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Institutional quality and success in U.S. equity crowdfunding☆

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ABSTRACT

In equity crowdfunding, establishing legitimacy is crucial for firms to mitigate the information asymmetry investors face. We propose that the strategic selection of incorporating a business in Delaware—a jurisdiction recognized for its investor-friendly legal framework—sends a quality signal to investors, enticing greater participation in capital raises. While prior studies indicate a diminishing relevance of Delaware incorporation for later-stage and mature ventures, our study presents a contrasting story for smaller, nascent equity crowdfunding firms. Utilizing a comprehensive dataset of U.S. regulated equity crowdfunding offerings from May 2016 to December 2021, our empirical analysis uncovers a positive and meaningful relationship between Delaware incorporation and crowdfunding success in the United States. These findings underscore the significance of Delaware's legal infrastructure for firms confronting heightened challenges of establishing trust due to otherwise limited governance mechanisms. By highlighting the importance of institutional quality, this research contributes to understanding how legal frameworks influence investment outcomes and entrepreneurial motivations, offering insights for entrepreneurs, investors, and policymakers.

1. Introduction

Entrepreneurship creates jobs, improves productivity, and spurs innovation and economic growth (Audretsch et al., 2006). The conditions fostering entrepreneurial success are multifaceted, with institutional quality playing a critical role, particularly in entrepreneurial finance.

Small firms, brimming with growth potential, face the challenge of agency problems, where divergent interests between entrepreneurs and investors may precipitate actions benefitting the former at the expense of the latter. In equity crowdfunding, these agency costs become more pronounced due to information asymmetry and the absence of stringent governance standards thereby amplifying investor risks (Ahlers et al., 2015; Belleflamme et al., 2014; Butticè and Vismara, 2022; Coakley and Lazos, 2021; Eisdorfer, 2008; Green, 1984; Johan and Zhang, 2020, 2022; Kleinert and Mochkabadi, 2021; Vismara, 2016; Kleinert and Vismara, 2024).

However, the strategic selection of an incorporation jurisdiction – a specific geographic area where a company is legally registered and incorporated - can serve as a crucial counterbalance to the agency problems faced by opaque crowdfunding firms. This jurisdiction determines the legal framework and regulatory environment that governs the company's operations, rights, and obligations. By judiciously electing a state of incorporation that is associated with strong legal standards, managers can shape positive perceptions about a venture's governance quality (Zimmerman and Zeitz, 2002). This results in a positive

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regulatory legitimacy signal, which investors can reward through invested capital in the business.

The United States offers a distinctive setting to explore this phenomenon, with its diverse incorporation statutes allowing entrepreneurs to self-select a governance state that best aligns with their business objectives. Historically, Delaware has stood out as the preferred jurisdiction because of its well-established legal framework (Romano, 1985), favored by venture capital-backed companies (Waisman et al., 2009), IPOs (Daines, 2001, 2002), and mature publicly traded firms (Romano, 1985; Bebchuk et al., 2002; Bebchuk and Cohen, 2003). However, in the context of IPOs, the literature indicates a declining influence or even a disappearance of Delaware's effect (Gompers et al., 2003; Subramanian, 2004). Consequently, we are motivated to examine the contemporary relevance of Delaware incorporation within the context of equity crowdfunding, considering the smaller size of these firms and the minimal legal and contractual mechanisms available in this comparatively unregulated market.

Our theoretical contribution draws on legitimacy theory, positing that crowdfunding firms must actively ensure that their actions, policies, and existence are perceived as legitimate by investors (Aldrich and Fiol, 1994; Fisher et al., 2017; Mochkabadi et al., 2020). We argue that firms leverage Delaware's legal framework as a strategic move to acquire this legitimacy. By choosing to incorporate in Delaware, firms signal their adherence to a set of well-defined, stable, and equitable business laws that balance the interests of management and shareholders alike. Thus, Delaware incorporation is not merely a legal formality but a deliberate act to signal quality and reliability, consistent with legitimacy theory's premise that ventures can secure resources – here, investment – by visibly conforming to established norms and expectations (Zimmerman & Zeitz, 2002).

The regulation crowdfunding (CF) market in the United States (U.S.) has quickly grown into one of the largest crowdfunding markets in the world. The market saw $19 million of capital raised in 2016, which grew to $479 million in 2021.[1] Evidence from other countries shows similar trends. For example, in the United Kingdom, the world's largest equity crowdfunding market with a history dating back to 2010, equity crowdfunding volumes increased from £272 million in 2016 to £549 million in 2020.[2] This growing market underscores the need to evaluate the effectiveness of governance mechanisms in successful fundraising. Our comprehensive analysis of equity offerings from May 2016 to December 2021, encompassing 3539 offerings across >65 platforms, reveals several interesting relationships, among which firms incorporated in Delaware significantly outperform their counterparts in crowdfunding success. Our data shows that all else being equal, Delaware incorporation boosts the likelihood of achieving fundraising goals by 6.1 % on average.[3]

Our findings diverge from prior research, which suggests that the value of Delaware incorporation has diminished over time for IPOs (Subramanian, 2004; Litvak, 2013). While both IPOs and crowdfunding involve sales of shares to retail investors, our study indicates that Delaware law remains particularly relevant for early-stage crowdfunding firms, especially those that are more opaque. Crowdfunding firms typically have less disclosure, higher uncertainty, and greater signaling costs associated with incorporation. Delaware's legal framework offers an efficient and cost-effective means of protecting investors, providing legal clarity, mitigating managerial entrenchment, and safeguarding investor rights. As firms grow larger and more transparent, the relative advantage of Delaware incorporation diminishes, highlighting its critical role as a signal of quality and reliability for early-stage ventures navigating higher levels of investor uncertainty.

Our paper also contributes to a growing body of literature on crowdfunding. Prior work has focused on European (e.g., Vismara, 2018) or Australian (e.g., Ahlers et al., 2015) markets. Earlier research on success in equity crowdfunding outside the United States was possible because those markets have had a longer history of operations. Those studies provide evidence of the importance of various signals in crowdfunding success, including offering low equity shares to investors, offering voting rights, and well-worded text descriptions of campaigns (Vismara, 2016; Cumming and Johan, 2019; see also Roma et al., 2021, and Sewaid et al., 2021, for different signals in rewards crowdfunding contexts). In the U.S. context, one prior paper (Rossi et al., 2021) compares the U.S. and U.K. equity crowdfunding markets. The authors examine patents and equity retention as predictors of fundraising targets and success.[4] Our paper advances this literature by analyzing an expansive set of equity crowdfunding campaigns and previously unexplored campaign-level measures such as the state of incorporation, firm financials, and platform features, among other variables.

