the probability of crowdfunding success.

1.4. Structure of the thesis

The thesis consists of six chapters.

Following the introduction, the second chapter introduces the phenomenon of crowdfunding and its types, presents historical, statistical and legal information on crowdfunding.

The third chapter describes theoretical aspects of success factors through the perspectives of fundraising, entrepreneurship and project management, and presents an overview of academic literature focusing on success factors in crowdfunding and specifically in the domains of music, culture and arts.

The fourth chapter presents the overall research strategy, introduces data collection and data analysis methods.

The fifth chapter describes data analysis in detail and provides the results of data analysis.

The sixth chapter presents conclusions based on the data analysis, as well as discussion about the implications of the current study and suggestions for future research.

II. CROWDFUNDING

2.1. What is Crowdfunding

Though a relatively new phenomenon, crowdfunding has significantly evolved in the past decade, and it continues to constantly develop globally and across different disciplines encompassing new sub-categories and mechanisms. In this connection any effort to place this construct within the framework of one single definition may seem limiting. After having reviewed an extensive amount of literature available, it is reasonable to present in this paper a variety of definitions of crowdfunding with different perspectives (Table 1).

Table 1. Definitions of crowdfunding

Source	Year of publication	Definition
European Commission. 'Crowdfunding Explained' guide (p.6)	2015	"Crowdfunding is a way of raising money to finance projects and businesses. It enables fundraisers to collect money from a large number of people via online platforms."
European Commission. Crowdfunding	Not mentioned	"Crowdfunding is an emerging alternative form of financing that connects those who can give, lend or invest money directly with those who need financing for a specific project. It usually refers to public online calls to contribute finance to specific projects."
The World Bank. 'Crowdfunding's Potential for the Developing World' report (p.8)	2013	"Crowdfunding is an Internet-enabled way for businesses or other organizations to raise money in the form of either donations or investments from multiple individuals."
European Securities and Markets Authority. Opinion 'Investment-based crowdfunding' (p.4)	2014	"Crowdfunding is a means of raising finance for projects from 'the crowd' often by means of an internet-based platform through which project owners 'pitch' their idea to potential backers, who are typically not professional investors."
European Crowdfunding Network. What is crowdfunding	2012	"Crowdfunding is a collective effort of many individuals who network and pool their resources to support efforts initiated by other people or organizations. This is usually done via or with the help of the Internet. Individual projects and businesses are financed with small contributions from a large number of individuals, allowing innovators, entrepreneurs and business owners to utilize their social networks to raise capital."
Ordanini et al. 'Crowdfunding: transforming customers into investors through innovative service platforms'	2011	"Crowd-funding is an initiative undertaken to raise money for a new project proposed by someone, by collecting small to medium-size investments from several other people (i.e. a crowd)."

Steinberg, Scott. 'The Crowdfunding Bible' (p. 2)	2012	"Simply put, crowdfunding is the process of asking the general public for donations that provide startup capital for new ventures. Using the technique, entrepreneurs and small business owners can bypass venture capitalists and angel investors entirely and instead pitch ideas straight to everyday Internet users, who provide financial backing."
Kuppuswamy and Bayus. 'Crowdfunding Creative Ideas: The Dynamics of Project Backers in Kickstarter'	2013	"A relatively new form of informal venture financing called "crowdfunding" allows entrepreneurs to directly appeal to the general public for financial help in getting their innovative ideas off the ground."
Mollick, Ethan. 'The Dynamics of Crowdfunding: an exploratory study'	2014	"Crowdfunding is a novel method for funding a variety of new ventures, allowing individual founders of for-profit, cultural, or social projects to request funding from many individuals, often in return for future products or equity."
Dresner, Steven. 'Crowdfunding: A Guide to Raising Capital on the Internet' (p. xi)	2014	"Crowdfunding, sometimes called crowd financing or crowd investing, is generally defined as the collective cooperation by people who pool their funds, usually via the Internet, to support efforts initiated by other people or organizations."
Belleflamme et al. 'Crowdfunding: Tapping the right crowd'	2014	"Crowdfunding involves an open call, mostly through the Internet, for the provision of financial resources either in form of donation or in exchange for the future product or some form of reward to support initiatives for specific purposes."
Ennico, Cliff. 'The Crowdfunding Handbook' (p. 5)	2016	"The term crowdfunding, in its most general sense, means raising money for something from a group of people that is large and relatively undefined: the crowd."
Gamble et al. 'A rewarding experience? Exploring how crowdfunding is affecting music industry business models'	2017	"Crowdfunding is a type of crowdsourcing in which an individual or enterprise seeks to accumulate the funds for a project or venture by reaching out to the general public and requesting individual donations that contribute towards a target financial goal."

The aforecited definitions uncover diverse nature of crowdfunding which is hard to capture in one phrase. Each author, trying to show the capacious character of the concept, puts emphasis on its particular features. It is important to keep in mind that crowdfunding as an innovative form of raising funds is essentially made possible in its modern form due to tremendous development of Internet technologies which have given unprecedented opportunities of access to the general public. Interestingly, Daniela Castrataro (2011), reflecting on crowdfunding as an activity, names 'web' and 'crowd' as its two fundamental elements. In Table 1 nearly every author mentions Internet-based character of

crowdfunding. Surely, it can be implemented in an offline mode as well, but these scale and scope that crowdfunding has today are due to the World Wide Web. As noted in the table above, crowdfinancing involves an open call to the general public meaning that anyone can support crowdfunding campaigns, not only professional investors. Those who give money may be called funders, backers, donors, supporters, contributors; those who accumulate capital – founders, fundraisers, project owners, campaign creators. Steinberg (2012, 2) states that crowdfunding opens an opportunity to avoid traditional financial institutions and directly address potential investors. Entrepreneurs are free to ‘pitch’ their creative and innovative ideas straight to the general public - prospective donors and/or customers. Aforementioned definitions point out that, unlike traditional financing instruments, crowdfunding is a way of raising small amounts of money from a ‘large and relatively undefined’ group of people - ‘the crowd’. Dresner (2014, xi), similar to European Crowdfunding Network (2012), views crowdfinancing from the perspective of donors accentuating that it is primarily a cooperative effort of multiple individuals to support appealing project, to contribute to a specific cause.

Crowdfunding, along with crowdwisdom, crowdcreation and crowdvoting, can often be understood as a sub-category of crowdsourcing where a fundraiser approaches the general public to mainly accumulate funds for a particular initiative. The term ‘crowdsourcing’ was initially coined by journalist Jeff Howe in a Wired magazine article in 2006, where he explained the process of crowdsourcing and suggested three abovementioned sub-categories to which was later added ‘crowdfunding’ (Howe 2006). Crowdsourcing, a word composed of ‘crowd’ and ‘outsourcing’, is a practice of delegating certain tasks to the community of Internet users engaging their knowledge, opinions or creative potential (Institute of Financial Services Zug IFZ 2017, 2). Though crowdfunding is mainly focused on raising funds, it is fully endowed with social aspects inherent to crowdsourcing – communication between founders and funders allows the formers to collect new ideas and feedback from their audience. From the capital accumulation standpoint, crowdfunding is often viewed as a form of fundraising (Kunz et al. 2015; Martel 2019).

Crowdfunding activities are implemented principally through special online platforms. On the territory of the European Union, crowdfunding platform is “an electronic information system operated or managed by a crowdfunding service provider”- “a legal person who provides crowdfunding services and has been authorized for that purpose by the European Securities and Markets Authority (ESMA) in accordance with Article 11 of this

Regulation” (European Commission 2018b, 20). Crowdfunding platforms perform as intermediaries between funders and fundraisers. Intrinsic features vary from platform to platform depending on the type of crowdfunding employed. Most often platforms concentrate on one crowdfunding model in their activity, however, there are those which use multiple funding types (two or more). Crowdfunding websites are in charge of selecting projects in accordance with specific requirements and regulations, consulting and assisting project owners and investors, managing financial transactions, promoting crowdfunding campaigns, assuring that all rules are respected by the members of crowdfunding process. For their services fundraising platforms charge crowdfunding projects with a special fee, usually as a percentage of the total amount raised.

Crowdfunding is a novel method of technology-enabled financial service and can be viewed as a source of risk capital. Moreover, crowdfunding has been considered as a way of democratizing access to financing (Kim and Hann 2014) and as a new form of exchanging goods and value (Scherer and Winter 2015). Due to its huge social and economic potential, crowdfunding may transform our habits of capital distribution, same as "social networking changed how we allocate time" (Lawton and Marom 2012).

Crowdfinancing may alter our investment behavior and even the way we make a living. It has the power to create new opportunities for people and businesses and may reallocate global wealth from the minority to a greater share of the world’s population, and as a result may flatten disparities in business and personal finances globally. At times when traditional work models are gradually outliving their relevance, crowdfunding may offer a new income path: replacing jobs and salaries with ownership stakes - this could become a significant step to the economy of the future. Elliot La Cour (2017) believes that “as fewer people are able to work for companies more people should be able to own them to generate their income”.

Crowdfunding eliminates capital access barriers, same as Internet erased barriers to information and communication. Crowdfinancing crucially changed “the supply/demand power dynamic of private capital markets” as it opened the doors for entrepreneurs to a global world of prospective capital providers with a variety of their own preferences, interests and investment behavior (Stark 2015). Crowdfunding platforms play the role of a marketplace for a multitude of diverse actors. And now it is at the discretion of the general public to decide which project or business idea is more deserving to be funded.

In recent years crowdfunding has been attracting more and more attention of venture capitalists and angel investors since it allows them to evaluate market interest in their potential investment projects and to do that privately and productively through special web-based platforms with enhanced communication opportunities and decreased time spent (The World Bank 2013, 17). However, there is still a funding gap for start-ups and early-stage companies, as well as for creative and social initiatives, because traditional financing institutions are reluctant to take risks and to invest in projects where investment return is not clear. Apparently, this is crowdfunding that can fill in this gap relying on small contributions from multiple individual investors.

In view of the foregoing, I would like to finish this chapter with a quote by David Stark (2015) who very vividly and accurately described the nature and the value of crowdfunding: *“At a fundamental level, crowdfunding is a demonstration of the power of openness and leveraging distributed resources. Whether it is capital, ideas or content — crowd businesses are forcing us from behind the closed walls of our respective silos and ushering in a new era of open, meritocratic platforms where the best companies get funded, the best products designed and the best ideas pursued.”* Although these words are expressed from a business perspective, the very same can be related to cultural and creative activities.

2.2. Historical perspective on crowdfunding

"Crowdfunding is a new way to do something old."

(Best and Neiss 2014, 3)

Crowdfunding as we know it today is considered to be a relatively new phenomenon. However, its underlying principles can be traced as far back as 3,000 B.C. (Best and Neiss 2014, 3): such occasions as wars or elections were financed by raising money from the population (Lasrado and Lugmayr 2013, 196). Subscription system, similar to known today advance-sale copies, was used by many book publishers already in the 17th and 18th centuries: books were printed in the amount of obtained subscriptions, and subscribers were acknowledged on the title pages (Ennico 2016, 13). The system of building and loan associations which emerged in the USA in the late 19th and early 20th centuries allowed to finance activities of association members through accepting deposits from groups of people (Best and Neiss 2014, 4).

Financial support in the form of patronage has played an important role from the ancient world onward in the fields of art and science. Rulers and noble people, called patrons or sponsors, provided monetary aid to musicians, writers, alchemists and other scholars. In the 1850s, a French philosopher Auguste Comte, who invented the term sociology and formulated the theory of positivism, issued special notes where he addressed the public to support his future work and material existence. Several of those documents, blank and filled in, even reached our times (Gupta 2018, 2).

One of the stunning examples of crowdfunding is the story of the Statue of Liberty when Joseph Pulitzer raised more than \$100,000 for the construction of the statue pedestal from more than 120,000 people through his newspaper the New York World in 1883 and 1885 (Santoso 2007). Though fundraising process was arduous and longer than expected, the goal was achieved in August 1885. Pulitzer daily implored his readers to donate and published updates, moreover, he promised to mention each contributor in the newspaper (Santoso 2007). The statue itself, as a French gift for the USA's centennial in 1876, was paid by French citizens: a miniature version of the statue with a funder's name engraved on it - an equivalent of a 'perk' in the context of contemporary crowdfunding - was offered in exchange for a donation (Best and Neiss 2014, 4). People in both countries were united in one common cause to make the project happen. It is in human nature - the aspiration to be part of a community and to feel appreciated. Many people have strong desire to be involved into something momentous, to leave a trace in history. And it is important to appeal to these human motives, as promoters of the Statue of Liberty perfectly did.

Legislation for investor security, adopted in the USA at the beginning of the 20th century, created barriers for the general public to participate in crowd-based funding. Nevertheless, due to insufficient state control, fraudulent finance practices occurred frequently and resulted in the loss of public trust in the capital markets. Subsequent significant amendments to financial regulations though covered a wide range of issues, restricted access to capital for small businesses and startups. (Best and Neiss, 2014, 5-8)

The twentieth century witnessed another outstanding example of crowd-based financing which was even awarded the Nobel Peace Prize in 2006 owing to its economic and social significance. Dr. Mohammed Yunus initiated a research project dedicated to microlending, the underlying concept of contemporary lending-based crowdfunding, with his graduate students in 1976 in Bangladesh. His intention was to create opportunities for the poor, and

the initial phase of the project consisted in lending \$27 to 42 rural women involved in bamboo production. Successful initial phase resulted in the possibility to distribute small loans to a larger amount of poor people through obtaining a government loan. A five-year program with more than 30,000 members transformed in 1983 into Grameen Bank with more than 8 million borrowers by 2016. (Ennico 2016, 14)

The Internet Age brought with it incredible technology advancements in terms of mobility, connectivity, communication, online transactions, etc. Before the emergence of specialized crowdfunding web-platforms independent crowdfunding initiatives would take place, e.g. musicians would address their fans for financial support regarding album recording or tour production. Modern internet-based crowdfunding is considered to be pioneered by the British rock band Marillion whose fans came together via the Internet in 1997 and gathered \$60,000 (£39,000) to help fund a North American tour. This crowdfunding internet business model was then used by the band itself in 2001 to pre-sell the new album to their supporters even before the start of the recording process. The same model was later taken and imitated by modern reward-based crowdfunding platforms. (Masters 2013)

Interesting to note that nonprofit organizations were among the first to seize the opportunities opened by the World Wide Web and to implement fundraising online. For instance, the world's leading platform for charity giving JustGiving.com has raised more than \$4.5 billion since its foundation in 2001 ('JustGiving About Us'). Similarly, such organizations as DonorsChoose.org (est. 2000) and GlobalGiving.org (est. 2002) have been working hard to help people around the world for almost 20 years now.

ArtistShare.com, launched in 2001, is often referred to as the first online crowdfunding platform created for entrepreneurial artists. Its founder, American musician and composer Brian Camelio, mentioned that he had been concerned with the common at the time practice by record companies to retain rights of artists' master tapes (Cole 2008). He wanted to create a community where artists and fans could connect and share the process of creation as well as raise funding for the projects. Camelio's company's business model offers artists favourable contract conditions and allows them to always own and control the rights to their creative works. Since 2003, ArtistShare projects received 30 Grammy nominations and 10 Grammy awards, as well as other countless prizes ('ArtistShare About Us').

The first microlending website Kiva.org, founded in 2005, directly connects online lenders with entrepreneurs around the world. Kiva's model creates personal and meaningful relationships between people: an individual through funding a loan can play a special role in someone else's life (Ennico 2016, 14). First peer-to-peer lending websites Prosper.com and LendingClub.com, established in the USA in 2006 and 2007 respectively, aimed at becoming alternative to banks through offering lower interest rates, and made investing and borrowing convenient and simple for everyone (Ennico 2016, 14-15).

The emergence of social media networks in the beginning of the 21st century was undoubtedly a pivotal milestone for the development of crowdfunding. Such websites as Friendster, MySpace, and later Facebook, Twitter, Instagram and LinkedIn drove online social interaction to the next level: aside from consuming information and live-chatting, users became able to build relationships with people who they may have never met in person. "Every experience could now be social, a crucial step for crowdfunding and its dependence on a strong potential for 'virality' ", - points out Daniela Castrataro (2011), co-founder of Italian Crowdfunding Network. Social networking progress made crowd-based funding much more accessible for the general public. Now people were able not only to donate to the project they believed in, but also to spread the word about it among their social networks, thereby enhancing the success of campaigns and the popularity of crowdfunding platforms. Best and Neiss (2014, 10) believe that the development of the social web was crucial for the success of reward-based crowdfunding.