This paper is organized as follows. Section 2 provides information on the U.S. institutional setting and the main hypotheses. Section 3 introduces the data and variables. Section 4 presents descriptive statistics and figures illustrating the success and growth of the U.S. equity crowdfunding market. Section 5 presents multivariate analysis results. The last section discusses limitations and possible extensions in future work.

2. Institutional setting and hypotheses

Equity crowdfunding represents a distinctive financial landscape where emerging ventures can seek capital in an environment characterized by pronounced risks and potential rewards. Unlike traditional financing pathways such as venture capital or public offerings, this modality allows smaller, early-stage companies to raise private funds without onerous disclosure requirements. These firms may turn to ECF not because they are of low quality but because ECF may be a better match for their specific funding needs and investor base (Stevenson et al., 2022). However, the inherently illiquid nature of securities and the absence of a robust secondary market amplify investor risks, with significant information asymmetries often exacerbating the issue of illiquidity (Lukkarinen and Schwienbacher, 2023). Moreover, there is an active threat of capital loss due to fraud, incompetence, or negligence. In this minimally regulated yet risky environment, the jurisdiction of incorporation stands out as a crucial legal mechanism, offering a beacon of investor protection. In the following subsections, we explore the institutional significance of Delaware incorporation and examine how the size of a firm influences its impact.

2.1. Delaware incorporation, legitimacy, and signaling

In the United States, corporations have considerable flexibility in selecting their state of incorporation. This flexibility is largely due to the allocation of primary authority over corporate governance to the states, combined with the "internal affairs" doctrine, which mandates that courts apply the law of the state of incorporation to corporate disputes.

[1] https://business.fau.edu/equity-crowdfunding-tracker/.

[2] https://www.jbs.cam.ac.uk/wp-content/uploads/2021/06/ccaf-2021-06-report-2nd-global-alternative-finance-benchmarking-study-report.pdf.By comparison, the U.K. venture capital market in 2016 was £262 million in 2016 (as reported by British Private Equity & Venture Capital Association).

[3] Regulation crowdfunding in the U.S. follows an "all or nothing" rule, where the entrepreneur does not keep the capital raised unless their stated fundraising goal is achieved. The rationale is that it puts the risk on the entrepreneur and takes the risk away from the crowd that an underfunded project is allowed to go ahead (underfunded projects are less likely to develop the business or innovation successfully). See Cumming et al., 2020).

[4] That is, we are not aware of other work on the topic. New crowdfunding studies are being released at a remarkable pace, so we acknowledge we may have overlooked prior work. Please feel free to email us if we have inadvertently overlooked any of this work.

This legal framework creates a regime of "issuer choice" in state corporate law, allowing corporations to choose the jurisdiction whose laws best meet the needs of their directors, managers, and shareholders, regardless of where the corporation primarily conducts its business. As a result, states compete to attract firms by offering favorable corporate law rules.

Delaware stands out as the most popular state for incorporation due to its comprehensive and well-developed legal framework.[5] Among the approximately 470 public companies in the Fortune 500, over 60 % are incorporated in Delaware (Morabito, 2023). While some scholars attribute Delaware's dominance to historical factors, such as New Jersey's antitrust legislation in 1913 that prompted companies to incorporate in neighboring states (Eldar and Rauterberg, 2022), others suggest that Delaware's prominence arose from increased competition after Delaware and other states adopted corporate laws similar to those in New Jersey (Sanga, 2022). Over time, Delaware's legal system has evolved into the most sophisticated in the country, with a deep body of precedent that enhances the predictability and reliability of judicial outcomes for businesses operating there (Kahan, 2006).

The question of whether Delaware incorporation adds value to corporations has been a focal point of corporate governance research, particularly in relation to its influence on initial public offerings (IPOs). Daines (2001) conducted a comprehensive analysis of firms' Tobin's Q and found that, from 1981 to 1996, Delaware-incorporated firms were generally more valuable, attributing this to superior corporate governance that resonated with investors.[6] However, subsequent studies, such as Gompers et al. (2003) and Litvak (2013), identified a significant negative Delaware effect from 1987 through 2010. These divergent findings have been attributed to variations in temporal scope and the specific control variables employed in analyses of out-of-state incorporation. Further complicating the debate, Bebchuk et al. (2002) and Cremers and Sepe (2015) reported either no significant relationship or a negative relationship between Delaware incorporation and Tobin's Q values. Subramanian (2004) introduced additional nuance by suggesting that the "Delaware effect" was more pronounced in smaller firms with net sales under $50 million from 1991 to 1996 but that this effect diminished thereafter.

For early-stage ventures, particularly those engaged in equity crowdfunding, the dynamics of firm valuation and corporate governance differ markedly from those of more established firms pursuing traditional IPOs. Unlike IPOs, which are governed by stringent prospectus-level disclosure standards and benefit from the liquidity of public markets, equity crowdfunding operates in a regulatory environment with less rigorous disclosure requirements. This absence of comprehensive disclosure, coupled with the illiquidity of shares and the relative inexperience of many crowdfunding entrepreneurs, significantly heightens the risks for investors. These factors challenge traditional metrics of valuation and governance, making it difficult for investors to assess the true value and potential of these ventures. In such an environment, the concept of legitimacy becomes meaningful. As conceptualized in organizational theory, legitimacy refers to the generalized perception that a firm's actions are desirable, proper, or appropriate within the prevailing system of norms, values, and beliefs (Suchman, 1995). For nascent firms, legitimacy is often conferred through intangible, socially-centered resources, which become essential in the absence of tangible assets that can be rationally valued (Khaire, 2010).

The process of gaining legitimacy is especially pertinent for firms operating within the crowdfunding landscape, where the audience is diverse and fragmented, and where ventures must quickly establish their credibility to attract investment. Unlike established firms that can leverage a performance record to secure resources, new ventures are resource-constrained and must strategically engage in activities that foster legitimacy without incurring significant costs (Andrews, 1996; Deeds et al., 1997). Successfully navigating this process can enable a venture to cross a threshold, beyond which it is deemed legitimate, thereby gaining access to the capital and other resources necessary for its growth (Bitektine, 2011; Lounsbury and Glynn, 2001; Mochkabadi et al., 2022; Mochkabadi et al., 2024).

Legitimacy in this context can be understood through various dimensions. Regulatory legitimacy, achieved through adherence to established laws, standards, and norms set by authoritative bodies, signals to stakeholders that the firm operates within widely accepted legal and ethical frameworks (Scott, 1995). This is particularly important for firms lacking operational history, as it indicates conformity with broader institutional expectations, ensuring stability and reliability. Legal legitimacy complements this by explaining that firms gain authority and credibility through the acceptance of the legal system, reinforcing trust in their governance and reducing perceived risks (Hermann, 1983).

Pragmatic legitimacy focuses on the value stakeholders anticipate from their engagement with the firm, based on a careful assessment of whether the firm's policies and actions will effectively serve the interests of key stakeholders, including investors (Alexiou and Wiggins, 2019). Delaware's specialized judiciary (the Court of Chancery) is renowned for its expertise in corporate law, ensuring an equitable and efficient resolution to corporate disputes (Romano, 1985; Black, 1999), thereby serving stakeholders. The court frequently updates and clarifies corporate laws, providing necessary guidance and predictability to businesses incorporated within its jurisdiction.

In the context of crowdfunding, where the investor base is diverse and often consists of small-scale contributors, the perception of pragmatic legitimacy is enhanced by the firm's adherence to robust governance structures that protect shareholder interests (Chen, 2023). Delaware's corporate law reduces legal uncertainties during acquisitions, mergers, bankruptcy proceedings, and initial public offerings (Romano, 1985; Daines, 2002; Kahan and Kamar, 2002; Kahan and Rock, 2002; Cumming et al., 2015), thereby offering viable exit strategies for investors in illiquid crowdfunding assets. Jagannathan and Pritchard (2017) argue that Delaware's legal framework, by facilitating mergers and acquisitions (M&A), also mitigates managerial entrenchment by making it easier for control of the firm to change hands. In Delaware, a merger must be approved by a simple majority of voting shares, whereas in states like Texas and Ohio, a two-thirds majority is required.[7]

This efficient market for corporate control, facilitated by Delaware's legal environment, makes it more challenging for managers to become entrenched, as underperforming managers face the possibility of the firm being acquired by another firm that can manage its resources more efficiently. Consequently, the potential for M&A acquisitions serves as a disciplinary mechanism for managers, aligning their interests more closely with those of the shareholders. Structuring the company to

[5] Incorporating in Delaware is frequently touted for its legal and tax advantages, particularly for large corporations that can establish shell companies to create Passive Investment Companies that shift income to Delaware and avoid taxes on intangible assets (Dyreng et al., 2013). However, for small businesses or those operating primarily outside Delaware, the benefits are unlikely and could be outweighed by additional costs and dual-compliance complexities.

[6] Alternatively, Bebchuk et al. (2002) argue that Delaware firms might be worth more because better-managed companies choose to incorporate in Delaware. This theory does not fit with the small-firm/large-firm difference identified in this article and that of Subramanian (2004). That is, it needs to be clarified from this theory why well-run small firms should choose to incorporate in Delaware, and well-run large firms should not choose to incorporate there.

[7] https://corpgov.law.harvard.edu/2016/10/20/voting-standards-are-not-that-standard/. Moreover, Delaware law allows different classes of stock to vote together on various issues, unlike other states; see, e.g., https://www.wsgr.com/en/insights/delaware-court-of-chancery-issues-important-ruling-for-multi-class-companies-addressing-class-votes.html.

appeal to potential acquirers—whether through Delaware incorporation, strong intellectual property protections, or a clean capitalization table—can be a relevant strategic decision even for crowdfunding firms. Venture capitalists and other investors backing young ventures often view M&A as potential exit strategies, and they are likely to favor leadership that considers how their decisions might influence future M&A opportunities (Waisman et al., 2009).

Jagannathan and Pritchard also provide empirical evidence that Delaware firms are more likely to terminate CEOs and directors, particularly after poor performance. Frequent changes in management (or the threat thereof) can be especially valuable for early-stage ventures, which must quickly adapt to shifting market conditions, unexpected challenges, different stages of the business lifecycle, and emerging opportunities. Investors often regard flexibility in the management team as a positive indicator of the company's ability to adapt to changing circumstances. A company willing to change its leadership to better meet its needs is perceived as more resilient and forward-thinking.

This institutional perspective is complemented by signaling theory (Spence, 1978; Bafera and Kleinert, 2023), which posits that one party must strategically communicate information to another to alleviate the effects of asymmetric information. Strategic legitimacy, as described by Suchman (1995), involves intentionally using symbols and practices to garner societal support and navigate the uncertainties inherent in the business environment. We propose that Delaware's legal environment functions as a strategic alignment with established institutional norms, effectively signaling strong governance and legal compliance to potential investors. This alignment not only aids in resource acquisition but also enhances the firm's standing in the eyes of investors who may harbor uncertainties about its future prospects. This signal is likely recognized by regulation crowdfunding investors, given that approximately 80 % of the invested capital in the U.S. market originates from accredited investors, as reported in a 2020 study by Crowdfund Capital Advisors (Crowdwise, 2020).

Delaware imposes an annual franchise tax on corporations, which can vary widely depending on the number of authorized shares or the assumed par value of capital, with fees ranging from a minimum of $175 to over $200,000 (Delaware Department of State: Division of Corporations, n.d). For LLCs, Delaware charges a flat annual fee of $300 (Manesh, 2011). These fees do not differ significantly from that of other states; however, some states, such as California require any company doing business within the state, regardless of where it is incorporated, to pay an $800 annual franchise fee (Lobb and Plewe, 2021). This out-of-state business tax, when combined with Delaware's franchise tax becomes a direct cost discouraging firms from incorporating out of state. The signaling cost of Delaware incorporation also extends beyond these immediate financial obligations. Companies incorporated in Delaware but operating elsewhere must comply with both Delaware law and the laws of the state in which they conduct business, increasing administrative and legal expenses that might not be necessary if the company was incorporated in its home state. Additionally, Delaware's legal system is highly specialized, often necessitating the engagement of attorneys with specific expertise in Delaware corporate law. These legal services tend to be more costly than general legal counsel, signaling that the company is committed to investing in high-quality legal advice and is serious about governance and long-term sustainability.