According to Castrataro (2011), the term 'crowdfunding' was invented by Michael Sullivan in 2006 during the development of his digital platform for videobloggers 'fundavlog'. This website had some progressive video features, but most importantly for the topic of the current essay, it allowed to donate money to other users through 'fund buttons' with immediate transfer functionality. Sullivan's intention was to help fund various projects of videobloggers, and fundavlog's '1 cent per click' option definitely stimulated frequent contributions (Harms and Sullivan 2015).

Crowdfunding as we know it today re-emerged in the wake of 2008 financial crisis when a generally challenging process of raising funds from traditional financial institutions became practically impossible. In fact, banks were considering only profitable enterprises with collateral assets for issuance of loans, whereas small and medium-sized businesses were restricted access to capital and were forced to turn to informal forms of financing.

In 2008 Indiegogo and in 2009 Kickstarter were founded which are nowadays two of the most popular crowdfunding platforms in the world. Kickstarter was initially created by Perry Chen as a web-tool to help artists and musicians fund their creative initiatives. Himself a member of a music band, Chen realized how complicated it was to finance artistic activities and how helpful it could be if every fan had an opportunity to support his favourite artist with a small amount of money through some kind of a quick and easy to use digital platform in exchange for a nice gift (e.g. a CD, an event ticket, merchandise, etc.). “I was living in New Orleans in late 2001 and I wanted to bring a pair of DJs down to play a show during the 2002 Jazz Fest. I found a great venue and reached out to their management, but in the end the show never happened - it was just too much money...”, - Perry Chen (‘Kickstarter The Full Story’). Since Kickstarter’s launch, \$4.12 billion has been raised by almost 16 million backers (including repeat backers), and 158,072 projects have been successfully funded (‘Kickstarter Statistics’). Kickstarter-funded projects won Grammy Awards and an Oscar, artworks were exhibited in the New York Museum of Modern Art (MoMA) and the Kennedy Center, and several products were even launched into space! (‘Kickstarter Pressroom’). Best and Neiss (2014, 10) view the progress of Kickstarter as the growth of the “micro-patron of the arts”.

The story behind the creation of Indiegogo in 2008 is based on life experiences of its founders Danae Ringelmann, Eric Schell and Slava Rubin, who previously struggled to fund their own projects and bring them to life. Their ambition was to unite people around the globe through the means of the Internet to facilitate innovation and to support ideas that will change the world (‘Indiegogo About Us’). Since 2008, more than 800,000 innovative ideas from tech, creative and social fields have been brought to life by Indiegogo community of more than 9 million backers.

Both Kickstarter and Indiegogo are solid educational resources on crowdfunding which provide free guiding for fundraisers about how to make a successful crowdfunding campaign, paying attention to all important steps such as planning, campaign launch, promotion, communications with backers, products/perks delivery, post-campaign, etc. Platforms’ ‘blog’ sections share stories of success and reflect on the most challenging issues of crowdfunding.

In 2010 GrowVC was founded with the intention of becoming the new Kiva with an investment focus for startups and technology companies in the developed world - this gave

rise to a new sub-category known as equity-based crowdfunding (Castrataro 2011). GrowVC was followed by CrowdCube and Seedrs websites in the UK. The first US-based platform ProFounder launched equity-based investment tools in 2011 (Rao 2011), but the company was shut down the following year because of the strict regulatory environment in the country (Rao 2012). It seemed inexplicable that the securities laws in the United States had not yet changed with the progress of the Internet and that it was still illegal to use the web to raise investment capital for small businesses. In this regard, diligent efforts of a group of successful entrepreneurs, who created the Startup Exemption framework, led to re-emergence of crowdfund investing, or equity-based crowdfunding, in the USA: numerous meetings with securities attorneys, the SEC and Congress representatives resulted in the passage of the renowned Jumpstart Our Business Startups (JOBS) Act in 2012 which opened the door to all investors to invest in small businesses in one of the most powerful economies in the world (Best and Neiss 2014, 10-11).

Development of crowdfunding has always been affected by economic, political and social conditions of a particular historical period. Throughout the times it has been applied when there was difficult access to traditional sources of capital, especially for small businesses and individuals. Today crowdfinancing is a flourishing industry in a state of constant transformation. Progress of modern crowdfunding has been impetuous, and it continues to design new forms and encompass more spheres of life. The future of crowdfunding is often discussed in the scope of whether it will be able to take the leading role in global funding processes or will remain a possible alternative to conventional financial institutions. There is no single answer to that question, however, it is evident that crowdfunding has already become a solid alternative to traditional funding channels in less than two decades, and it will be highly interesting to observe its evolution in the future.

2.3. Types of Crowdfunding

Previously mentioned continuous development of crowdfunding can be clearly traced in the evolution of crowdfunding models categorization. In its 2012 ‘Crowdfunding Industry Report’ Massolution, a pioneering crowd-solutions research company, determined four types of crowdfunding: donation-based, reward-based, equity-based and lending-based (Massolution 2012, 11). The World Bank gave noteworthy classification on crowdfunding in its report ‘Crowdfunding's Potential for the Developing World’ (2013, 20): it mentioned

donation crowdfunding model including donation-based and reward-based business models, and investing crowdfunding model comprising equity-based, lending-based and royalty-based business models. The European Commission document ‘Unleashing the potential of Crowdfunding in the European Union’ (2014) divided crowdfunding practices into those with non-financial returns (crowdsponsoring) and those with financial returns (crowdlending and crowdfinancing).

The European Commission document, presenting impact assessment of the proposal on crowdfunding (2018a, 8-9), distinguishes four main types of crowdfunding with several sub-types, putting emphasize on the character of the reward that was promised to investors. Table 2 illustrates that peer-to-peer finance is referred to as Lending Crowdfunding, and Reward-based Crowdfunding implies provision of rewards in a form of a finished product or a service while non-tangible or low value tangible rewards are attributed to Donation Crowdfunding. Additionally, the Report mentions the existence of other crowdfunding models which are “of a much smaller scale” and can not be classified under four main categories.

Table 2. Typology of crowdfunding business models

	Sub-type	Reward type	
Donation Crowdfunding	Pure Donation	No reward	
	Reward Donation	Recognition, tokens or other non-tangible rewards	
	Other	Low value tangible rewards	
Investment-based Crowdfunding	Entrepreneur-led	Equity, bond-like shares, securities, revenue or profit sharing; Projects accessible to all investors	
	Investor-led	Securities, revenue or profit sharing; Projects accessible to accredited investors only	
Lending Crowdfunding (peer-to-peer finance)	Forgivable Loan	Interest only if project / firms has revenue or profit	
	Traditional Loan	Fixed-term interest	
	Pre-financing of account receivables	Discounted invoices	
Reward-based Crowdfunding	Product/service reward	Reward in form of a finished product or a service	

(Source: European Commission (2018a) ‘Commission Staff Working Document Impact Assessment’)

Crowdfunding is generally understood as a form of alternative financing. Nowadays alternative finance is a broad field “which includes financial channels and instruments that emerge outside of the traditional financial system (i.e. regulated banks and capital markets)” (Cambridge Centre for Alternative Finance). Given that the industry has only recently established, unified classification system has not been formed yet. Therefore, one should always pay attention to definitions and classifications used in certain literature on topic, as meanings of some terms may differ across various countries and institutions. For instance, crowdfunding can be sometimes considered as equity-based crowdfunding, and sometimes can comprise both equity- and lending-based crowdfunding to entrepreneurs. Peer-to-peer lending may be not included into crowdfunding and viewed as a separate category of alternative finance, and sometimes ‘crowdfunding’ is used as a synonym of ‘alternative finance’. One of the latest reports developed by the Cambridge Centre for Alternative Finance (2018, 28) presents 14 different alternative finance models (Table 3) which were considered as independent functioning categories during the year 2016.

Table 3. Alternative Finance models

Alternative Finance Model	Definition	2016	Market Share
P2P Consumer Lending	Individuals or institutional funders provide a loan to a consumer borrower.	€ 696.81m	33.8%
P2P Business Lending	Individuals or institutional funders provide a loan to a business borrower.	€ 349.96m	17.0%
Invoice Trading	Individuals or institutional funders purchase invoices or receivable notes from a business at a discount.	€ 251.87m	12.2%
Equity-based Crowdfunding	Individuals or institutional funders purchase equity issued by a company.	€ 218.64m	10.6%
Reward-based Crowdfunding	Backers provide finance to individuals, projects or companies in exchange for non-monetary rewards or products.	€ 190.76m	9.2%
Real Estate Crowdfunding	Individuals or institutional funders provide equity or subordinated-debt financing for real estate.	€ 109.45m	5.3%
P2P Property Lending	Individuals or institutional funders provide a loan secured against a property to a consumer or business borrower.	€ 95.15m	4.6%
Balance Sheet Business Lending	The platform entity provides a loan directly to a business borrower.	€ 59.13m	2.9%
Donation-based Crowdfunding	Donors provide funding to individuals, projects or companies based on philanthropic or civic motivations with no expectation of monetary or material return.	€ 32.40m	1.6%
Debt-based Securities	Individuals or institutional funders purchase debt-based securities, typically a bond or debenture at a fixed interest rate.	€ 22.85m	1.1%
Balance Sheet Consumer Lending	The platform entity provides a loan directly to a consumer borrower.	€ 16.74m	0.8%
Mini-Bonds	Individuals or institutions purchase securities from companies in the form of an unsecured retail bonds.	€ 10.16m	0.5%
Profit Sharing	Individuals or institutions purchase securities from a company, such as shares or bonds, and share in the profits or royalties of the business.	€ 8.36m	0.4%
Balance Sheet Property Lending	The platform entity provides a loan secured against a property directly to a consumer or business borrower.	€ 1.00m	0.05%

(Source: Cambridge Centre for Alternative Finance (2018) Expanding Horizons: The 3rd European Alternative Finance Industry Report)

From Table 3 it can be seen that the report authors used a much more detailed classification of funding models, excluded such categories as P2P Consumer, Business and Property Lending, Invoice Trading, Balance Sheet Consumer, Business and Property Lending, Profit Sharing and Mini-Bonds from the crowdfunding models and accumulated data for these categories independently.

To get a better understanding of the crowdfunding sector in the diversity of emerging alternative finance forms, it is reasonable, in my opinion, to follow a more traditional taxonomic approach. The four basic types of crowdfunding are explained in Table 4.

Table 4. Types of Crowdfunding

Type of crowdfunding	Description
Donation-based (charity or gift crowdfunding)	“Individuals donate amounts to meet the larger funding aim of a specific charitable project while receiving no financial or material return.”
Reward-based (perks-based)	“Individuals donate to a project or business with expectations of receiving in return a non-financial reward, such as goods or services, at a later stage in exchange of their contribution.” Pre-selling crowdfunding: when reward is proportionate to backers funding
Investment-based	“Companies issue equity, debt or contractual instruments to crowd-investors, typically through an online platform...” Equity-based: “investors invest in the equity of a company through a crowdfunding platform” Debt-based: “involves a bond (for example mini-bonds), at a fixed interest rate” Contractual instruments (profit/revenue-sharing): “businesses can share future profits or revenues with the crowd in return for funding” Royalty-based: “funders receive a share in a unit trust, which acquires a royalty interest in the intellectual property of the fundraising company”
Lending-based (peer-to-peer lending, marketplace lending)	“Companies or individuals seek to obtain funds from the public through platforms in the form of a loan agreement.” Consumer lending: “where individuals (consumer-to-consumer) or institutions (business-to-consumers) lend directly to individuals, typically through unsecured loans, where no collateral is requested from borrowers” Business lending: “where individuals (consumer-to-business) or institutions (business-to-business) lend directly to businesses. Loans can be secured or unsecured”
Hybrid models	“Combine elements of the other types of crowdfunding”

(Sources: European Commission (2016, 32-33); World Bank (2013, 20) for royalty-based model)

Donation-based crowdfunding is primarily grounded in philanthropic motives of donors who freely support creative or charity causes but do not expect any financial or material compensation. They can be offered some non-tangible (for example, recognition) or low value tangible rewards but the wish to help others underlies their behavior. In reward-based crowdfunding “a tiered series of incentives for donations” is employed to motivate potential supporters to fund a campaign (The World Bank 2013, 21). Rewards may vary from merchandise items to personalized recognition by project organizers (e.g. dinner with an artist, music lesson with a band member). This type of crowdfunding is believed to have low risk level, mainly of project non-completion and fraud (The World Bank 2013, 20). Nonfinancial crowdfunding (donation- and reward-based) is mostly known to be performed for social and creative causes, however, it is used for entrepreneurship on a smaller scale as well.

Investment-based crowdfunding is considered as an alternative to more traditional funding instruments such as loans from banks and angel or venture capital. However, in crowdfunding investing many investors commit small investments to projects or businesses, whereas in traditional forms venture capitalists and angel investors acquire whole funding round. In equity-, royalty-based and profit-sharing models there is no limit for potential financial benefit, though the profit rate is predefined by the interest rate in the latter two. Royalty payments may be terminated if an enterprise stops using the intellectual property in question in its activities. In debt-based crowdfunding investors do not obtain shareholder rights, but contractual rights such as the right to collect unpaid debts. (The World Bank 2013, 20)

In lending-based crowdfunding lenders receive interest payments in exchange for their loan. Interest rate is commonly affected by the risk level presented by the borrower, and payments are made at regular intervals. In case the borrower fails, lenders are at risk to lose their entire investment. This type of crowdfunding is mainly used by individuals and small businesses as the repayment amount is predefined and is of much lower scope than, for example, in equity-based crowdfunding.

For the purpose of this thesis paper in my research I will concentrate on the crowdfunding model that plays a central role for the music industry – on reward-based crowdfunding. This fundraising technique may be so appealing for music projects since artists are able to raise funds even prior to when the work on a project is started (Buff and Alhadef 2013).

Carl Esposti (2014, 39) notes that reward-based crowdfunding is particularly popular in the sphere of music and recording arts, explaining that by possible cultural prejudices among recording artists or by relatively low funding goals of music-based crowdfunding campaigns. Recording, publishing and performing artists were pioneers in using perks-based crowdfunding to fund their projects. Suffice it to recall the mentioned above example about crowdfunding campaigns of the British rock band Marillion already in 1997 and 2001 - the model which was mirrored later by modern reward-based crowdfunding platforms. Esposti adds that, for example, lending-based crowdfunding is less actively used by creative projects possibly due to incapability to secure required repayment (2014, 41). Moreover, nonfinancial crowdfunding campaigns are easier to accomplish. For instance, in equity-based crowdfunding fundraiser needs to prepare a business plan and to assure that his business is viable.

To conclude this section on the types of crowdfunding, it is important to mention two forms of funding models applied by crowdfunding platforms. If 'all-or-nothing' model is employed, all funds are returned to supporters in case a funding goal is not reached. This model is used by Kickstarter. On the contrary, under 'all-and-more' (or 'keep-what-you-raise') model campaign creators can keep all the received money no matter whether their financial goals are achieved. Indiegogo crowdfunding platform employs both aforementioned models. (Gerber and Hui, 2013, 34:4)

Since the financial services sector is undergoing considerable structural transformation and new forms of financing continue to be created, it is of great importance to be careful with terms and meanings while employing them not to cause misunderstanding and confusion. Crowdfunding is a young vibrant industry which will inevitably face many changes in the forthcoming years not only in its taxonomy but in other aspects as well.

2.4. Statistics on Crowdfunding

Crowdfunding has been developing at an unprecedented rate, and very often even the most audacious predictions are not able to foresee the real progress of the industry. Global crowdfunding volume more than doubled each year from \$2.7 billion in 2012 to \$16.2 billion in 2014 (Figure 1).