Lastly, Delaware's corporate law environment fosters a culture where shareholder litigation is more prevelant and subject to greater public scrutiny by the media and academia, further deterring lower-quality firms and reassuring investors (Macey and Miller, 1986; Iacobucci, 2004; Iacobucci and Triantis, 2007). Delaware statutes provide robust mechanisms for shareholder actions, such as derivative suits, enabling investors to hold directors and officers accountable for breaches of fiduciary duty, regardless of the directors' location (Delaware Code, n.d) (Title 10, Section 3114). Furthermore, Delaware law grants shareholders the right to inspect corporate books and records without onerous ownership requirements (Delaware Code, n.d) (Title 8, Section 220). In the context of equity crowdfunding, where legal precedents regarding fraud are still developing, and the legal framework for combating fraud remains underdeveloped (Cumming and Johan, 2019; Heminway, 2021), incorporating in Delaware sends a powerful signal. It demonstrates a commitment to rigorous corporate governance standards, offering a competitive advantage in crowdfunding campaigns that is difficult for lower-quality firms to emulate.

The interplay between these forms of legitimacy—regulatory, pragmatic, and strategic—offers a robust framework for understanding how early-stage ventures can position themselves effectively within the crowdfunding ecosystem. By strategically choosing Delaware for incorporation and demonstrating a strong commitment to governance and ethical practices, these ventures are better equipped to overcome the inherent challenges of newness and resource constraints, thus enhancing their ability to attract essential capital and investor support. Thus we propose that Delaware incorporation, as a signal of credibility and commitment to high standards, increases the likelihood of success in equity-based crowdfunding campaigns.

Hypothesis 1. Incorporation in Delaware increases the probability of a successful equity-based crowdfunding offering.

2.2. Firm size dynamics

While the prior section hypothesizes that all crowdfunding firms, irrespective of size, benefit from the legal protections and reputational advantages Delaware incorporation offers, the value of this signal may be disproportionately greater for smaller firms, where the stakes of signaling legitimacy are higher and the costs of doing so are more substantial relative to their limited resources.

Smaller firms, often at the earliest stages of their development, face acute challenges. They typically lack the operational history, and networks that even larger crowdfunding firms may have already established. For these smaller entities, Delaware incorporation serves not merely as a best practice but as a necessary step to bridge the gap between their inherent opacity and the level of trust needed to secure investor support.

The indirect costs of Delaware incorporation, such as the need to comply with both Delaware and home state laws, demand a level of administrative and legal sophistication that can be challenging for smaller firms to manage. Smaller firms often operate with limited staff and must allocate scarce resources to navigate these complex legal requirements. This further underscores the significance of Delaware incorporation as a costly signal—one that small firms use to convey their seriousness and long-term commitment to potential investors.

The heightened risk of managerial opportunism in small firms also makes the protective legal environment of Delaware particularly valuable. Investors in small firms may be more concerned about governance risks due to the less formalized structures and greater potential for conflicts of interest. Delaware's robust legal framework, known for its efficient resolution of corporate disputes and strong shareholder protections, provides a level of assurance that is particularly crucial for these investors. By choosing Delaware, small firms can effectively mitigate these perceived risks, making them more attractive to investors who might otherwise be hesitant to invest in a less established entity.

Therefore, we hypothesize that while Delaware incorporation enhances the success of equity-based crowdfunding for firms of all sizes, its positive influence is particularly pronounced for smaller firms. For these firms, the need to signal legitimacy and overcome investor skepticism is greater, making the benefits of Delaware incorporation more significant.

Hypothesis 2. The positive influence of Delaware incorporation on the probability of a successful equity-based crowdfunding offering is stronger for smaller firms.

3. Material and methods

This section outlines our data sources and examines the variables that drive equity crowdfunding in the United States. We utilize SEC filings to trace the evolution of the regulated crowdfunding landscape from its inception in 2016 through the end of 2021. We detail our data collection methodology and then elaborate on our dependent and independent variables, focusing on firm-specific characteristics, offering specifics, and financial metrics.

3.1. Description of data

Our dataset is primarily sourced from the SEC's repository of regulated crowdfunding (CF) campaigns and encompasses the regulated CF market from its inception on May 16, 2016, to December 31, 2021. Equity crowdfunding first emerged in Europe and Australia in the late 2000s and early 2010s (Cumming and Johan, 2019). In the United States, the ECF market commenced following the passage of the JOBS Act on April 5, 2012. This bipartisan-supported legislation aimed to stimulate small business expansion by easing existing regulatory constraints incrementally. Title III of the JOBS Act, effective September 2015, broadened the scope of equity crowdfunding to include non-accredited investors, allowing firms to initiate regulated capital raising to a broad set of investors beginning May 16, 2016.

In order to participate in this market, firms must collaborate with an SEC-registered financial intermediary platform and file an offering statement (Form C) with the SEC, which becomes publicly available (example at https://www.sec.gov/files/formc.pdf).[8] As part of its market oversight, the SEC compiles data on all U.S. regulation crowdfunding offerings, issuing quarterly reports. Following Rossi et al. (2021),[9] our data collection process involved scrutinizing Form C filings from the Electronic Data Gathering Analysis and Retrieval System (EDGAR) to extract relevant information on firm finances, characteristics, and offering details such as the minimum offering amount.

We further resolved anomalies in our dataset, such as retracted offerings and duplicate Form-C submissions. We choose to treat retracted offerings as unsuccessful crowdfunding attempts, except when a withdrawal notice (Form C-W) was filed shortly after the initial registration, in which case we exclude the offering from the dataset altogether.[10] Regulatory requirements mandate that each entity files a Form C-U to update on a campaign's progress within five days of reaching 50 % and 100 % of its minimum target offering. A concluding filing is required upon campaign closure, irrespective of the funding outcome. For campaigns with unreported Form C-Us or indeterminate fundraising totals that remained open for investment, we supplemented our dataset with data from KingsCrowd, a subscription service, and manually from the various platform websites.

Regulation CF crowdfunding offers a wide array of security types, classified as 'common stock', 'preferred stock', 'debt', and 'other'. Within the 'other' category, we distinguish between equity-type and debt-type securities. Our analysis focuses on equity offerings, excluding 'debt', 'token', 'revenue share', and other non-equity offerings, yet retaining hybrid equity forms such as Simple Agreements for Future Equity (SAFE) (Parra and Winter, 2022) and preferred stock. This selective approach mirrors that of Rossi et al. (2021), aiming for a broad equity crowdfunding classification.

We have ensured data reliability through extensive data validation and cleaning processes, checking for inconsistencies and missing values. Despite these efforts, our dataset has limitations, notably the ongoing fundraising for some campaigns beyond the cut-off date of August 1, 2022, which could lead to underreported total funding in later periods. A robustness check, excluding these campaigns, revealed no impact on our findings. Our analysis dataset consists of 3539 equity campaigns launched between May 2016 and December 2021, providing a substantive foundation for examining institutional quality and its relationship with crowdfunding campaign outcomes.

The Equity Crowdfunding Tracker at Florida Atlantic University offers an up-to-date version of our data.[11] The tracker provides interactive visualizations of campaign counts, capital raised, success rates, security types, and firm and platform characteristics.

3.2. Dependent variables

Our primary dependent variable, 'Success', adheres to the definition posited by Ahlers et al. (2015), which considers a campaign successful if it meets or exceeds its stated capital target (offering amount). This binary variable captures the 'all or nothing' nature of crowdfunding success in the U.S. market,[12] following the standard dichotomous treatment of success in crowdfunding research, as explored in studies by Mollick (2014) and Courtney et al. (2017).

Our alternative dependent variables, 'Amount Raised' and 'Amount Raised/Goal', provide a more detailed assessment of campaign performance. 'Amount Raised' quantifies the total capital accumulated by the campaign, aggregated at the quarter level corresponding to the initial Form C filing data. This measure reflects the campaign's absolute financial support, paralleling the financial traction measures used by Lukkarinen and Schwienbacher (2023) in their crowdfunding analysis.

The ratio 'Amount Raised/Goal' signifies the extent to which a campaign surpasses its funding goals. This measure, utilized in prior research such as Vismara (2016) and Ralcheva and Roosenboom (2016), assesses overfunding as an indicator of market validation and investor excitement. It denotes the campaign's efficacy in drawing investment beyond its minimum threshold, shedding light on investor confidence and the venture's perceived promise.

These variables ensure our study is in step with the established research practices in crowdfunding literature, supporting comparative analyses and contributing to the broader discourse on the determinants of crowdfunding success. Table 1 details the variables used in our analysis and their sources, with detailed descriptive statistics provided in Appendix Tables A1–A3.

3.3. Explanatory variable

We observe from the Form C filings whether crowdfunding firms elect to incorporate in Delaware, which may differ from their physical, operational location. We use a binary indicator to signify firms legally domiciled in Delaware. A significant proportion of our sample, 55.8 % (1975 out of 3539 campaigns), are incorporated in Delaware. This high incidence compares similarly to publicly traded firms and underscores Delaware's status as an equally favored jurisdiction choice for startups. In Appendix Table A4, we present an analysis of the distribution of Delaware incorporation across different platforms and security types, indicating a uniform distribution across these categories.

[8] While platforms like StartEngine and WeFunder allow investors to access detailed company information, including the state of incorporation, from the SEC Form C filings (See Fig. A1), this information may not be immediately obvious to all investors.

[9] The sample used by Rossi et al. (2021) consists of 2194 equity-only campaigns. Our sample includes those transactions and more recent ones, comprising 4851 campaigns of all security types.

[10] Campaigns with a C-W filed just a couple of days after the initial filing are removed under the assumption that the entrepreneur changed their mind about the listing and never allowed the campaign to be successful or unsuccessful.

[11] The Equity Crowdfunding Tracker at Florida Atlantic University can be accessed at the following address: https://business.fau.edu/equity-crowdfunding-tracker/.

[12] Per the "all or nothing" rule, the entrepreneur does not keep the capital raised unless their stated fundraising goal is achieved.

Table 1
Variable definitions.

Dependent variables	Description	Source
Success	A dummy variable = 1 for a campaign has raised an amount that meets or exceeds its offering amount.	Multiple Sources
Amount Raised	The natural logarithm of the total dollar amount raised by a crowdfunding campaign.	Multiple Sources
Amount Raised/Goal	The natural logarithm of the ratio between the total dollar amount raised and the campaign's funding minimum offering amount, reflecting the relative success of the crowdfunding effort.	Multiple Sources
Explanatory Variable		
Delaware Incorporation	A dummy variable = 1 for a firm that files with incorporation jurisdiction of 'Delaware'	SEC.gov
Moderator Variable		
Delaware × Employees	An interaction term, where Delaware =1 for a firm that files with incorporation jurisdiction of 'Delaware' multiplied by the number of employees at the firm during the filing of the crowdfunding campaign.	SEC.gov
Control Variables		
Offering Amount	The natural logarithm of the minimum target offering amount of a campaign; the amount raised may exceed the offering amount, indicating overfunding.	SEC.gov
Firm Age	The firm's age in years at the time of the crowdfunding campaign's filing, adjusted for right skew by applying a natural logarithm transformation.	SEC.gov
Number of Employees	The number of employees at the firm during the filing of the crowdfunding campaign, adjusted for outliers by winsorizing the upper tail at the 5 % level.	SEC.gov
LLC	A dummy variable = 1 if the firm is a Limited Liability Corporation (LLC); all other types of firm structures, such as C corporations, S corporations, partnerships, sole proprietorships, etc. = 0.	SEC.gov
Post-Revenue	A dummy variable = 1 for a firm that has reported positive revenue in the previous fiscal year at the time filing.	SEC.gov
ROA	A measure of net income as a percentage of the firm's total assets for the previous fiscal year at the time of filing, adjusted for outliers by winsorizing at the 5 % level.	SEC.gov
Total Debt-to-Assets	The sum of short-term debt and long-term debt as a percentage of the firm's total assets for the previous fiscal year at the time of filing, adjusted for outliers winsorizing at the 5 % level.	SEC.gov
Underwriting Fee	Administration fees as a percentage of compensation to be to the intermediary/platform for listing the campaign.	SEC.gov
Financial Interest Fee	The percentage of direct or indirect interest held by the intermediary/platform in a campaign (ownership stake).	SEC.gov
Platform Popularity	The natural logarithm of the count of the number of successful campaigns on the campaign's platform in the six months prior to the campaign's listing.	SEC.gov
Unemployment Rate	Represents the number of unemployed people as a percentage of the labor force (labor force is the sum of the employed and unemployed). This is calculated monthly for each state in which the firm is physically located.	Bureau of Labor Statistics
Population	The natural logarithm of the annual number of residents in a state. This is matched with the state in which the firm is physically located.	FRED Economic Data
Instrument Variable		
Number of Firms Incorporated in State	The natural logarithm of the number of US public firms incorporated in a state. This is matched with the home state of the crowdfunding firm.	Compustat
Model Act	A dummy variable = 1 for a firm located in a state which has adopted the Model Act. This is matched with the home state of the crowdfunding firm.	American Bar Association

3.4. Deal characteristics

In our study, 'Offering Amount' is an important control variable, especially relevant in the 'all-or-nothing' funding model adopted by U.S. ECF platforms. The 'Offering Amount' reflects the entrepreneur's stake in the venture's future. Echoing the findings of Leland and Pyle (1977), the extent of the entrepreneur's personal investment is a strong positive signal of their conviction in the venture's potential. A lower offering amount might thus be perceived as an indicator of an entrepreneur's confidence, likely because it suggests that they retain a significant equity stake, signaling a robust commitment to the venture's future success. In contrast, setting a higher offering amount may inadvertently signal an attempt by the entrepreneur to offload risk onto investors, which could negatively influence the campaign's success rate. Furthermore, a modest offering amount may render the funding target more attainable, enhancing the likelihood of campaign success. Empirical evidence from Ahlers et al. (2015) and Vismara (2016) supports the view of an inverse relationship between equity offered and crowdfunding success.