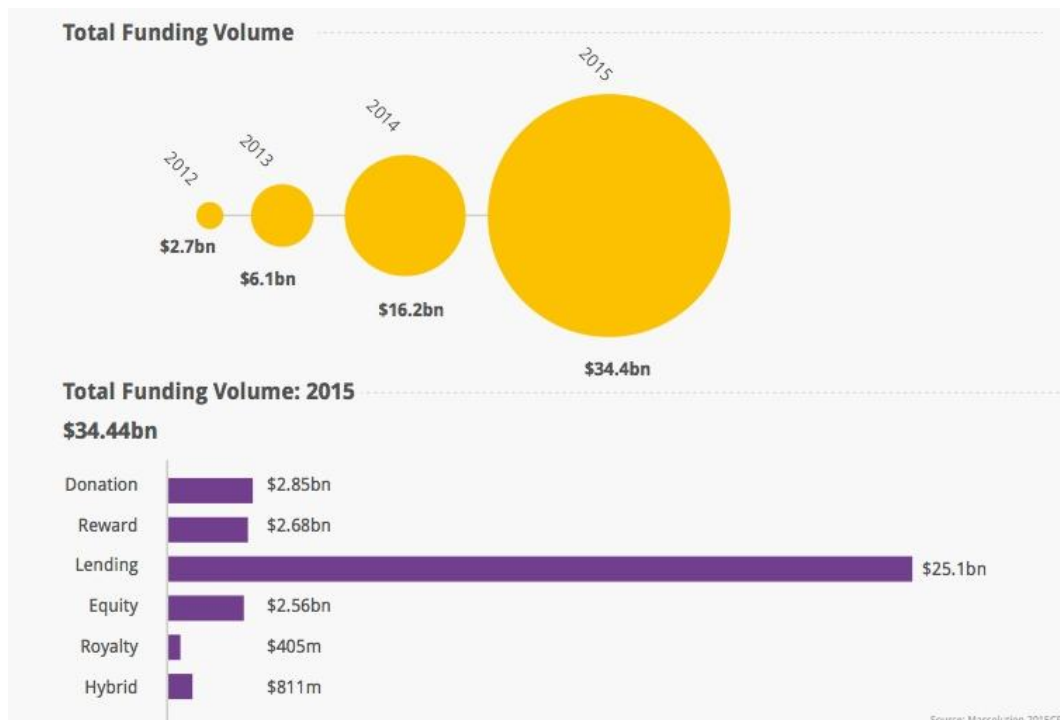


Figure 1. Growth by crowdfunding model prediction for 2015, mln
(Source: Massolution 2015, retrieved from Crowdexpert 2016)

Massolution's 'Crowdfunding Industry Report' (2015) predicted that total funding volume would reach \$34.44 billion in 2015. Peer-to-peer lending dominated the industry in the last couple of years with the estimation to top \$25 billion in 2015. Equity-based, hybrid and royalty-based models showed significant growth in 2014 as well: 182%, 290% and 336% respectively (Crowdfund Insider 2015). Donation-based and reward-based crowdfunding, though demonstrated lower growth rates in 2014, still had a significant share in the total crowdfunding volume.

North America continued to hold the leading position in the crowdfunding industry with estimated \$17.25 billion in 2015 (Figure 2) which was a 82% increase compared to \$9.46 billion in 2014. Asian market outpaced European by small margin (\$3.4 billion and \$3.26 billion respectively) and became the second largest region by funding volume in 2014 (Crowdfund Insider 2015). Such an astounding growth was forecast to take place in Asia as well in 2015 with total funds raised through crowdfunding exceeding \$10 billion (Massolution 2015).

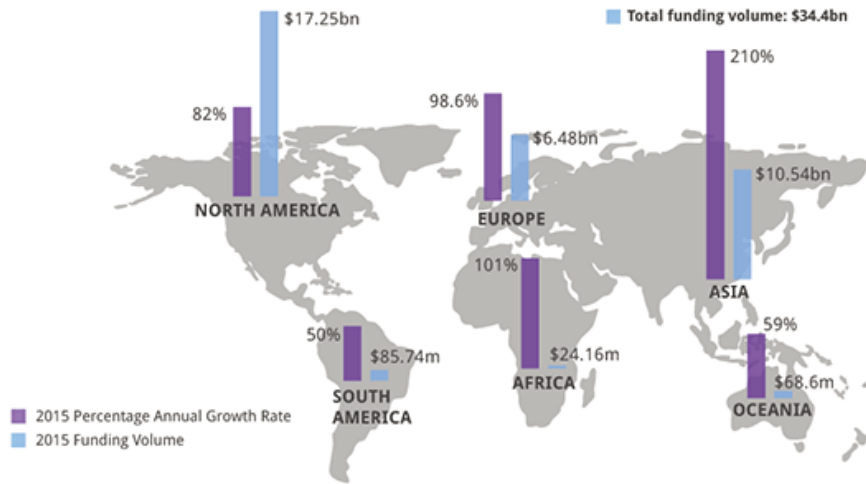


Figure 2. Growth by crowdfunding region prediction for 2015, \$mln

(Source: Massolution 2015, retrieved from Crowdexpert 2016)

Though crowdfunding has often been considered as an alternative way to finance mostly creative and social endeavours, business ventures have been more and more involved in crowdfunding practices in the last few years. 'Business and Entrepreneurship' has become the leading category with more than 40% (or almost \$7 billion) of global funding volume, followed by 'Social Causes' and 'Films and Performing Arts' (18.85% and 12.13% respectively in 2014). Funds raised for 'Music and Recording Arts' campaigns approximated to \$1 billion worldwide (or 4.54%) in 2014. (Figures 3 and 4)

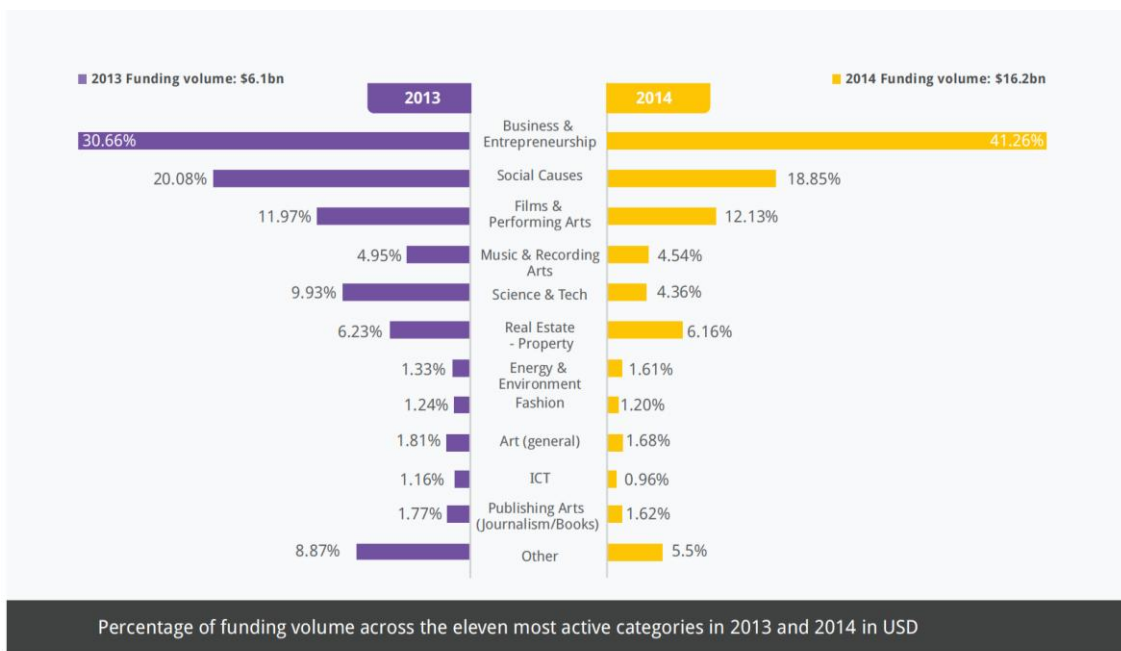


Figure 3. Percentage of funding volume by sectors in 2013 and 2014

(Source: Massolution 2015, retrieved from Entrepreneur 2015)

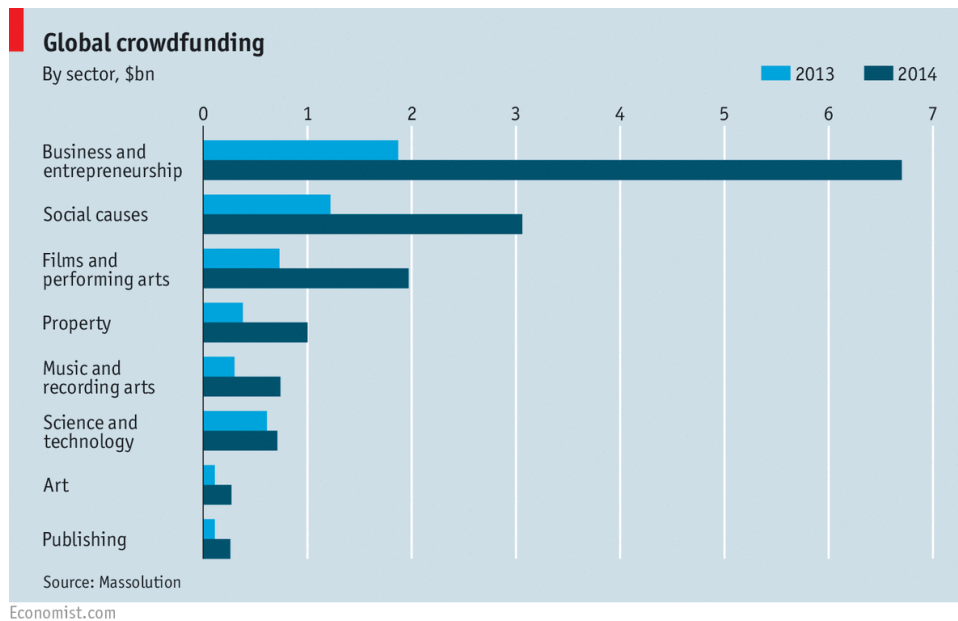


Figure 4. Global crowdfunding volume by sectors in 2013 and 2014, \$bn
(Source: Massolution 2015; retrieved from The Economist 2015)

In view of the aforesaid, it is noteworthy to consider how much money attracts average crowdfunding campaign across different crowdfunding types. Figure 5 shows that equity crowdfunding spearheaded the market in this indicator in 2014, though having significant geographical distinctions from \$175,000 in the USA to \$342,260 in Asia. In case of lending-based crowdfunding there was a notable difference between loans to individuals with an average of \$3,399 and to companies with an average of \$103,618. Average campaign in donation-based and reward-based crowdfunding gained \$3,363 and \$3,189 respectively in 2014.

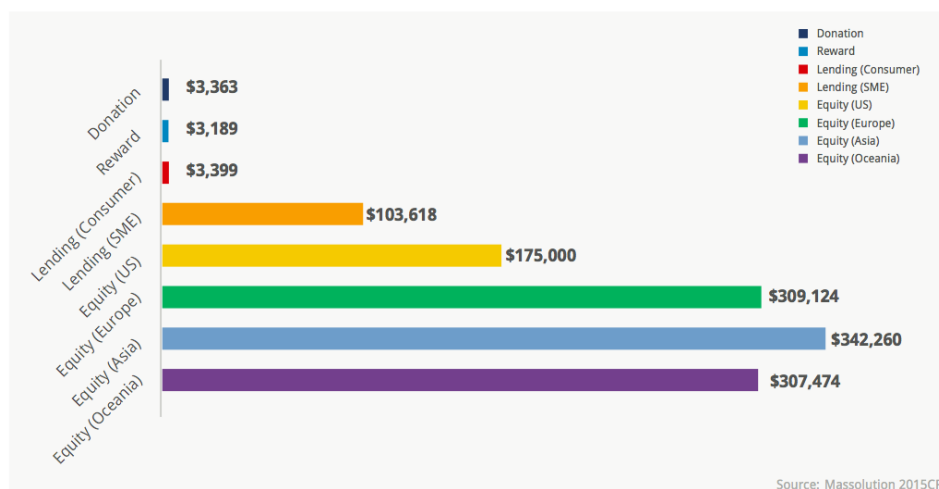


Figure 5. Average campaign size in 2014 across crowdfunding models
(Source: Massolution 2015; retrieved from Vanacco 2015)

New crowdfunding platforms continue to appear and develop, and it was estimated that their number would grow to more than 2,000 by early 2018, and that they would consolidate and merge with each other (Hogue 2016). One of the surprising facts from the 2015 Massolution report was that GoFundMe had topped Kickstarter as the largest donation-/reward-based crowdfunding platform in 2014 - \$470 million from 6 million funders against \$444 million from 3.3 million funders (Entrepreneur 2015).

Some experts think that World Bank's prediction about crowdfunding reaching \$90 billion by 2020 may come true even earlier if growth rates continue to be on the same level (Hogue 2016). However, it will be hard to prove or refute previous predictions since Massolution has not yet produced any crowdfunding industry reports for the years 2015-2018, and other research organizations accumulate data in a completely different way. According to Statista (2019), transaction value of the global crowdfunding sector totaled \$5,319 million in 2018 and is estimated to reach \$6,924 million in 2019. Statista in its estimations of the crowdfunding sector includes only reward-based crowdfunding, while investment-based and lending-based crowdfunding are presented in crowdinvesting and crowdlending sectors respectively. The latest European Alternative Finance report (Cambridge Centre for Alternative Finance 2019) illustrates that P2P consumer lending continued to dominate the industry (€1,392 million), followed by P2P business lending (€467 million), equity-based (€211 million), reward-based (€159 million) and donation-based (€53 million) crowdfunding. Finland held a leading position among European countries in equity-based crowdfunding in 2017 (€51 million).

Having compared data from the aforementioned statistical resources, it is possible to conclude that reward-based crowdfunding has been gradually progressing (from \$2,680 million in 2014 to \$5,319 million in 2018 of the total value). No matter the differences in crowdfunding classifications and data accumulation processes, it is evident that this alternative financing sector is becoming more and more popular every day, larger numbers of individuals and ventures are engaging with crowdfunding practices, and higher amounts of literature on topic are being published regularly.

2.5. Crowdfunding in Finland

According to the report by CrowdfundingHub (2016, 30), there was little data available about crowdfunding industry in Finland. For instance, Bank of Finland started to compile statistics on crowdfunding and peer-to-peer lending only in 2018 (Suomen Pankki 2018). Finnish crowdfunding was considered to be "an amoeba-like creature without a clear definition" (Crowdfundinghub 2016, 30). However, the progress of the crowdfunding market has been rapid in the last years similar to the rest of the world. Total crowdfunding volume (comprised of investment-, loan- and reward-based crowdfunding) almost reached €247 million in 2017, which is a 61% increase to €153 million in 2016 and a quintuple amount compared to 2014 (Suomen Pankki 2018). The Finnish market was claimed to be the fifth largest in Europe in 2016 with regard to crowdfunding volumes (University of Cambridge 2018, 118).

The leading position is held by peer-to-peer (P2P) lending to consumers through which almost €107 million were mediated in 2017 (a 67% increase over the previous year) with an average P2P consumer loan size of €4,500 (Figure 6).

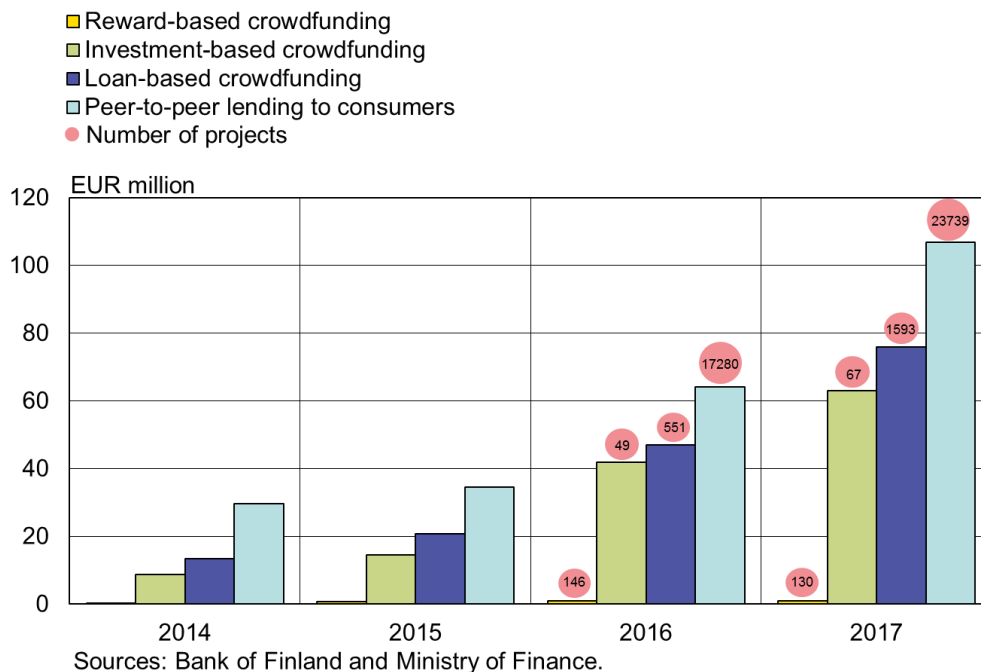


Figure 6. Funding volumes and number of projects on service platforms in Finland

(Source: Suomen Pankki 2018)

The average size of a campaign for investment-based and loan-based crowdfunding was €940,800 and €47,600 respectively. Funds, raised in 2017, reached €75.8 million (a nearly 64% rise from 2016) in loan-based crowdfunding and €63 million (almost a 51% rise from 2016) in investment-based crowdfunding, whereas in reward-based crowdfunding growth has been more gradual - by €1 million or by 5% from the previous year. Crowdfunding platforms have witnessed a considerable rise in the amount of crowdfunding campaigns - 1,790 successful projects in 2017 compared to 746 in 2016. (Suomen Pankki 2018)

Estimation of Finland's Ministry of Finance (2016), concerning total funding volume in 2016 (€153 million), came true. Figure 7 presents the results of ministerial survey accomplished in 2014-2016 in regard of funding amounts raised across different forms of crowdfunding.