3.5. Firm-level control variables

We control for 'Firm Age' to reflect maturity and its potential impact on investor perceptions. Older firms might enjoy reduced information asymmetry, leveraging their track record to suggest lower risk (Jensen and Meckling, 1976). These firms usually possess established relationships and historical data, acting as proxies for stability and reliability in the eyes of investors. Conversely, while potentially viewed as more innovative, younger firms may also represent riskier investments due to their untested business models (Stinchcombe, 1965). 'Firm Age' thus helps parse out how a firm's maturity influences crowdfunding dynamics.

'Number of Employees' is a proxy of firm size and an indicator of firm resources. The SEC and other regulatory agencies worldwide use the number of employees to classify between small and large firms (U.S. Securities and Exchange Commission, 2015; World Economic Forum, 2024). Incorporating the perspectives on firm size from resource-based theory (Barney, 1991), we suggest that the breadth of internal resources and capabilities has distinct implications for firms engaged in equity crowdfunding. Smaller firms may encounter challenges due to less extensive networks and operational capabilities, potentially impacting their ability to raise funds effectively (Horvat and Papamarkou, 2017).

We account for 'LLC' status – a dummy variable – as a control to parse the influence of tax efficiency and operational agility on crowdfunding campaign success. LLCs, distinguished by their pass-through

taxation, offer investors tax benefits by avoiding the double taxation faced by corporations (Hamill, 2005) potentially enhancing the net gains from crowdfunding ventures. Alternatively, investors may prefer corporations over LLCs because it is difficult to sell or transfer membership or ownership in an LLC (Haskins, 2024). In Appendix Table A5, we perform robustness regressions for a sub-sample of C-corporations and, separately, LLCs.

3.6. Financial control variables

Financial statement disclosures are integral to the investment decision-making process, providing a foundation for investor confidence by reducing informational asymmetry. Lee et al. (2014) highlight the importance of accounting disclosure in equalizing access to information, particularly for less sophisticated investors. Within the regulation CF crowdfunding context, where firms are required to disclose two years of annual financial statement data, these disclosures are meaningful for investors seeking to assess the feasibility and fiscal health of prospective investments. Consequently, we control for three financial metrics to gauge a firm's financial health: (1) revenue generation, (2) return on assets, and (3) debt-to-asset ratio.

Our first financial measure, 'Post-Revenue' status, is a binary variable indicating whether a firm has generated sales in the previous fiscal year, which is a testament to market validation and operational efficacy. The presence of revenue signals the soundness of a company's business model, which may be a crucial investor consideration (Signori and Vismara, 2018).

Second, the 'Return on Assets (ROA)' ratio assesses how efficiently a firm uses its assets to generate earnings. A higher ROA indicates effective management and utilization of assets, which can enhance investor confidence in the firm's operational capabilities and strategic asset management.

Third, the 'Total Debt to Assets' ratio provides insight into a firm's financial leverage and capacity to manage debt obligations through its assets. This ratio is particularly relevant for assessing a firm's financial stability and risk level. A high ratio may indicate liquidity challenges or distress, which may deter potential investors due to insolvency risks.

Despite the potential relevance of these measures found in some papers, there is other literature (Cumming and Hornuf, 2022; Lukkarinen et al., 2016) that suggests that investors may not always consider financial information as pivotal in their investment decisions. Instead, other factors, such as the entrepreneurs' human capital or even the complexity of a firm's logo in gauging investment quality (Piva and Rossi-Lamastra, 2018; Mahmood et al., 2019), may play a more significant role.

3.7. Platform control variables

Since 2016, >65 equity crowdfunding platforms have emerged in the U.S. market, each unique in its operational specifics (Dushnitsky et al., 2016; Dushnitsky and Fitza, 2018; Dushnitsky and Matusik, 2019; Rossi and Vismara, 2018; Zunino et al., 2022). Underwriting commissions, which average around 6 % in the United States, mirror those of IPOs but present a nuanced cost structure that can affect the attractiveness of offerings from capital-constrained firms (Chen and Ritter, 2000).

The 'Underwriting Fee' variable gauges the immediate financial burden placed on crowdfunding firms by platforms. The variable represents the intermediary's compensation from listing a campaign (often contingent on success). While facilitating platform operations, these fees can diminish the net capital that firms ultimately retain, potentially discouraging investors if they deem capital allocation inefficient Barry et al. (1991). The recent work by Dushnitsky et al. (2022) and Johan and Reardon (2024) underscore the importance of these fees, necessitating their inclusion as control variables in our analysis.

Additionally, platforms may hold financial stakes in the firms they support. Our variable, 'Financial Interest Fee', measures the ownership stake taken by the intermediary. Such stakes may endorse a firm through rigorous due diligence, signaling a platform's conviction in the firm's prospects (Kleinert et al., 2022). However, these stakes could impose long-term financial costs and influence the firm's operational decisions.

Last, to control for the confounding effect of platform popularity, we create the variable 'Platform Popularity', which is the count of successful campaigns on a platform within the six months preceding a campaign's launch. This variable is a proxy for the platform's market presence and perceived credibility among investors. A higher count of successful campaigns also implies higher traffic, which may amplify visibility and, by extension, increase the probability of funding success.

3.8. Time fixed effects

By incorporating time-fixed effects, we also control for temporal variations and evolving market conditions that could affect crowdfunding outcomes. This approach acknowledges that market dynamics, investor sentiment, and regulatory landscape shifts can impact campaign performance.

4. Descriptive statistics

Our initial analysis reveals that 66.5 % of firms (2353 out of 3539) successfully achieved their crowdfunding goals. On average, successful campaigns raised $399,793. Fig. 1 presents a consistent rise in the average quarterly success rate from Q2 2016 to Q4 2021, with the success rate exceeding 70 % over the last seven quarters ending in 2022. This trend points to a maturing equity crowdfunding market or growing investor confidence during this period.

Table 2 compares the sample means between successful and unsuccessful campaigns across different offering characteristics. We examine these characteristics further in Appendix Tables A1 and A2, which provide additional descriptive statistics and raw variables. *t*-Tests on these means reveal a negative association between the offering amount and success, suggesting that lower financial targets correlate with higher success rates or that ownership retention by entrepreneurs signifies quality, aligning with existing literature.

Our data also shows a positive relationship between crowdfunding success and firm age and size, as measured by the number of employees. This finding suggests that investors favor more established ventures with greater resources, supported further by correlations in Table A3 of the Appendix. Such firms are likely perceived as having more robust infrastructures and market experience, reducing investment risks (Ouimet and Zarutskie, 2014; Hornuf et al., 2018).

Moreover, *t*-test results indicate that firms in the post-revenue phase with existing debt are more likely to run successful campaigns, hinting that investors view revenue generation as one marker of market validation and are willing to tolerate higher debt levels for such proven companies.

Regarding platform-specific characteristics, ownership stakes and underwriting fees show significant variation, with most platforms holding between 0 % and 7 % in financial interest and charging underwriting fees ranging from 0 % to 5 %, excluding outliers. This variance suggests that while platform fees and stakes differ, most operate within a defined range.

Fig. 2 depicts the growth of the U.S. equity crowdfunding market, illustrating an increase in both the number of new campaigns and total capital raised, amounting to $944,501,229 between Q2 2016 and Q4 2021. The market's expansion, especially notable after the onset of COVID-19 in the spring of 2020, underscores crowdfunding's resilience and potential benefits over traditional lending markets during uncertain times (Reardon, 2024).

Lastly, our preliminary findings show that firms incorporated in Delaware achieve crowdfunding success at a rate 14 % higher than their counterparts. Fig. 3 offers a comparative view of success rates, where Delaware-incorporated firms consistently outperform those

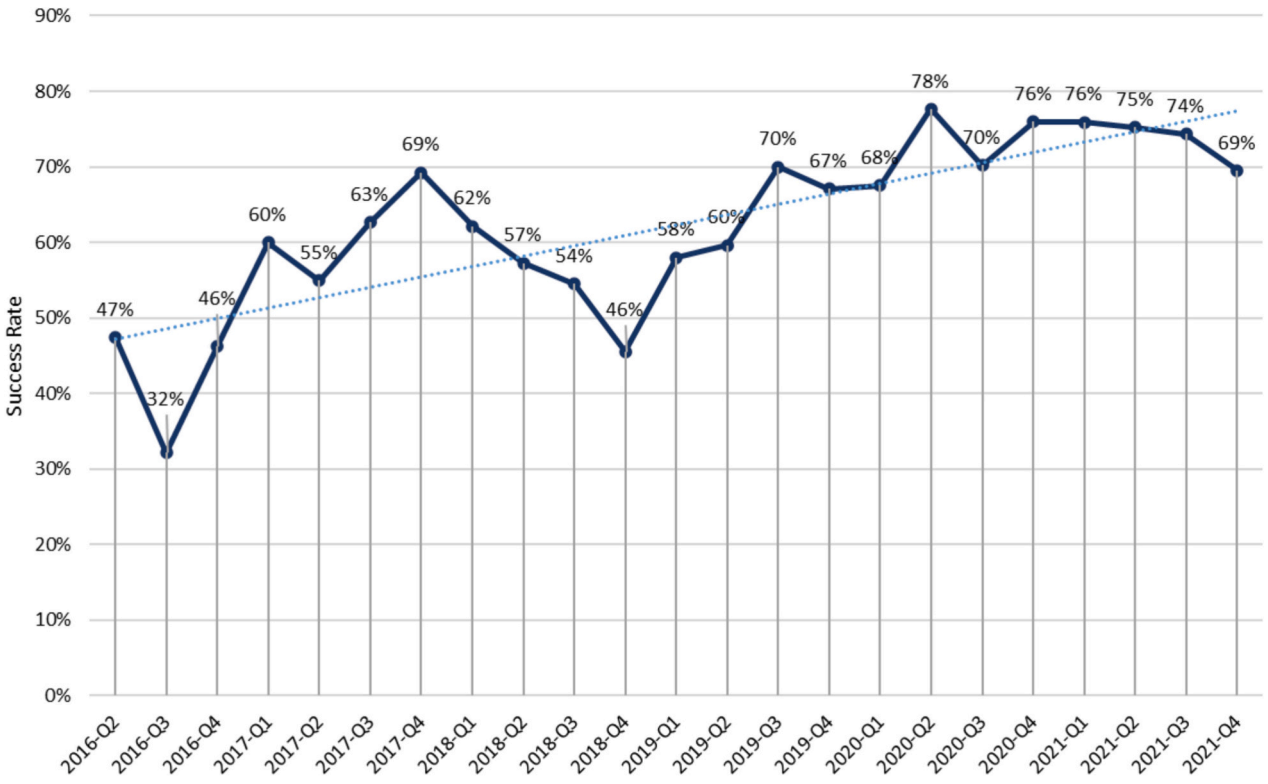

Fig. 1. Equity crowdfunding trend in average success rate.
This figure depicts the quarterly trend in success of crowdfunding campaigns by plotting the success rate, defined as the ratio of successful campaigns to the total number of new campaigns launched each quarter, from Q2 2016 through Q4 2021.

incorporated elsewhere. This pattern is preliminary evidence that Delaware's legal environment may confer advantages that resonate with crowdfunding investors.

5. Multivariate analysis and results

This section presents multivariate tests that examine our hypothesized positive relationship between Delaware incorporation and campaign fundraising success. In Section 5.1, we motivate our instrument variable approach using mimicking variables to control against endogeneity. Section 5.2 discusses the results of our analyses, while Section 5.3 offers robustness checks against alternative constructions of our mimicking variables and excluding preferred stock offerings.

5.1. Instrument variables

Potential endogeneity concerns arise from the relationships between Delaware incorporation and crowdfunding success, as well as between the offering amount and success. Firms that choose to incorporate in Delaware may inherently possess characteristics—such as superior management, access to better funding, or more ambitious growth strategies—that independently contribute to their likelihood of success in crowdfunding campaigns. This simultaneity between the decision to incorporate in Delaware and the factors driving success could lead to biased estimates if not properly addressed. Similarly, the offering amount in a crowdfunding campaign is a strategic decision that may be influenced by anticipated success while also potentially influencing that success. Firms may set higher targets based on favorable conditions or past successes, creating a reciprocal relationship that could distort the true impact of offering amounts on crowdfunding outcomes.