Amounts of funding collected or mediated in Finland through different forms of crowdfunding

	2014	2015	2016 (estimate)
Loan-based crowdfunding	EUR 13.3 million	EUR 20.8 million (+56%)	EUR 39.9 million (+92%)
Investment-based crowdfunding	EUR 8.66 million	EUR 14.5 million (+68%)	EUR 41.3 million (+184%)
Peer-to-peer lending	EUR 29.7 million	EUR 34.6 million (+16%)	EUR 71.3 million (+106%)
Reward-based crowdfunding	EUR 364,000	EUR 640,000 (+75%)	EUR 846,000 (+32%)
Total	EUR 52 million	EUR 70.5 million (+36%)	EUR 153 million (+117%)

Source: Ministry of Finance questionnaire survey of market operators in Finland in August 2014, October 2015 and November/December 2016. The survey was carried out by email and reached the majority of market operators in Finland.

Figure 7. Funding volumes in Finland in 2014, 2015, 2016 (estimated)

(Source: Finland's Ministry of Finance 2016)

The Ministry of Finance (2016) predicted the crowdfunding market would grow further due to the new Crowdfunding Act which entered into force in September 2016 and put loan-based and investment-based crowdfunding within the scope of regulated financial market. According to the latest statistics from the Bank of Finland (Suomen Pankki 2019), total crowdfunding volume (including investment-, loan- and reward-based crowdfunding)

was about €307 million in 2018, which is a 24% increase to the volume of 2017. Peer-to-peer lending to consumers and loan-based crowdfunding for businesses increased again, though on a more modest scale comparing to the previous year. Investment-based crowdfunding slightly decreased (by almost 8%), and it could be partly due to the high level of investment risk. Reward-based crowdfunding traditionally had the smallest share of the total crowdfunding volume with €0.7 million (a 27% decrease year-on-year).

2.6. Legal aspects of Crowdfunding

Regulation of crowdfunding depends on the crowdfunding model and varies across states and by industry. The degree of regulatory surveillance is influenced by possible risks and amounts of money involved. Though tailor-made regulation for crowdfunding is lacking on the international and even European level, national legislations do exist in a variety of countries.

As claimed by the European Commission on their website, European crowdfunding market is underdeveloped in comparison with other major economies, and one of the main obstacles for that is the non-availability of unified legislation throughout the EU ('European Commission'). However, the good news is that a proposal for a regulation on crowdfunding service providers was presented in March 2018. This document covers crowdfunding types with financial return (investment- and lending-based), and its adoption will facilitate cross-border development of crowdfinancing in the EU as it provides a single set of rules for crowdfunding platforms to apply for a special EU passport. Moreover, it elaborates on the issues of enhancing access for small investors and businesses, creating a better protection regime and a higher level of guarantees. The European Commission is assisted by the European Crowdfunding Stakeholders Forum in elaborating regulatory framework for crowdfunding. As of May 12th 2019, the proposal has not been adopted yet.

In the USA of a great importance was the introduction of the Jumpstart Our Business Startups (JOBS) Act which was put into action in April 2012 and aimed at increasing the ability of small businesses to access capital and generate jobs. Title III of the JOBS Act allowed companies to issue securities through equity crowdfunding.

Investment- and lending-based crowdfunding models are commonly in the centre of crowdfunding legislation discussions and are subject to much closer regulatory attention

than other types due to their specificities (e.g. securities offerings, loan agreements) and higher risks inherent to all the participating parties. Donation- and reward-based crowdfunding are typically excluded from the scope of specific crowdfunding regulations since they do not deal with financial products and inherent information asymmetries (European Commission 2018b, 2).

Relations between donors and fundraisers in donation-based crowdfunding are viewed as "a donor contract without any material award" (Polyak 2017). Platforms, which employ this type of crowdfunding, typically act for non-profit and charity causes, as well as for education and scientific research. Reward-based crowdfunding is usually not subject to any specific regulation, and regulatory requirements are generally low, since it is based on basic civil and business-to-consumer relationships. Crowdfunding platforms do not need special approvals except for the regular trade/business licensing. (Polyak 2017)

Finland joined the countries with crowdfunding legislation on September 1st 2016 when The Crowdfunding Act came into force. Ministry in charge of alternative finance in Finland is the Ministry of Finance. The new regulation was meant to relieve and clarify the rules for investment- and loan-based (lending-based) crowdfunding to elucidate the responsibilities of various authorities and to enhance investor protection. (European Crowdfunding Network 2016)

Finnish crowdfunding industry is basically regulated by a number of the following laws: Companies Act, Securities Markets Act, Act on Investment Firms, Act on Credit Institutions, Act on Fundraising in case of donor-based crowdfunding (CrowdfundingHub 2016, 31). Donation-based crowdfunding is additionally governed by the Money Collection Act under the responsibility of the Ministry of the Interior. "Money collection may not be arranged without a permit granted by the authorities (money collection permit)" (Ministry of the Interior 2006, 2). It means that donor-based crowdfunding is considered legal in Finland only with a special fundraising permit from the police.

Consumer Protection Act regulates rewards-based crowdfunding where a relationship between a consumer and a business is involved. In case relationship between two consumers or between two businesses takes place, the Sale of Goods Act is applied. Both acts are under the jurisdiction of The Ministry of Justice. (Crowdfunding4innovation)

III. SUCCESS FACTORS

In “Crowdfunding: A Guide to Raising Capital on the Internet” (ed. Dresner 2014), which is mainly focused on equity-based crowdfunding and the JOBS Act, it is explained that the preparation of a business plan and effective communications with potential investors are two major milestones of the fundraising process. Kickstarter’s recommendations for successful campaign implementation include adding a great project image, creating a compelling video with subtitles and captions, offering a range of attractive rewards, setting a realistic funding goal, ‘telling your story’ to people through a variety of communication channels, engaging with potential funders through project updates (‘Kickstarter Creator Handbook’).

Since crowdfunding is a relatively new phenomenon, theories and practices have not been properly established yet, however, a variety of academic papers have been published in recent years aiming at developing a framework to predict crowdfunding success and to determine success factors of crowdfunding. In this paper success is analyzed in the context of fundraising efforts and is understood as the achievement of the funding target, meaning that post-fundraising fulfillment of crowdfunding campaigns is beyond the scope of the current research.

In view of the aforesaid, this chapter first describes theoretical aspects of success factors through the perspectives of entrepreneurship, fundraising and project management, and after that presents an overview of academic literature focusing on success factors in crowdfunding and specifically in the domains of music, culture and arts.

3.1. Success factors in entrepreneurship

Throughout the decades, scholars have shown interest in examining the factors that lead to successful fundraising in the entrepreneurial setting, especially in the context of venture capital and angel investors. Venture capital firms (VCs) rely on specific selection criteria when making their investment decisions (Baum and Silverman 2004; Kirsch et al. 2009; MacMillan et al. 1985; Shane and Stuart 2002). Due to the asymmetry of information between entrepreneurs and investors, the role of potential **signals of quality** is crucial. Signaling theory has been used extensively in recent years to examine the success of entrepreneurial ventures (Busenitz et al. 2005; Giones and Miralles 2015; Moss et al. 2015; Mohammadi et al. 2014). Signaling theory assumes that the party, which possesses the

information (signaler), decides whether and how to communicate this information (signal) to the other party (receiver) in order to create a desirable impression, while the receiver decides how to interpret the signal. One of the important issues of the theory is signal quality meaning that “the signaler actually has the underlying quality associated with the signal” (Connelly et al. 2010). Signaling theory is used to reduce the asymmetry of information because good signals tend to mitigate uncertainty and they are observable, irreversible and credible. According to Golder and Mitra (2018, 368), fundraising success is highly associated with such quality signals as preparedness, narrative, social networks, and others’ funding decisions. Moreover, entrepreneurial enthusiasm and commitment play a highly significant role in attracting financial capital (Cardon et al. 2009; Chen et al. 2009). It is presumed that quality signals identify the underlying quality of projects and greatly increase their chances to receive funding.

Another aspect which academic theory associates with entrepreneurial success is **social network**. Researchers revealed that social network size and social relations between entrepreneurs and investors affect entrepreneurial development (Leyden et al. 2014; Stuart and Sorenson 2005; Yao 2011; Ridzwan and Muhammad 2015). A social network can be described as a network of ties (relationships) connected by nodes (individuals). Social network theory originates from the early 1950s (Barnes 1954), and it has been applied to various disciplines to explore relationships among individuals, groups, and even society. This theory implies that the characteristics of the individual are less important than the relationships within the network. Social networks create social capital (Bourdieu 1985, cf. Ferlander 2007, 117), build trust (Uzzi 1997), form personal tastes and preferences (Mark 1998), induce conformity in opinions and actions (Galaskiewicz and Burt 1991). It is assumed that networks influence individual’s beliefs and behaviors (Holt-Lunstad 2015). Shane and Cable (2002) note that social relations, or ties, affect the process of selecting ventures for future funding. Endorsement mechanism, described by Stuart et al. (1999), can also influence funding decisions: young companies which can be ‘endorsed’ by prominent partners perform better in the fundraising process. Social networks establish connections between entrepreneurs and investors, and provide endorsements of project quality.

Online social networks have become a worldwide phenomenon within a few years, and their role in entrepreneurial success and development has been of particular interest to scholars (Yang and Berger 2017; Leader-Chivée et al. 2008; Mukolwe and Korir 2016). Online networks play a highly significant role in the fundraising success of entrepreneurial

ventures, and it is essential to allocate sufficient time and effort for effective exploitation of social media channels.

3.2. Success factors in fundraising

Fundraising principles are at the core of crowdfunding. According to Timothy Seiler (2010, 10-17), proper planning and effective communications are crucial for successful fundraising. Planning implies determining an organization's mission and goals, market analysis and market validation, developing a financial plan and fundraising programs, arranging volunteer involvement. Preparation of a communications plan, choosing the right communication channels and solicitation itself, which encompasses both intellectual and emotional incentives, are fundamental steps for establishing deep relationships between the actors of fundraising process. Potential donors must understand the goals and needs of a fundraiser and feel that their contribution can make a difference. It is the exchange of values between funders and a solicitor that is so important for successful fundraising (Seiler 2010, 16).

Elizabeth A. Elkas (2010, 307-317) addresses the issue of fundraising success from the perspective of management studies. She presents the Management Matrix consisting of six components - analysis, planning, execution, control, evaluation, and professional ethics - as an effective tool for designing and implementing a successful fundraising program.

Eugene R. Tempel (2010, 329-339) suggests that fundraising might fail due to organizational vulnerabilities such as an organization's isolation from the external environment and its inability to adapt to changing circumstances. He refers to the open-system theory which "assumes that organizations are not independent of their external environments, but that they have impact on, and are affected by, their environments". Tempel adds that the way in which an organization is perceived by the public plays a great role in fundraising success.

Sandra Bate (2010, 362-374) views building awareness and motivating action as core principles of an effective fundraising communications strategy. Market research, following a 'donor-centric' approach, might help increase fundraising success: it is highly valuable to know who your potential donors are, how to get in contact with them, what values and interests they share (Bate 2010, 365).

Sargeant and Shang (2010, 130) likewise point out the necessity of collecting information about donor markets and the importance of its proper use to drive attention to the fundraising activities of an organization and to enhance relationships with its potential and existing funders. Already committed donors, in their turn, might play a significant role by sharing their experience with prospective funders and inviting them to contribute to the cause (Seiler 2010, 16).

A variety of academic papers are devoted to the issue of donor development (Sargeant and Jay 2014; Polivy 2013; Heyman 2015) which aims at increasing the number of funders, the size of their contributions, and the amount of donative opportunities provided by a fundraiser over time. In crowdfunding, however, it is implied that a campaign creator should already have a rather developed network of potential contributors (donors) for a crowdfunding project to succeed.

Fundraising should be addressed taking into account various cultural aspects, as well as peculiarities of particular professional sectors. In some countries (e.g. the USA) fundraising in the context of philanthropy is a commonplace due to traditionally low levels of state financial support. Moreover, social, charity and creative projects have been more actively employing fundraising practices for many years comparing to other industries and sectors.

3.3. Success factors in project management

Pinto and Slevin (1987) introduced a framework containing a set of critical success factors which, if taken into account, considerably increase project implementation chances. The ten-factor model can be used as a behavioral instrument to assess the status of any project. Presented factors are interdependent and are linked to each other in a quasi-sequential framework:

- (1) **Project mission** (clearly defined goals, understanding of the importance of the project outcome by all organization departments);
- (2) **Top management support** (top management accepts the project and is ready to allocate all necessary resources and to support in case of crisis);

- (3) **Project schedule/plan** (detailed plan of all the stages of project implementation and measurement system for the evaluation of actual performance);
- (4) **Client consultation** (project client's needs and requirements are being met);
- (5) **Personnel** (proper recruitment, selection and training are implemented);
- (6) **Technical tasks** (personnel with essential technical skills and necessary technical equipment are in place);
- (7) **Client acceptance** (project is accepted by the client at the final stage of project implementation)
- (8) **Monitoring and feedback** (adequate monitoring and feedback mechanisms at each stage of project implementation to foresee potential problems and to prepare corrective measures)
- (9) **Communication** (effective communication within the project team, between the team and the rest of the organization and with the clients);
- (10) **Trouble-shooting** (regular monitoring of the project implementation process regarding potential unexpected problems).

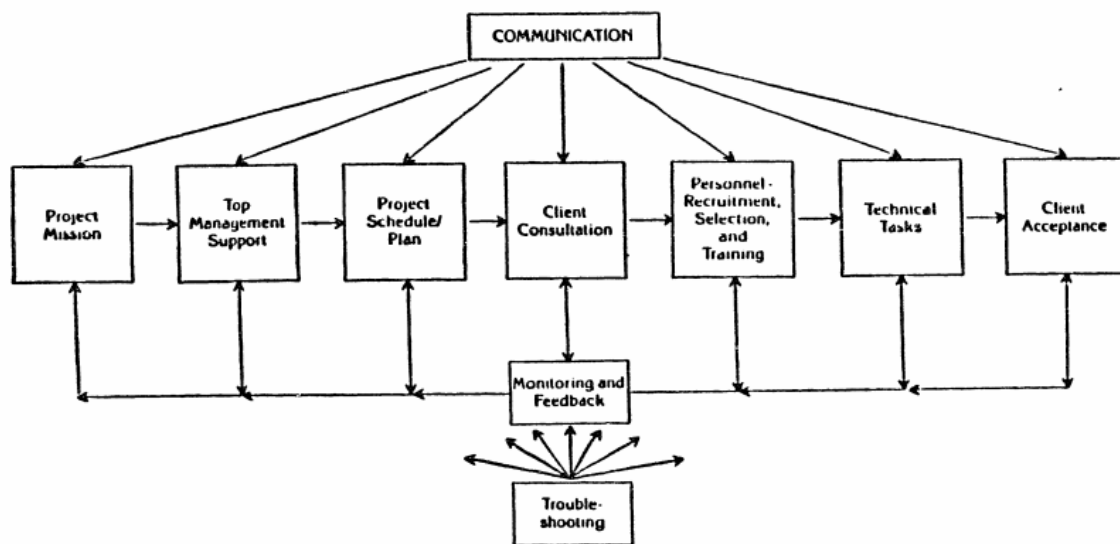


Figure 8. Ten-factor model of project implementation success

(Source: Pinto and Slevin 1987, 26)

As Pinto and Slevin explain their model, “in addition to the set of seven factors along the "critical path," ranging from Project Mission to Client Acceptance, other factors such as Communication and Monitoring and Feedback are hypothesized to necessarily occur simultaneously and in harmony with the other sequential factors” (1987, 26). The

aforementioned framework was developed to be able to predict successful project management.

Similar findings were discovered by Goparaju Sudhakar in his study of the meaning of project success (2016): “the top of the most success factors for many projects include project objective, top management commitment, competent project team, and user involvement”. Sudhakar views project success as a combination of project management success and product success. It is essential for organizations to focus on such aspects as product, environment, resources, technical factors, team, project management and organization in order to achieve project success.

According to Muller and Jugdev (2012, 758), project success involves the following two components:

- (1) **Project success factors:** parameters of a project which, when influenced, increase the probability of success (i.e. independent variables);
- (2) **Project success criteria:** measures used to evaluate the outcome of a project – success or failure (i.e. dependent variables)

The first component includes broad areas of teamwork quality, technological competence, network competence and project autonomy. The second component encompasses four dimensions of success: project efficiency, impact on customers, business success, and strategic potential.

Shenhar et al. (2002), through identifying general and project specific success factors, determined a set of 96 different variables relevant for the success of project implementation. Additionally, Muller and Jugdev (2012, 758) reflect on a set of more specific success criteria which include overall success (i.e. time, cost, quality), meeting user requirements, meeting project purpose, re-occurring business, self-defined criteria, and the satisfaction of customers, end-users, teams, stakeholders and suppliers.

Academic literature has introduced a variety of success factors and success criteria, however, it needs to be emphasized that project success is a multi-dimensional construct and a subjective judgment, and it should be evaluated according to each stakeholder’s individual needs and interests.

3.4. Literature review of success factors in crowdfunding and specifically in the fields of music, arts and culture

Success factors in crowdfunding

An extensive study of the dynamics of crowdfunding was conducted by Ethan Mollick (2014) where he tried to understand whether successes and failures in crowdfunding followed similar underlying forces as in more traditional investment settings. Having explored a dataset of over 48,500 projects, he discovered that crowdfunding reacted to the signals of quality, namely presence of presentation videos and frequent updates increased the chances of success, while spelling errors reduced it. Additionally, duration and the size of financial goal showed negative association with crowdfunding success, whereas the larger social network enhanced the chances of succeeding.

Cordova et al. (2015) implemented research of 1,127 crowdfunding projects which revealed that funding goal negatively affected the probability of success, whereas project duration increased it. Kuppuswamy and Bayus (2015) in their study of the dynamics of crowdfunding campaigns backers noted that successful projects had considerably more updates than failed ones.

Kromidha and Robson (2016) explored signaling success factors in online crowdfunding through social identity theory and signaling theory. Analysis of the top 5,000 most funded projects on Kickstarter at the time of study showed that funders “who identify themselves with the projects in their own social networks are associated with greater pledge/backer ratio”. Moreover, more dynamic reciprocal communication between campaigners and backers was associated with a greater pledge/backer ratio.

Lagazio and Querci (2018) applied a multi-theory approach to explain the multifaceted nature of crowdfunding success through the analysis of 1507 reward-based projects created by Italian campaigners on the international crowdfunding platform. Their results indicated that small-sized projects were more likely to succeed, and such factors as the number of Facebook reposts, updates and comments affected funders’ willingness to support.

Anna Petrova (2018) in a pioneering study addressed the issue of success factors of Russian crowdfunding projects. Factors of crowdfunding success, revealed by her findings, included an average amount pledged by backers and three social communication factors such as the number of updates posted by a project founder, the number of comments left by

funders and the number of reposts about crowdfunding campaign in social networks Vkontakte and Facebook.

Success factors in crowdfunding of music, art and cultural projects

Having analyzed a number of crowdfunding campaigns for financing musical projects, Agrawal et al. (2011) came to a conclusion that geographic distance between artists-entrepreneurs and investors can play a role in crowdfunding success. Moreover, they found out that funders' tendency to invest intensified as the entrepreneur visibly accumulated funds on the crowdfunding platform. Interestingly, local investors did not follow that behavior pattern and were most likely to support projects early in the fundraising cycle.

Buff and Alhadeff (2013) studied one hundred successful music projects from Kickstarter and outlined a simple methodology for music entrepreneurs to budget their crowdfunding campaigns in a proper way, so that financial goals are set realistically and the number of backers, needed to fulfill a project, is determined correctly. The authors noted that despite the availability of information about raising funds online, the majority of crowdfunding campaigns were being planned on the basis of guesswork and misconception.

Galuszka and Bystrov (2014), through the examination of music production campaigns on the Polish crowdfunding platform MegaTotal, discovered that repeated contributions to a project by a considerable number of supporters were essential for achieving its funding target. Among other factors of success, the authors mentioned offering rewards to potential funders and engaging in communication with them.

Scherer and Winter (2015) analyzed 601 music projects, launched on all German crowdfunding platforms before 2014, and determined a set of factors which influenced the success of crowdfunding campaigns, such as the size of the crowdfunding platform, the nature of the project, the quality of presented information, the type of provided rewards and the intensity of communications with potential funders.

Mendes-Da-Silva et al. (2016) studied how fundraising periods and geographic distance affected crowdfunding success of music production projects in Brazil. Their results showed positive association between the fundraising accumulation period and the amount of capital pledged, while the funder-fundraiser distance was negatively related to the values of contributions.

Cynthia Wang (2016), concerned with the issue of economic viability of independent musicians, accomplished online surveying of musicians, their supporters and general Kickstarter backers and discovered a crucial role of musicians' personal social networks and of their relationships with potential funders for the success of crowdfunding campaigns.

Bruce A. Forst in his study of motivating factors of the supporters of music crowdfunding campaigns (2016) argued that well developed personal networks of musical artists were highly significant for the success of fundraising efforts. It might have been due to the idea that music-based (as well as art-based) crowdfunding relies more on prosocial than on consumer behavior, meaning that funders are more motivated by the opportunity to support an artist than to just pre-order a music product.

Hobbs et al. (2016) analyzed one hundred successful and failed crowdfunding campaigns within the film and video category of Kickstarter platform to determine key predictors of crowdfunding success. Their findings suggest that crowdfunding projects which presented a high-quality pitch, regular engagement with their audience (updates, Facebook shares) and greater rewards range and quality, were much more likely to reach their funding goals.

Josefy et al. (2017) explored the role of communities in crowdfunding success focusing on their cultural attributes. A study of 176 crowdfunding campaigns across 38 U.S. states, united by a homogeneous idea to 'save the local theatre', showed that cultural aspects played a more significant role in predicting success than economic aspects, meaning that a crowdfunding project will receive enough funds if the target audience (community) is able to evaluate the outcome of this project as beneficial for that particular community.

In their research of success factors and barriers for art-based crowdfunding campaigns Lin and Phillips (2017) identified such success factors as quality and uniqueness of projects, effective marketing strategy, preparedness for fundraising efforts, realistic funding goal and attractive rewards for different pledge levels.

IV. RESEARCH METHODOLOGY

This paper builds on the knowledge that vast majority of crowdfunding campaigns fail to reach their fundraising goals. Hence, current research intends to determine a variety of factors influencing the success of crowdfunding projects. The study is particularly interested in music-based crowdfunding initiatives in the Finnish context.

The specific research question is as follows: what factors are associated with the success of music-based crowdfunding campaigns in Finland?

This chapter presents the overall research strategy, introduces data collection and data analysis methods; the following chapter describes data analysis in detail and provides data analysis results.

4.1. Methodological approach

Research methods can be broadly divided into two main categories – quantitative and qualitative. According to Nicholas Walliman (2006, 37), “quantitative techniques rely on collecting data that is numerically based and amenable to such analytical methods as statistical correlations, often in relation to hypothesis testing”, whereas “qualitative techniques rely more on language and the interpretation of its meaning, so data collection methods tend to involve close human involvement and a creative process of theory development rather than testing”. Quantitative research is generally associated with deductive reasoning which moves from more general to the more specific, or a ‘top-down’ approach.

Current research is an empirical study which follows a quantitative research tradition and applies logistic regression analysis of data. Though crowdfunding is considered to be a relatively new phenomenon, much academic literature about this subject has been published in the recent years, which makes it interesting to check a variety of theoretical assumptions about the success factors of crowdfunding in the Finnish context and in application to the music industry. This study tries to predict possible outcomes of crowdfunding efforts based on relationship patterns between a variety of factors.

Empirical data was collected from the Finnish crowdfunding platform Mesenaatti.me, and taking into account its leading position in the Finnish reward-based crowdfunding, it is likely to serve as the best model for current research. The subject was approached by preliminary examination of the literature and online discussion about crowdfunding, moreover, broad screening of diverse crowdfunding campaigns was conducted.

4.2. About crowdfunding platform Mesenaatti.me

Mesenaatti.me is the first and the largest reward-based crowdfunding platform in Finland founded in the autumn of 2012. It is a member of Nordic Crowdfunding Alliance and has as its purpose promoting cultural, social and business sectors of Finland. In the website description it is emphasized that the platform is a way to support other people's dreams and make a difference in the surrounding world. Project categories on Mesenaatti.me are as follows: Music, Culture, Books and Magazines, Games, Society, Cafes and Restaurants, Lifestyle & Leisure & Sports, Software and App Development, Consumer Goods, Charity, Nordic Campaigns, and Other.

Only projects, which can be understood as initiatives with a beginning and an end, can seek funding on Mesenaatti. For example, monthly support of an artist's creative activity is not a project, it is closer to the notion of patronage. Campaigners must offer rewards in exchange for financial contributions. Founders with a special fundraising permit from police may implement donation-based crowdfunding without offering any rewards. Project creator can be an individual of at least 18 years old, a team, a registered or unregistered community, a company, or a foundation. Funder can be an individual of at least 15 years old, a team, a registered or unregistered association, a company, a public sector operator, or a foundation.

Project founder determines the duration of a campaign and the minimum target amount, however, it must be at least €1,000. Mesenaatti uses an 'all-or-nothing' financial model which means that only when the minimum funding goal of a campaign is achieved, backers' credit cards are charged. Total funding amount of each successful project is subject to Mesenaatti's 10% service fee, including 3% of transaction costs. Project founders are fully responsible for the implementation of the campaign and the delivery of the rewards.

https://mesenaatti.me/en/campaign/?id=797#single/view



suomi english

FRONTPAGE
CAMPAIGNS
MESENAATTI.PRO
INFO
INSTRUCTIONS
ETIQUETTE

[SIGN IN/REGISTER](#)

MUSIC
 CULTURE
 BOOKS & MAGAZINES
 GAMES
 SOCIETY
 CAFES & RESTAURANTS
 LIFESTYLE, LEISURE AND SPORTS
 SOFTWARE AND APP DEVELOPMENT
 CONSUMER GOODS
 CHARITY
 NORDIC CAMPAIGNS
 OTHER
 ENDED CAMPAIGNS



59
FUNDERS

2178 €

GOAL 15000 €
 MINIMUM GOAL 1000 €

CAMPAIGN HAS ENDED

Thank you

KARDEMIMMIT: KESÄYÖN VALO ALBUM RELEASE

We are releasing our fifth album Kesäyön valo - Midnight Sun on February 28th! Help us to crowdfund the project and get the awesome album delivered to your home :)

STARTED 17.1.2018
 ENDED 26.2.2018

[f](#) [t](#)

We, Kardemimmit (Maija Pokela, Jutta Rahmel, Anna Wegelius and Leeni Wegelius) have been playing and making music together for more than half of our lives (we can't remember it very well but we probably started in 1999 or 2000). So far we have published four albums: Viira (2006), Kaisla (2009), Autio huvila (2012) and Onni (2015). Now we have recorded the material for the fifth album Kesäyön valo (Midnight Sun) to be released on February 28th 2018.

While making an album we need a bunch of talented people to make it possible. This time we have had the joy to work with for example: Samuli Volanto (sound engineering), Minerva Pappi (mastering) and Jimmy Träskelin (cover art + photos). By funding our album you will be supporting us but also these other top professionals that are very nice people too! This album, like all the previous ones, will be an independent album, published by us four.

SO, WHAT ARE THE COSTS WE NEED THE FUNDING FOR?

The costs we can't do without are:

Studio rent, recording and sound engineering, about 3500 euros.

Mastering, cover art and photos, about 2500 euros.

Printing the physical CDs, digital distribution and copyright payments, about 3500 euros.

Total of 9500 euros to publish the album.

Additional costs we would very much like to achieve too are:

Marketing 2000 euros.

Making a music video: 1000 euros

Salary for us musicians: 3200 would be nice, it's ok with less and more than nice with a bit more :)

[Like](#) [Share](#) Be the first of your friends to like this.



Kardemimmit: Kesäyön valo album release

[f](#)

REWARDS

KESÄYÖN VALO DIGITAL DOWNLOAD
 10 €
 Kesäyön valo album's digital download from cdBaby site. Code to download will be delivered by email on February 28th.

ECOLOGICAL FABRIC BAG + INTERNATIONAL SHIPPING
 12 €
 Ecological cotton bag with long straps and Kardemimmit print.

TICKET TO THE ALBUM RELEASE CONCERT ON FEBRUARY 28TH
 15 €
 A ticket to the release concert in Thorstorp (Vanha maantie 12, 02600 Espoo), Finland. Unnumbered seats

KESÄYÖN VALO ALBUM WITH SHIPPING IN FINLAND
 22 €
 Kesäyön valo album shipped inside Finland when the campaign ends (shipping on February 27th).

KESÄYÖN VALO ALBUM WITH INTERNATIONAL SHIPPING
 25 €
 Kesäyön valo album with international shipping, we will ship on February 27th.

5 KARDEMIMMIT FABRIC BAGS
 50 €
 10 Kardemimmit ecological fabric bags, includes international shipping.

5 KESÄYÖN VALO ALBUMS AND INTERNATIONAL SHIPPING
 100 €
 10 albums, international shipping included. We will ship on February 27th!

Figure 9. Mesenaatti profile of Kardemimmit's crowdfunding campaign in 2018

Figure N demonstrates a typical crowdfunding profile on Mesenaatti.me. Information presented on the page includes project's title, presentation video and presentation text, when the project starts and ends, goal and minimum goal, how many funders already supported the project, amount of money raised so far, rewards, Facebook comments plugin, and a light-grey campaign creator's sector with a logo or an artist's photo, summary text and links to project's external webpages (website, Facebook, Twitter, Instagram, YouTube, SoundCloud etc.).

Mesenaatti helps campaign creators with advice and marketing efforts. Platform's employees consult campaigners through email, Facebook, or even in person. All projects are mentioned at least once on Mesenaatti's facebook page and in the newsletter. The platform offers additional Mesenaatti.PRO service for organizations with some extra features for presentation and promotion.

Mesenaatti is mainly intended for projects that take place in Finland and for the Finnish target audience. However, the platform operates in both Finnish and English, and campaigns can be supported by funders from all over the world. According to Mesenaatti itself, lots of its projects have received considerable share of their funding from abroad.

4.3. Data collection

The presentation of crowdfunding campaigns in the Music category of Mesenaatti.me website from its inception till the end of March 2019 was used as the empirical basis for this research. Since the study is focused on the success of fundraising efforts, all analyzed projects had their crowdfunding process started and finished during the aforementioned period. Due to the fact that the author of the present thesis paper has a limited knowledge of the Finnish language, the dataset was narrowed down to a sample consisting of crowdfunding initiatives with English-language profiles. Among 223 campaigns in the Music category 77 projects had English-language presentation, five of which were presented only in English. The rest 72 campaigns were delivered in both English and Finnish, including several campaigns with descriptions in additional language(s): one project – in Czech, two - in Swedish, one – in Spanish, one - in Swedish and Danish. The fact that current research analyzed only those crowdfunding initiatives which had profiles in the English language does not affect the research process. The majority of the projects

were presented in Finnish as well, so the target audience of crowdfunding efforts - Finnish-speaking people - were able to read campaign descriptions in their native language. Among those five projects, which were delivered only in English, three were successful and two failed. This does not show any regularities between the lack of the Finnish language and project failure, and the data sample proves to be randomly selected. And since campaigns, delivered only in English, represent merely 6.5% of all analyzed initiatives, the lack of Finnish-language in those crowdfunding projects is not significant for the research.

Research dataset was designed based on the data from campaign creators' profiles on Mesenaatti.me and Facebook websites (Table 5).

Table 5. Data collected from campaign creators' profiles on Mesenaatti.me and Facebook

Data from Mesenaatti.me profiles	Data from Facebook profiles
First day of funding	Facebook profile likes
Last day of funding	Facebook followers
Project sub-category	Facebook mentions
Minimum goal	
Goal	
Amount of funds raised	
Number of funders	
Presentation video	
Presentation images	
Number of reward types	
Pictures of rewards	

Mesenaatti.me does not provide any division of crowdfunding campaigns into sub-categories, thus, classification was made by the author of this thesis paper after the examination of projects' presentation texts. Moreover, it should be noted that English presentation texts were either posted on a special English-language profile page, or delivered together with Finnish text on both Finnish and English profile pages, one after another. Several cases included the description of rewards in English to the English-language profile presentation text, while in Rewards section information was presented only in Finnish on both Finnish and English profile pages. Some projects had one or two reward types in English (usually with digital download or international delivery options) and presented the rest of reward types only in Finnish. As mentioned before, these details

are not significant for the research process, since the target audience of crowdfunding campaigns is Finnish-speaking.

Facebook pages of some campaign creators have been renamed, and direct internet links from Mesenaatti campaign-pages are not working anymore. It took additional time to discover functioning Facebook profiles of these campaign creators. Facebook pages with new titles can be used for current research (even though the titles are different from the ones mentioned on Mesenaatti website), as these pages contain posts about corresponding crowdfunding campaigns made during the same time period.

Based on previous theoretical knowledge and available information from Mesenaatti.me platform, a variety of variables (factors) were chosen from the data for future analysis.

Campaign duration: number of days when a crowdfunding campaign accepts funding.

Minimum goal: minimum amount of money that campaign creators seek to raise (considered as a minimum amount of money needed to implement a crowdfunding project).

Goal: amount of money a project creator would like to raise for implementing a project on a bigger scale. Usually campaign founders specify additional activities which they will be able to accomplish if they raise more than their minimum goal (e.g. extra time in recording studio, marketing costs, creation of album artwork by a professional designer). Goal can be equal to minimum goal.

Raised: amount of money raised by a crowdfunding project.

Funding level: the percentage of a campaign's minimum goal that is actually raised. Campaigns, which reached at least 100% of their minimum goal, are regarded as successful or funded. Those projects, which raised less than their minimum goal, are considered as unsuccessful or failed.

Number of funders: number of funders that actually contributed to a crowdfunding campaign.

Pledge/funder: average amount of money contributed to a crowdfunding campaign per funder (amount of money raised by a crowdfunding campaign divided by the number of funders who contributed to this campaign). Individual pledges of funders on Mesenaatti.me are not known.

Presentation video: presence of (a) presentation video(s) on a crowdfunding campaign's Mesenaatti profile (Yes/No). On Mesenaatti profile there is a special place above the title of a campaign for the main presentation video (image). Besides, it is possible to include additional videos into presentation text section.

Presentation image: presence of (a) presentation image(s) on a crowdfunding campaign's Mesenaatti profile (Yes/No). On Mesenaatti profile there is a special place above the title of a campaign for the main presentation image (video). Besides, it is possible to include additional images into presentation text section.

Facebook followers: number of Facebook users who 'follow' the Facebook page of a crowdfunding campaign's creator. It is important to understand the difference between Facebook 'likes' and 'followers'. When a Facebook profile 'likes' a page, it wants to be associated and engaged with it. 'Liking' a page automatically turns the 'following' function on. But sometimes Facebook users can 'unlike' a page but continue 'following' it, or vice versa. Since the 'following' option means seeing posts (updates) of a page, it is a more useful parameter for current research. Due to data collection limitations, number of Facebook followers is recorded not at the time of crowdfunding campaign implementation but at the time of data collection.

Facebook mentions: number of posts, in which a crowdfunding campaign is mentioned, on a campaign creator's Facebook page within the duration of the crowdfunding campaign. Mesenaatti.me platform does not provide any special section on campaigns' profile pages for posting project updates.

Number of rewards: number of different types of rewards that are offered to funders by campaign creators in exchange for their contributions. Mesenaatti.me recommends that a reward's value is in a reasonable relation to the size of a financial contribution. Since different funders have different financial opportunities and wish to contribute different sums of money, it is beneficial to create a diverse set of rewards with cheaper and more expensive options.

Pictures of rewards: presence of (a) reward picture(s) on a crowdfunding campaign's Mesenaatti profile (Yes/No).

Missing data

Compiled dataset contained a number of cases (crowdfunding campaigns) with missing values for one or more variables which is a relatively common problem in almost all research. Lewis-Beck, Bryman and Liao (2004) state that one of the conventional ways of dealing with missing data is to eliminate those cases, where data is missing, out of a dataset. However, for current research eliminating the cases would not be reasonable because the size of the dataset is not very large, and cases with missing data at the same time contained valuable data for other variables. Moreover, the number of cases with missing data was not significant, namely, only three cases missed data. To address this issue, additional online resources, connected with campaign creators, were analyzed to discover missing information.

As a result, for campaign #1 mentions about the crowdfunding campaign on the fundraiser's blog website were used as Facebook mentions, MySpace profile connections were taken as Facebook followers, and the number of reward types was defined after blog website posts had been analyzed. For campaign #4 data about Facebook followers and mentions was taken from the Facebook page of the campaign creator's recording company. The number of reward types in campaign #13 was determined through the examination of the presentation text on the project's Mesenaatti page.

4.4. Data analysis

Binary (or binominal) logistic regression is often referred to merely as logistic regression, however, it is important to distinguish it from multinomial logistic regression (dependent variable has more than 2 categories) and ordinal logistic regression (dependent variable is measured on an ordinal scale). Hereinafter, the term 'logistic regression' is used in the meaning of 'binary logistic regression' throughout this paper.

According to Mertler and Vannatta (2002, 13-22), logistic regression is the most appropriate method when the dependent variable is dichotomous, whereas the independent variables are numerical and/or categorical. Moreover, when using this technique, it is required to have one dependent variable and two or more independent variables. Logistic regression is applied when it is needed to predict categorical results like group membership based on the set of variables. "Since the dependent variable consists of only two categories,

logistic regression estimates the odds probability of the dependent variable occurring as the values of the independent variables change” (Mertler and Vannatta 2002, 17). In other words, logistic regression analysis intends to identify a number of independent variables which best predict the value (or group membership) of a single dependent variable.

Unlike discriminant analysis and multiple regression analysis, logistic regression does not require meeting a variety of assumptions such as normal distribution of independent variables, linearity and equality of variance-covariance matrix (Cokluk 2010, 1400).

Another advantage of logistic regression is the fact that dependent variable does not need to have a linear relationship with independent variables as is the case for linear regression analysis (Statistics Solutions 2012). Logistic regression does not produce negative prediction probabilities, all probability values are positive and range from 0 to 1. This statistical method gives us a rather definitive idea about the likelihood that something is going to have a certain group membership. The aforesaid statements show that logistic regression analysis is more flexible and its results are a bit easier to interpret comparing to other statistical techniques.

There are a number of **assumptions** which should be met in order to perform binary logistic regression analysis (Statistics Solutions 2012; Laerd Statistics):

*Dependent variable should be dichotomous and have mutually exclusive categories

Assumption of appropriate outcome structure is met, as in our case dependent variable is dichotomous in nature and might take one of the two possible values - ‘Success’ or ‘Failure’.

*There should be two or more independent variables which can be continuous (interval/ratio) or categorical (ordinal/nominal)

This assumption is met according to the data sample.

*There should be independence of observations (observation should not come from repeated measurements or matched data)

Assumption of observation independence is met as each case in the data sample is counted only once, as one observation.

*There should be adequate sample size

All crowdfunding campaigns (available at the moment of data collection) with English-language presentation in the Music category of Mesenaatti.me platform were added to the dataset.

*There should be little or no multicollinearity among independent variables (they should not be too highly correlated with each other)

*There should not be outliers in the data

Assumptions of the absence of multicollinearity and of outliers will be checked during the data analysis.

V. ANALYSIS and RESULTS

5.1. Descriptive patterns

Research dataset consists of 77 crowdfunding campaigns, including 61 successful and 16 unsuccessful projects which stand for 79.2% and 20.8% respectively of the total project representation (Table 6). Overall amount raised reached €244,580 out of which €16,025 (6.55%), accumulated through unsuccessful projects, were returned to funders.

Table 6. Summary statistics of the dataset

Crowdfunding campaigns	Number of campaigns	%	Raised (EUR)	%
Total	77	100	244580	100
Successful	61	79.2	228555	93.45
Unsuccessful	16	20.8	16025	6.55

	All campaigns		Successful campaigns		Unsuccessful campaigns	
	Mean	St.dev.	Mean	St.dev.	Mean	St.dev.
Campaign duration	54	27.48	54	28.53	55	23.9
Minimum goal (EUR)	3,063	6,014.8	2,378	2,598.28	5,675	12,128.89
Goal (EUR)	8,913	12,599.61	7,727	6,707.08	13,434	24,430.9
Raised (EUR)	3,176	3,789.70	3,747	3,924.72	1,002	2,187.36
Funding level (%)	129	95.03	158	85.31	19	16.76
Number of funders	88	100.4	107	104.67	20	28.95
Pledge/Funder (EUR)	44	46.08	46	50.11	36	24.9
Facebook followers	1,681	3,235.07	1,821	3,529.24	1,147	1,676.58
Facebook mentions	15	16.97	17	17.77	6	10.09
Number of reward types	8	4.34	9	4.12	7	4.88
Observations	77		61		16	

Analyzed crowdfunding campaigns were dedicated to a wide variety of causes. For greater clarity, I allocated projects from the data sample into four categories: Recording, Event, Mixed and Other, - with several **sub-categories** each (Table 7). The vast majority of studied projects were devoted to album production (53.2%), followed by festivals (7.8%) and vinyl format recordings (5.2%), whereas every other sub-category was represented by less than 4% of research sample. According to previous studies, the nature of a project (product or service as outcome, concept, industry sub-category, genre, etc.) may have some impact on success (Scherer and Winter 2015; Lambert and Schwienbacher 2010). However, inclusion of this factor into current research is not justified due to specific project distribution in a data sample: a number of campaigns were dedicated to both

products and services, and nearly half of sub-categories contained only one project. Regarding the genre aspect, nowadays it is not an easy task to explicitly define styles of artistic works, as many creators tend to mix various genres and experiment with them.

Table 7. Classification of crowdfunding campaigns by category

Categories	Campaigns		Successful campaigns		Unsuccessful campaigns	
	N	%	N	%	N	%
Recording	48	62.3	40	51.9	8	10.4
Album	41	53.2	35	45.5	6	7.8
EP	2	2.6	2	2.6	0	0.0
Vinyl format	4	5.2	3	3.9	1	1.3
Live performance	1	1.3	0	0.0	1	1.3
Event	12	15.6	8	10.4	4	5.2
Performance	3	3.9	1	1.3	2	2.6
Festival	6	7.8	4	5.2	2	2.6
Tour	3	3.9	3	3.9	0	0.0
Mixed	6	7.8	5	6.5	1	1.3
CD + DVD	1	1.3	1	1.3	0	0.0
Event + association	1	1.3	1	1.3	0	0.0
Singles + music videos + artwork	1	1.3	0	0.0	1	1.3
Album + tour	1	1.3	1	1.3	0	0.0
Live album + vinyl format	1	1.3	1	1.3	0	0.0
Single + music video	1	1.3	1	1.3	0	0.0
Other	11	14.3	8	10.4	3	3.9
Music video	2	2.6	1	1.3	1	1.3
Cultural centre	1	1.3	0	0.0	1	1.3
Documentary	3	3.9	2	2.6	1	1.3
Movie	1	1.3	1	1.3	0	0.0
Book	2	2.6	2	2.6	0	0.0
Artistic activity	2	2.6	2	2.6	0	0.0
Total	77	100.0	61	79.2	16	20.8

One of the significant parameters of a fundraising initiative appears to be its **duration**. According to Mesenaatti.me, recommended time for implementing a crowdfunding campaign is from 3 to 6 weeks. Projects on Kickstarter can last from 1 to 60 days: longer ones are rarely successful, shorter ones have higher rates of success ('Kickstarter Support'). As shown in Figure 10, more than 65% of projects from research dataset accomplished their crowdfunding process during the period of no more than 60 days (2 months or 8-9 weeks). Mollick (2014) mentions duration as one of the factors affecting the chances of success.

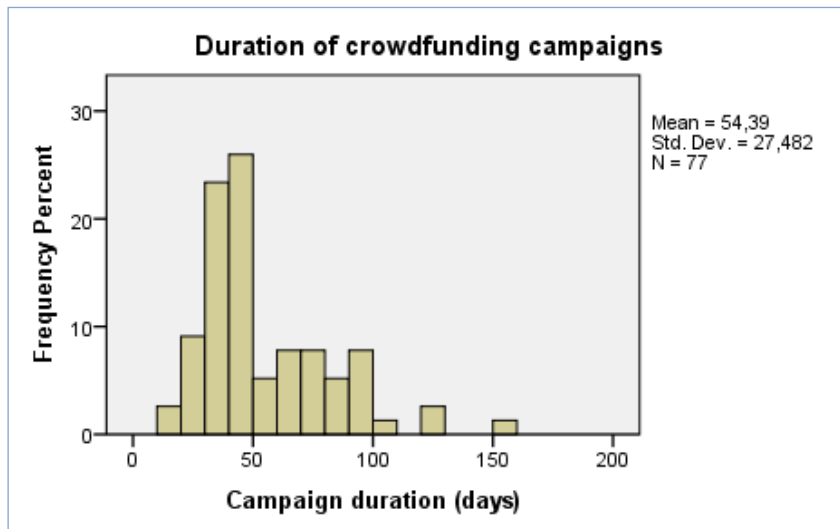
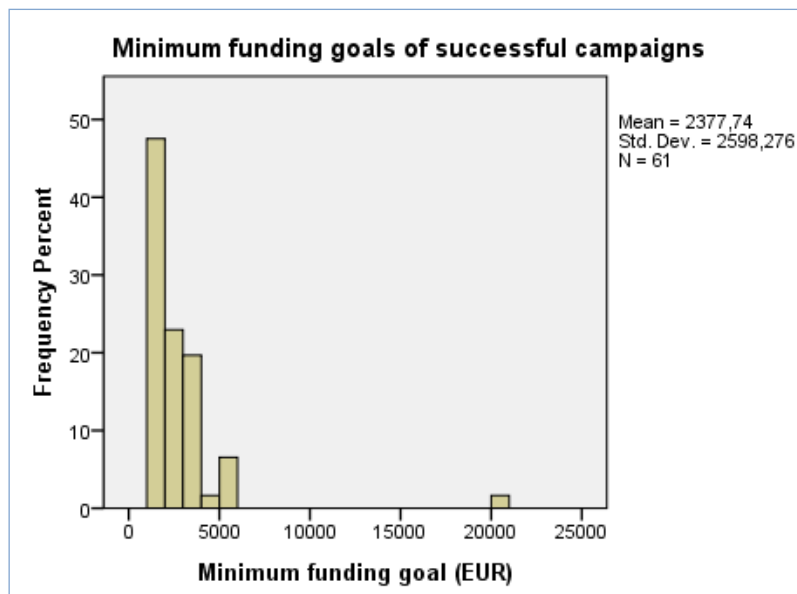


Figure 10. Histogram of campaigns duration

According to the previous research, the size of the funding goal is negatively associated with campaign success (Mollick 2014; Koch and Siering 2015; Lax 2017). On Mesenaatti.me minimum goal can not be less than €1,000, whereas maximum goal is not limited. It is important to set realistic campaign goals because a too low goal puts the fulfillment of the project at risk, whereas a too high goal can be impossible to reach. Figure 11 presents histograms of funding goals for successful and unsuccessful campaigns. It can be seen that the majority of projects (almost 50%) set €1,000 as their minimum goal. Moreover, for 90% of successful and 80% of unsuccessful initiatives minimum goal was less than €5,000. Another parameter of funding goal can be understood as maximum goal, however, it does not limit the amount of potential contributions, and crowdfunding campaigns can raise more than their announced ‘goal’.



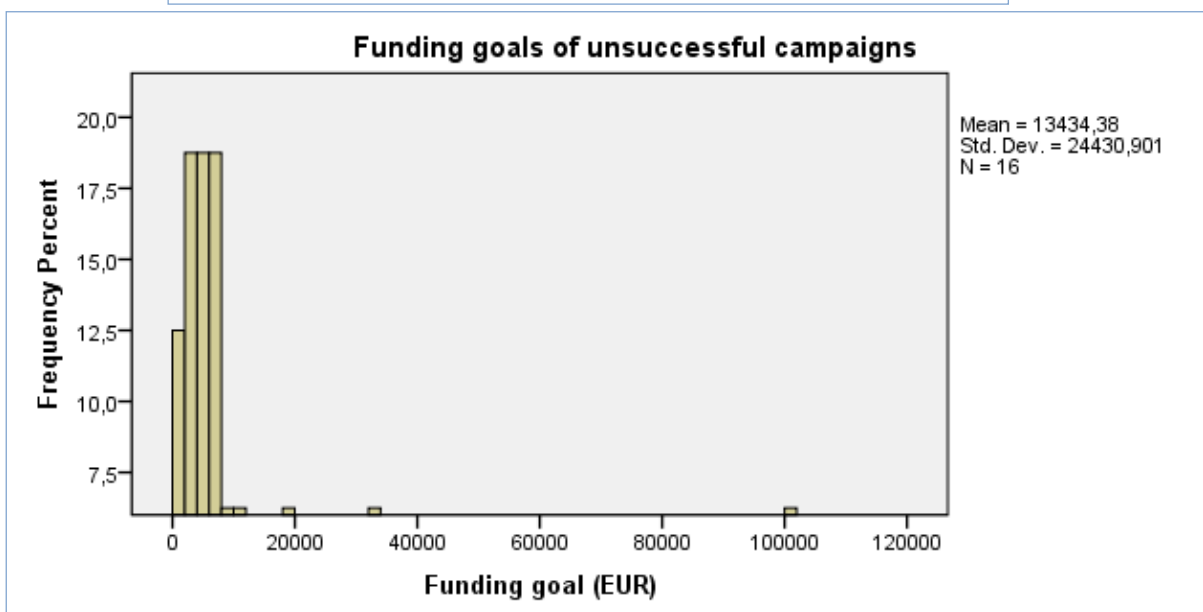
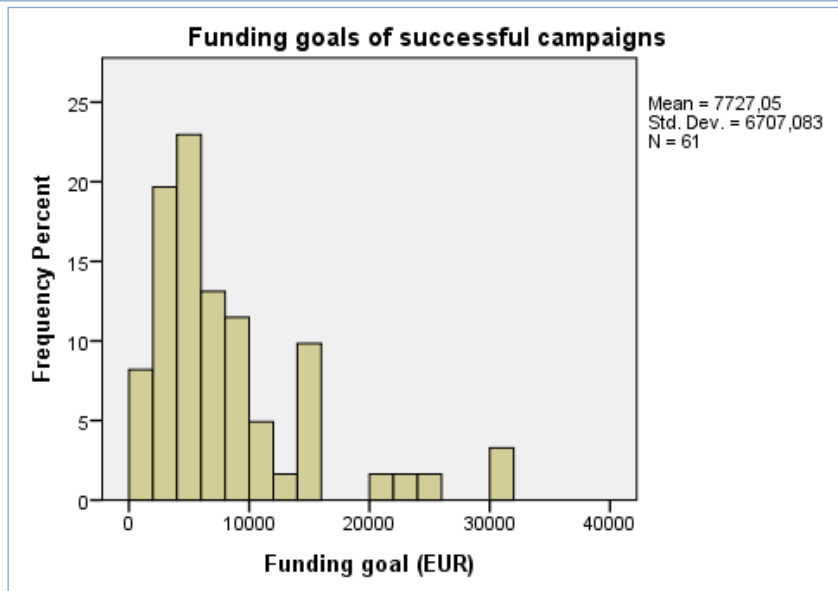
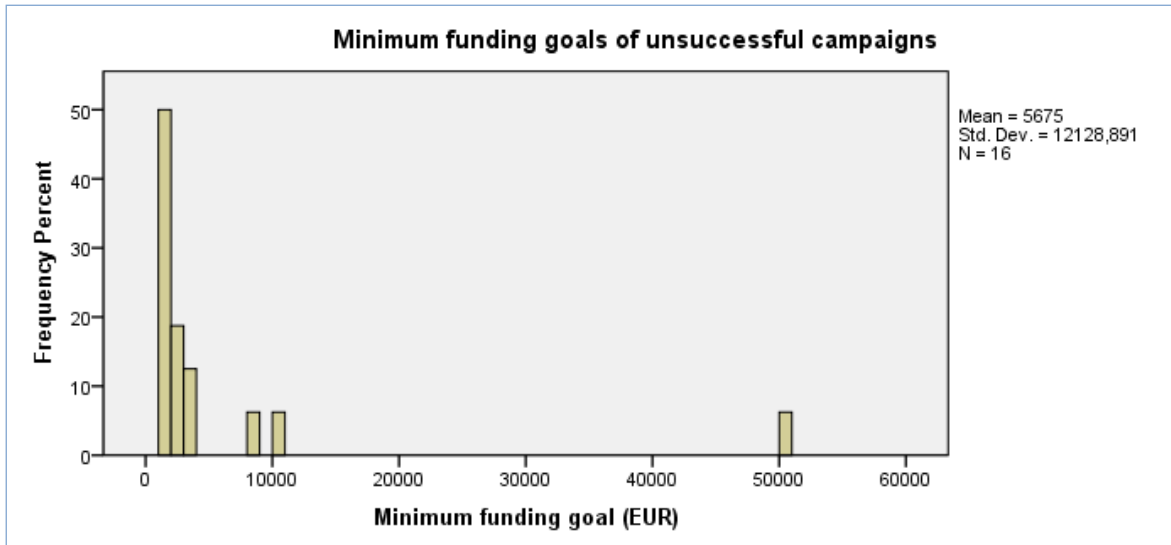


Figure 11. Histograms of funding goals for successful and unsuccessful campaigns

The ‘minimum goal’ seems to be a more significant factor because not reaching it means that project fails and will not be accomplished. The ‘goal’ parameter does not strongly relate to the status of success or failure, though, setting a higher ‘goal’ might show that campaign creators have a prepared plan and are ready for a bigger scale project.

The ‘funding level’ variable is an indicator of success in current research, and campaigns, reaching the funding level of 100%, are regarded as successful or funded. Those initiatives, which raise more than 100% of their minimum goal, can also be viewed as overfunded.

Figure 12 presents histograms of funding levels for successful and failed projects.

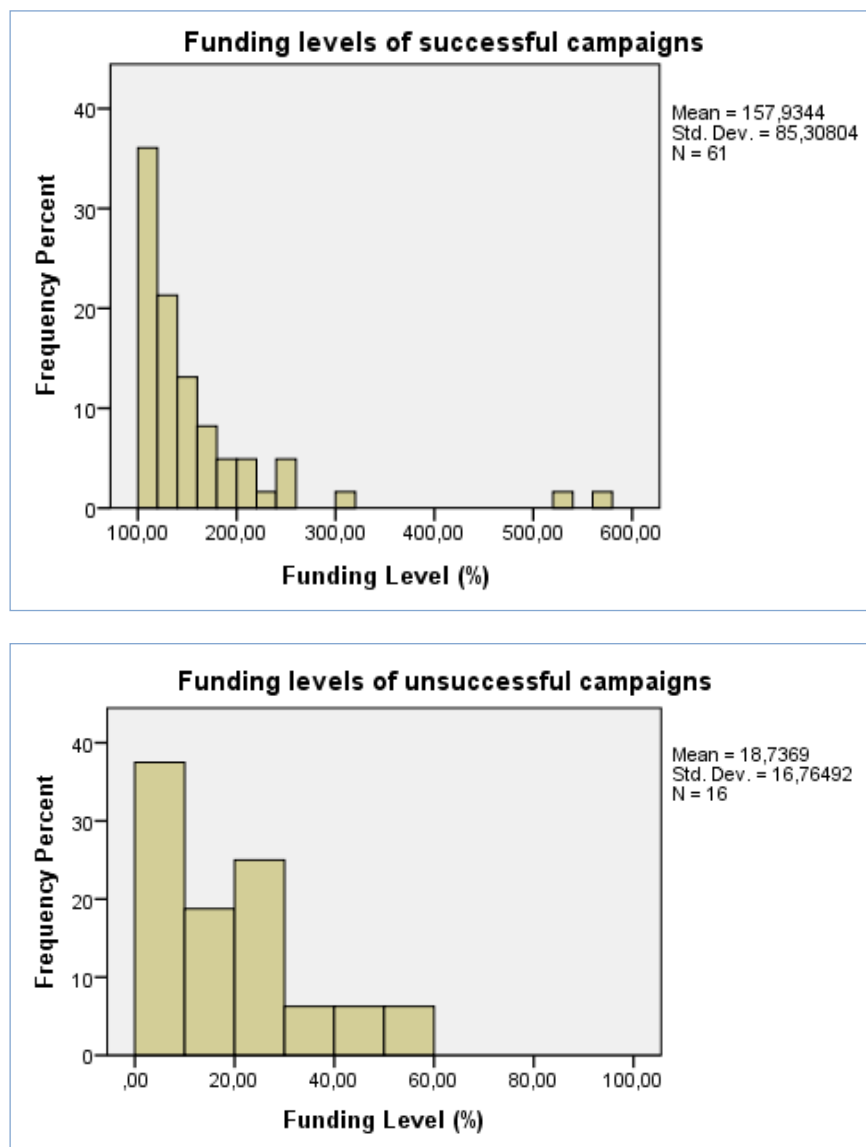


Figure 12. Histograms of funding levels for successful and unsuccessful campaigns

As can be seen, 23% of funded campaigns were 10% or less over their minimum goal, almost 50% were 30% or less over the goal, and about 16% reached 200% of their goal. The average funding level among successful projects was 158% in comparison to 19% among unsuccessful ones. Almost 80% of projects that failed raised less than 30% of their minimum goal, and almost 40% raised less than 10% of the goal. Only 6.25% of failed projects raised 50% of their goal. Unsuccessful initiatives received on average €1,002 in pledges comparing to €3,747 for successful ones. These funding patterns comply with observations of Mollick (2014, 6) that successful campaigns succeed by relatively small margins while unsuccessful projects fail by large margins, which might be associated with herding and bystander behavior, as well as with signals of quality.

In the present research funding level is regarded as the main indicator of success for crowdfunding campaigns. However, such parameters as the **number of funders** and an **average pledge per funder** can also be used for the evaluation of successful outcomes. According to the Summary statistics of the dataset (Table 6), the average number of contributors for all campaigns was 88, varying greatly for successful (mean = 107) and unsuccessful (mean = 20) projects. The number of funders was ranging from 4 to 601 for successful initiatives and from 0 to 89 for the unsuccessful ones. Regarding an average pledge per funder, the mean for all campaigns was €44 with values ranging from €14.40 to €373.25 for successful projects and from €0 to €99.90 for failed ones.

Previous research findings suggest that signals of quality play a significant role in determining crowdfunding success (Mollick 2014; Scherer and Winter 2015; Hobbs et al. 2016). According to Kickstarter (Kickstarter Blog 2012), campaigns with presentation videos have higher rates of success than those without (50% vs. 30%) than those which do not. Presence of videos, images and reward pictures on a project's Mesenaatti profile, as well as a properly planned set of rewards illustrate that a campaign's creator devoted time and effort to prepare for fundraising process. These four variables are used in current research as signals of project quality. In the dataset 64% of campaign creators prepared presentation video, 39% posted images and 62% added pictures of rewards. The average number of reward types was 8, ranging from 2 to 21 for all campaigns.

Successful crowdfunding is often associated with the size of a campaign creator's social network (Mollick 2014; Kerrigan 2014; Lax 2017) and the level of communication between fundraisers and funders (Kuppuswamy and Bayus 2015; Schoffler 2014).

Facebook is the largest social network with more than 2 billion users (Statista 2019), and it is actively used by music and other creative professionals to engage with their audiences. ‘Facebook followers’ and ‘Facebook mentions’ variables are used in current research to indicate social network size and communication level respectively.

During the examination of the dataset one **extreme value** was detected. That was a crowdfunding campaign with unusually high values of minimum goal (€50,000) and goal (€100,000), which did not succeed, raising 17.78% of its minimum goal. This case significantly affected the values of the mean and standard deviation for minimum goal, goal and raised amount parameters, especially in the category of unsuccessful campaigns. Therefore, I made a decision to exclude this case out of the data sample before implementing logistic regression analysis.

5.2. Analysis of success factors

Binary logistic regression analysis is performed in order to develop a model which will be able to predict in the best possible way the probability of occurrence of one of the two outcomes (values of dependent variable) based on a set of predictors (independent variables). As mentioned above, variables were selected based on previous theoretical knowledge and available research data.

Dependent variable is categorical and can take the values of ‘success’ or ‘failure’.

Categories of the dependent variable should be coded as 0 and 1. In our case, 0 stands for ‘failure’ in a crowdfunding campaign, and 1 means ‘success’.

Encoding of categorical independent variables is presented in Table N. Numerical independent variables do not require to be coded.

Table 8. Encoding of categorical independent variables

Variable	Code	Meaning
Presentation video	0	No videos on Mesenaatti profile
	1	1 or more videos on Mesenaatti profile
Presentation image	0	No images on Mesenaatti profile
	1	1 or more images on Mesenaatti profile
Pictures of rewards	0	No reward pictures on Mesenaatti profile
	1	1 or more reward pictures on Mesenaatti profile

Before regression analysis it is necessary to check whether the assumptions for implementing logistic regression analysis are met. Firstly, we test the assumption of the absence of multicollinearity among independent variables through Collinearity Diagnostics in SPSS. Tolerance values <0.10 and Variance inflation factor (VIF) values >10 indicate a high degree of multicollinearity (Hair et al. 2014, 200). As can be seen from Table 9, tolerance values are greater than 0.10 and VIF values are lesser than 10 for all examined variables which means that there is no multicollinearity. Later we will additionally check multicollinearity assumption with the help of correlation coefficients.

Table 9. Collinearity Statistics

Coefficients^a			
Model		Collinearity Statistics	
		Tolerance	VIF
1	Duration	.872	1.147
	MinGoal	.423	2.366
	Goal	.468	2.138
	Video	.942	1.062
	Images	.923	1.084
	FB_followers	.823	1.215
	FB_mentions	.823	1.215
	Rewards	.776	1.289
	RewardPics	.855	1.170

a. Dependent Variable: Success

The next step is to detect any potential outliers in the dataset. Hawkins (1980) defines an outlier as an “observation which deviates so much from other observations as to arouse suspicion it was generated by a different mechanism”. Outliers can indicate methodological errors, extreme values of the data or some novelty behavior, and they may affect results of statistical analysis. To identify potential outliers in our dataset we refer to Residuals Statistics (Table 10). A maximum value of Mahalanobis’ Distance (MD) parameter larger than the critical chi-square value for degree of freedom = k (where k is the number of predictor variables in the model) “at a critical alpha value of .001 indicates the presence of one or more multivariate outliers” (Wikiversity 2018). The critical value of chi-square for degree of freedom = 9 is 27.88. As depicted in Table N, the maximum Mahalanobis’ Distance value exceeds the critical chi-square value (MD = 53.520) which is a sign of potential outliers in our data.

Table 10. Residuals Statistics

Residuals Statistics ^a					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.45	1.29	.80	.180	76
Std. Predicted Value	-1.970	2.695	.000	1.000	76
Standard Error of Predicted Value	.078	.325	.130	.049	76
Adjusted Predicted Value	-.22	1.39	.80	.228	76
Residual	-.833	.495	.000	.358	76
Std. Residual	-2.182	1.298	.000	.938	76
Stud. Residual	-2.285	1.677	.003	1.014	76
Deleted Residual	-1.011	1.225	.005	.432	76
Stud. Deleted Residual	-2.363	1.701	-.004	1.027	76
Mahal. Distance	2.160	53.520	8.882	8.924	76
Cook's Distance	.000	.748	.025	.090	76
Centered Leverage Value	.029	.714	.118	.119	76

a. Dependent Variable: Success

One of the common ways of dealing with outliers is their elimination from the dataset, however, this leads to the reduction of sample size which is not favorable in our case (Salkind 2010). To better address this issue, we will additionally examine outliers with the help of the normal probability plot (P-P Plot) and the scatterplot. The normal probability plot allows to graphically assess “whether or not a data set is approximately normally distributed” and to trace departures from normality (NIST/SEMATECH 2012).

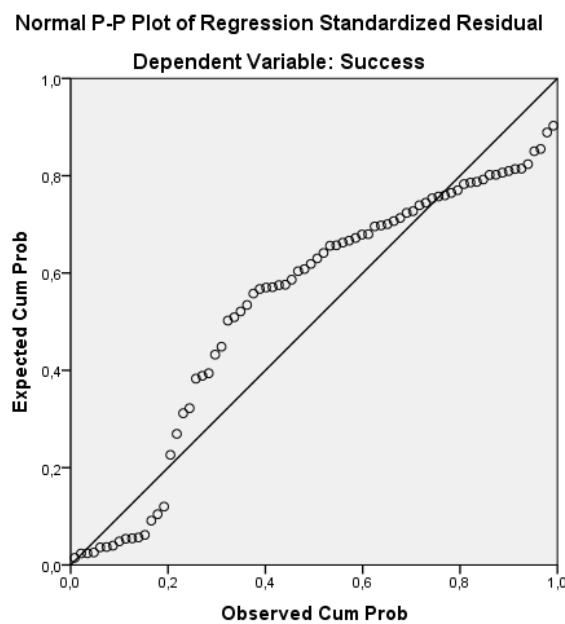


Figure 13. The normal probability plot (P-P Plot)

The P-P Plot (Figure 13) illustrates that the majority of dots (data points) are clustering around a hypothetical straight line. The dots are not perfectly on the line, but some deviation from the line is possible, and since there are no extremely distant from the line points, it can be assumed that we do not have any outliers (Scibilia 2014).

Another visual technique to help detect potential outliers is the scatterplot of standardized residuals. There is a rule of thumb suggesting to regard as an outlier any point which standardized residual value is greater than 3.3 (or lesser than -3.3) (De Muth 2014, 660). Figure 14 shows that, though a couple of points are approaching the value = 3 on the right side of the scatter plot, the majority of values do not go beyond the -3 – +3 range which allows us to conclude that there are no outliers in the dataset.

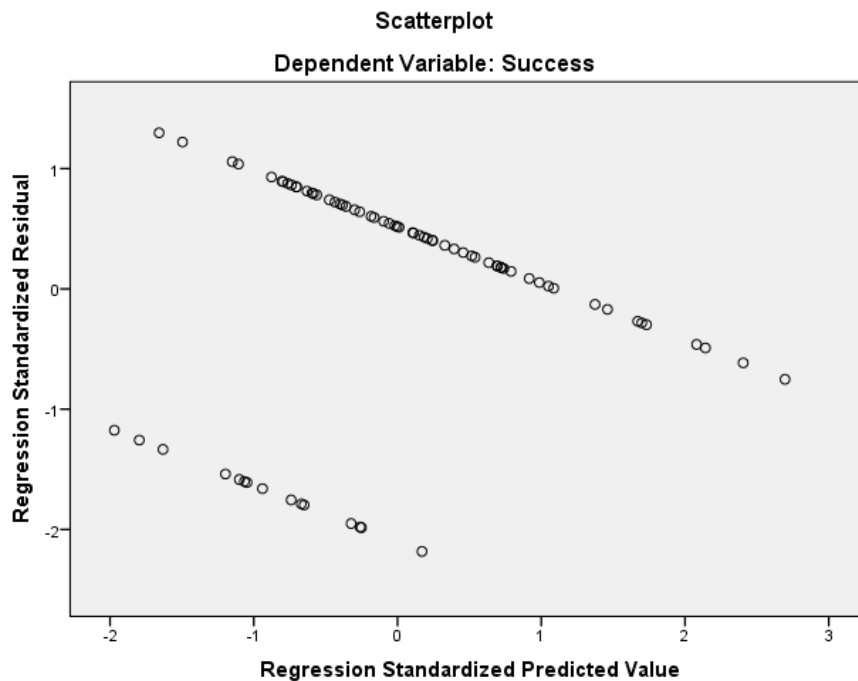


Figure 14. Scatterplot

After having tested for assumptions and outliers, it is possible to proceed to binary logistic regression analysis (Hair et al. 2014; Laerd Statistics; UCLA).

As a preliminary step of logistic regression analysis, potential correlations between predictor variables and the outcome are explored through Bivariate Correlation option in SPSS. Correlation coefficient changes between -1 and +1, meaning that the closer the coefficient to ± 1 – the stronger is the relationship between variables. Coefficient = 0 shows that there is no association between variables. From Table 11 it is clear that the strongest correlations the dependent variable has with the number of Facebook mentions ($r = 0.291$) and the number of reward types ($r = 0.291$). It means that they are potentially good

predictors of the outcome. Other independent variables do not show strong relationship with the dependent variable in this test. However, we will anyways include them into our logistic regression model.

Table 11. Bivariate correlations

Correlations											
		Success	Duration	Min Goal	Goal	Video	Images	FB_ followers	FB_ mentions	Rewards	Reward Pics
Success	Pearson Corr.	1	,007	-,052	,004	,038	,033	,082	,291*	,291*	,003
	Sig. (2-tailed)		,956	,654	,975	,744	,777	,480	,011	,011	,978
	N	76	76	76	76	76	76	76	76	76	76
Duration	Pearson Corr.	,007	1	-,027	,152	,007	-,012	,016	,201	,190	,068
	Sig. (2-tailed)	,956		,814	,190	,955	,918	,892	,081	,101	,559
	N	76	76	76	76	76	76	76	76	76	76
MinGoal	Pearson Corr.	-,052	-,027	1	,698**	-,083	,225	,289*	,315**	,341**	,072
	Sig. (2-tailed)	,654	,814		,000	,475	,051	,011	,006	,003	,537
	N	76	76	76	76	76	76	76	76	76	76
Goal	Pearson Corr.	,004	,152	,698**	1	-,010	,151	,275*	,259*	,312**	-,040
	Sig. (2-tailed)	,975	,190	,000		,932	,192	,016	,024	,006	,729
	N	76	76	76	76	76	76	76	76	76	76
Video	Pearson Corr.	,038	,007	-,083	-,010	1	-,105	,028	,024	,092	-,137
	Sig. (2-tailed)	,744	,955	,475	,932		,367	,813	,837	,431	,236
	N	76	76	76	76	76	76	76	76	76	76
Images	Pearson Corr.	,033	-,012	,225	,151	-,105	1	,136	,035	,155	,033
	Sig. (2-tailed)	,777	,918	,051	,192	,367		,243	,767	,182	,777
	N	76	76	76	76	76	76	76	76	76	76
FB_ followers	Pearson Corr.	,082	,016	,289*	,275*	,028	,136	1	,118	,115	-,260*
	Sig. (2-tailed)	,480	,892	,011	,016	,813	,243		,311	,322	,023
	N	76	76	76	76	76	76	76	76	76	76
FB_ mentions	Pearson Corr.	,291*	,201	,315**	,259*	,024	,035	,118	1	,305**	,084
	Sig. (2-tailed)	,011	,081	,006	,024	,837	,767	,311		,007	,470
	N	76	76	76	76	76	76	76	76	76	76
Rewards	Pearson Corr.	,291*	,190	,341**	,312**	,092	,155	,115	,305**	1	,146
	Sig. (2-tailed)	,011	,101	,003	,006	,431	,182	,322	,007		,210
	N	76	76	76	76	76	76	76	76	76	76
RewardPics	Pearson Corr.	,003	,068	,072	-,040	-,137	,033	-,260*	,084	,146	1
	Sig. (2-tailed)	,978	,559	,537	,729	,236	,777	,023	,470	,210	
	N	76	76	76	76	76	76	76	76	76	76

*. Correlation is significant at the 0.05 level (2-tailed).

**.. Correlation is significant at the 0.01 level (2-tailed).

Moreover, we can additionally check multicollinearity assumption with the help of correlation coefficients. According to Ratner (2009, 139), if correlation coefficient is more than 0.7 (or less than -0.7), it indicates high collinearity. The data in Table 11 shows that all bivariate correlation coefficients do not exceed these values, which means that there is no collinearity between any of the independent variables.

The actual binary logistic regression analysis is implemented in SPSS statistical software using the ‘Enter’ method when all the independent variables are included into the model simultaneously in the beginning of the analysis. The results of logistic regression analysis are presented in Table 12.

Variables used in the analysis. Dependent (categorical, dichotomous): Success/Failure of the crowdfunding campaign. Independent (continuous): duration, minimum goal, goal, Facebook followers, Facebook mentions, number of rewards. Independent (categorical): presentation video, presentation image, picture of rewards

Table 12. Results of logistic regression analysis

Dependent variable '0' = Failure, '1' = Success		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I. for EXP(B)	
								Lower	Upper
Step 1 ^a	Duration (17-155)	-,001	,016	,002	1	,963	,999	,969	1,030
	Minimum Goal (€1,000-€20,000)	-,001	,000	3,389	1	,066	,999	,999	1,000
	Goal (€1,000-€30,000)	,000	,000	,010	1	,919	1,000	1,000	1,000
	Presentation video 1 – one or more videos 0 – no videos						1 ,400		
		-,917	1,061	,748	1	,387		,050	3,196
	Presentation image 1 – one or more images 0 – no images						1 1,108		
		,102	,741	,019	1	,890		,259	4,728
	Facebook followers (73-19,813)	,000	,000	,280	1	,597	1,000	1,000	1,001
	Facebook mentions (0-101)	,181	,068	7,057	1	,008	1,199	1,049	1,370
	Number of rewards (2-21)	,327	,153	4,554	1	,033	1,387	1,027	1,873
	Pictures of rewards 1 – one or more pictures 0 – no reward pictures						1 ,640		
	-,446	,971	,211	1	,646		,095	4,296	
Constant	-,010	1,432	,000	1	,995	,990			

a. Variable(s) entered on step 1: Duration, MinGoal, Goal, Video, Images, FB_followers, FB_mentions, Rewards, RewardPics.

The significance level for the comparison between the ‘null-hypothesis’ and the predictor models is 0.003 ($p < 0.05$), which indicates that we have a significant model and that the model will be a good predictor (Omnibus tests of model coefficients). The overall model predictive ability is 85.5% compared to 80.3% in the ‘null-hypothesis’ model, which is a definite improvement. Explained variation in the dependent variable ranges from 28% to 45% in our predictor model (Cox&Snell R Square = 0.281; Nagelkerke R Square = 0.446).

The regression coefficient (B) illustrates relationship between a particular predictor variable and the dependent variable. Positive B coefficients indicate that increasing values of predictor variables is associated with increased odds of achieving value ‘1’ of the dependent variable.

The Wald statistic is applied to test whether a regression coefficient of an independent variable is significantly different from zero, or in other words, whether this variable is making any substantial contribution towards predicting the outcome. The Wald statistic has a chi-square distribution, and values with $p < 0.05$ are considered statistically significant.

The odds ratio (Exp (B)) demonstrates how much the odds of an outcome are occurring, when there is a unit change in a predictor variable. Thus, the higher this value over 1, the more likely a project will succeed.

The constant statistic shows the expected value of the log-odds of the outcome if all of predictor variables = 0. This is not a very important statistic, as usually ‘zero’ is not a realistic value of a variable.

As can be seen from Table 12, ‘Facebook mentions’ ($p=0.008$) and ‘number of reward types’ ($p=0.033$) added significantly to the predictor model, ‘minimum goal’ with $p=0.066$, which is approaching the significance level of 0.05, can also be considered as a predictor variable, however, with more caution. Other variables – ‘campaign duration’ ($p=0.963$), ‘goal’ ($p=0.919$), ‘presentation video’ ($p=0.387$), ‘presentation image’ ($p=0.892$), ‘Facebook followers’ ($p=0.597$) and ‘pictures of rewards’ ($p=0.646$) – did not add significantly to the model.

Odds ratio values demonstrate that campaigns, which have one additional reward type, are 1.387 times more likely to succeed. Similarly, projects, which add one additional post about the crowdfunding campaign on their Facebook page, are 1.199 times more likely to reach their minimum funding goal. Other predictor variables did not appear significant in current predictor model, but that might be due to relatively small sample size. Statistical

significance values, however, are not so important in current analysis, because there is no intention to generalize the results of the study.

Probability of success for those campaigns which did not post a presentation video is 0.4 comparing to those which posted a video. Interestingly, crowdfunding projects without a presentation image are 1.108 times more likely to succeed than the ones with an image. That might be due to the fact that those projects which did not post a presentation image, most probably posted a presentation video. There were only five campaigns with neither a presentation video nor a presentation image in the dataset. This also indicates that it is better to post a video than an image. However, since there is an opportunity to post several videos and images on Mesenaatti page, it is, no doubt, worthy to use this opportunity as it will show better preparedness for a crowdfunding campaign. The odds of achieving success for projects without reward pictures is 0.64 in comparison to projects with reward pictures.

Binary logistic regression analysis was accomplished to evaluate the effects of a variety of predictor variables on the likelihood of crowdfunding campaign success. The model explained 44.6% (Nagelkerke R²) of the variance in crowdfunding success and correctly classified 85.5% of cases. Increasing 'Facebook mentions' and the 'number of reward types' was associated with an increased likelihood of crowdfunding success occurrence. However, increasing of 'minimum goal' values was associated with a decrease in the odds of crowdfunding success.

More thorough discussion about the results of the data analysis and their implications is presented in the Conclusions and Discussion chapter.

VI. CONCLUSIONS AND DISCUSSION

6.1. Reflections on research findings

The aim of this study was to determine a set of factors which best predict the chances of success of crowdfunding campaigns. The results of current research demonstrate that signals of quality are associated with crowdfunding success. This goes in line with earlier studies about crowdfunding (Mollick 2014; Kuppuswamy and Bayus 2015; Kromidha and Robson 2016). Such quality signals as Facebook mentions and the number of reward types predict greater success. Facebook mentions in our case were equivalent to updates described by Mollick (2014). Making posts in Facebook about the implementation of a crowdfunding campaign and offering a well planned set of rewards indicate high level of preparedness of a campaign owner. In a variety of signaling strategies preparedness is linked to signaling quality (Higgins et al. 2011; Sorensen et al. 2002). Additionally, the fact that funders respond to quality signals suggests that they make their funding decisions based on a rational approach, similar to investors of entrepreneurial ventures.

A higher number of Facebook mentions demonstrate more active communication between a crowdfunding campaign creator and potential or current funders. Regular reminders about the fundraising process facilitate better promotion as people tend to spread interesting information to their friends when they see it in social media. Communication was one of the factors linked to project implementation success described by Pinto and Slevin (1987). Moreover, a significant role of intensive communication in the success of fundraising efforts was noted in a number of recent studies of the crowdfunding sector (Galuszka and Bystrov 2014; Scherer and Winter 2015; Pavlova 2018).

A wide range of reward types, aside from signaling preparedness, may touch upon backers' motivational aspect. Motivations of funders have been of particular interest to scholars (Forst 2016; Agrawal et al. 2010). Crowdfunding is considered to be based more on prosocial than on consumer behavior, meaning that contributors are more concerned with supporting a particular project than just pre-ordering a music product. In this connection, a greater variety of creative rewards motivates people to contribute funds and receive unique rewards in return which they can keep for the future to remind them about the project and maintain emotional connection with it. Moreover, a variety of creative inexpensive rewards encourage funders to make repeated contributions to try different reward types.

Other analyzed factors did not demonstrate significant ability in predicting crowdfunding success which does not go in line with previous academic papers (Molick 2014). However, that might be due to rather small data sample used in the present study.

Crowdfunding has developed at an unprecedented rate in recent years, and it appears to be a viable funding alternative for individuals and small businesses, especially in the creative and cultural sectors. To be successful in crowdfunding, one needs to understand its underlying principles. Today's changing world brings new challenges to various professionals, and more experts agree that it is necessary for present-day artists to have entrepreneurial mindset and a set of entrepreneurial skills. In other words, to become 'artpreneurs' (or 'musicpreneurs') who are passionate about their art, knowledgeable in promoting it and effective in communicating with their fans and supporters while co-creating value together.

6.2. Study implications

Due to a relatively small sample size, current research was conducted without an attempt to generalize research findings to a total population. The study intended to check a variety of theoretical assumptions about the success factors of crowdfunding in the Finnish context and in application to the music industry.

Research findings can be of interest to music and other creative professionals who want to raise funds for their creative projects through crowdfunding. Additionally, the study contributes to the understanding of what factors are associated with the success of crowdfunding campaigns.

6.3. Limitations of the study

Current research was limited to reward-based crowdfunding campaigns in the music category. Dataset was narrowed down to those campaigns which had representation in the English language. Research variables were selected on the basis of previous theoretical knowledge and available research data. Due to data collection limitations, campaign creators' network size ('Facebook followers' variable) was recorded not at the time of crowdfunding campaign implementation but at the time of data collection.

Current research analyzed a set of available factors in their relation to crowdfunding success, but it did not take into account a variety of other factors which could possibly be associated with the success of crowdfunding campaigns as well. For instance, geographical distance between fundraisers and funders, additional communication channels through which campaign creators could promote their crowdfunding campaigns (e.g. at events, through email, on various online professional forums and platforms).

6.4. Ethical considerations

Research data was collected from the online crowdfunding platform where it was published with open access for the general public. Therefore, ethical aspects of anonymity, confidentiality, privacy and informed consent were not violated.

6.5. Suggestions for future research

For the present study all data was collected at one time point, and reported results do not give a longitudinal perspective. It would be valuable to observe crowdfunding campaigns from the beginning till the end to determine behavioral patterns of funders at different stages of campaign implementation.

Current research indicated that the number of reward types affected the success of crowdfunding campaigns. In this study only numerical data about rewards was analyzed. Therefore, it would be beneficial to explore rewards content-wise. What kinds of rewards are more attractive to funders? Tangible or intangible, merchandise or experiences, etc. Will backers make repeated contributions if they are offered a wide range of inexpensive creative rewards?

Dynamic communication with potential funders proved to influence crowdfunding success. In this research one parameter (Facebook mentions) was used to analyze communication between campaigners and contributors. Additional study of various communication channels, used by project creators to promote their fundraising campaigns outside the crowdfunding platform (through email, professional online communities, at events or personal meetings, etc.), is recommended.

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