To mitigate these endogeneity issues, we find several plausible instrumental variables (IVs) that are uncorrelated with success but that prior research suggests are predictors of Delaware incorporation.

First, the antitakeover protection index (Bebchuk and Cohen, 2003), assigns each state a score from 0 to 5, reflecting the number of standard antitakeover statutes in place. This index is relevant because it captures a state's propensity to provide a pro-manager legal environment, which could influence a firm's decision to incorporate in Delaware, especially if it originates from a state with weaker antitakeover protections. The relevance of this instrument is supported by studies such as Waisman et al. (2009) and Xu et al. (2024), which successfully used antitakeover statutes as an IV to predict Delaware incorporation.

While our models are robust to the use of antitakeover statutes as an IV, both theoretical and empirical challenges exist.[13] Daines (2002) provides a compelling argument that the number of firms incorporated in a state and the adoption of the Model Business Corporation Act are more reliable predictors of Delaware incorporation. He finds that as the number of firms incorporated in a state increases, the state's corporate law gains network benefits, such as more litigation that clarifies the law, better-trained judges, and cheaper legal advice. These network effects enhance the value of the state's legal regime, making firms more likely to remain incorporated in their home state rather than migrate to Delaware. Daines also discusses the importance of the Model Business Corporation Act, which has been adopted by roughly half of the states. This Act may serve as a corporate law network by tapping into a wide body of precedent and commentary, thereby clarifying legal rules and reducing the cost of legal advice. Daines finds that firms are more likely to stay in their home state if that state has adopted the Model Act, which suggests that the Act's substantive rules and network benefits are valued by firms. We use both the number of firms in the home state and a Model Act dummy variable as instruments in our regressions.

[13] Using the antitakeover index as an instrument variable led to large standard errors biasing the coefficient on Delaware incorporation in the 2SLS model, albeit still maintaining significance.

Table 2
Descriptive statistics & comparison of successful vs. unsuccessful campaigns.

	Full Sample		Successful Campaigns		Unsuccessful Campaigns		Mean Difference	p-value
Number of Observations	3,539		2,353		1,186			
Explanatory Variable	**Mean**	**Std Dev**	**Mean**	**Std Dev**	**Mean**	**Std Dev**		
Delaware Incorporation	0.56	0.50	0.61	0.49	0.46	0.50	0.14	0.00***
Deal Characteristics								
Offering Amount	10.33	1.17	10.19	1.05	10.61	1.32	-0.43	0.00***
Firm-Level Control Variables								
Firm Age	1.14	0.71	1.21	0.70	1.02	0.72	0.19	0.00***
Number of Employees	4.99	5.19	5.44	5.41	4.09	4.60	1.35	0.00***
LLC	0.24	0.43	0.21	0.41	0.29	0.45	-0.08	0.00***
Financial Control Variables								
Post-Revenue	0.53	0.50	0.57	0.50	0.44	0.50	0.13	0.00***
ROA	-1.69	3.24	-1.72	3.17	-1.63	3.39	-0.09	0.47
Total Debt-to-Assets	2.34	4.59	2.41	4.54	2.22	4.69	0.19	0.25
Platform Control Variables								
Underwriting Fee	6.13	1.75	6.17	1.71	6.02	1.83	0.15	0.01**
Financial Interest Fee	0.83	1.27	0.88	1.21	0.74	1.37	0.14	0.00***
Platform Popularity	3.34	1.48	3.62	1.77	2.78	1.21	0.84	0.00***

This table reports descriptive statistics and a two-tailed t-test for our regression variables. The *t*-test is applied to compare the means between successful and unsuccessful campaigns and when appropriate we use the unequal variance (Welch) *t*-test. ***, **, and * indicate statistical significance at the 1 %, 5 %, and 10 % levels, respectively.

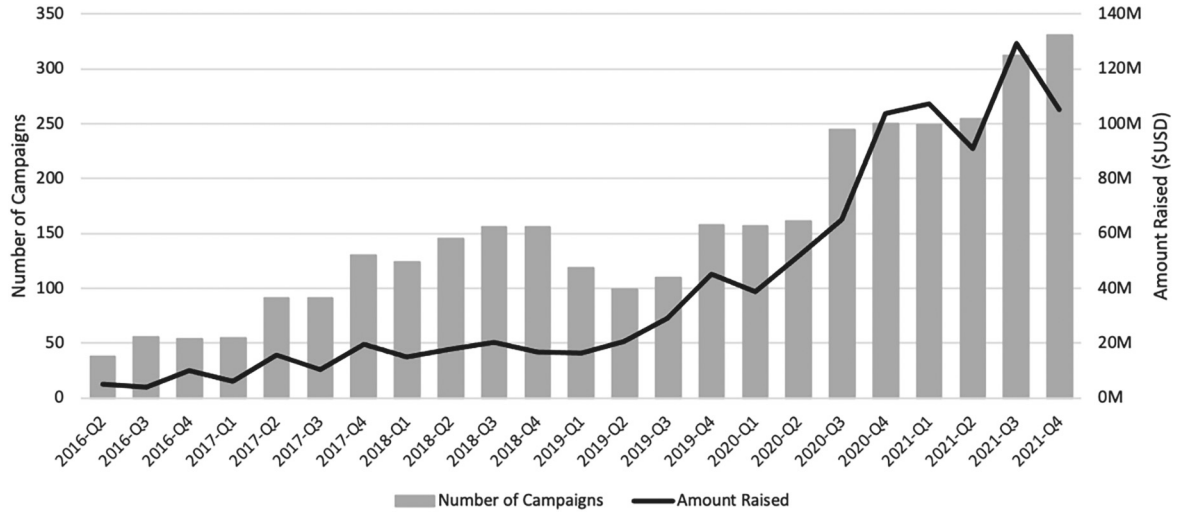

Fig. 2. Equity crowdfunding amount raised in the U.S.
This figure shows the evolution of the U.S. equity crowdfunding market over the period from Q2 2016 to Q4 2021. The primary y-axis displays the total number of new campaigns initiated in each quarter, while the secondary y-axis shows the corresponding total funds raised in each quarter, with data current as of August 1st 2022.

In addition, we address the endogeneity of the offering amount through a mimicking variable. This approach is informed by prior research, where firms are observed to replicate successful strategies from their peers. Deephouse and Carter (2005) utilized similar constructs in examining organizational legitimacy, while Bertoni et al. (2014) and Cumming et al. (2019) applied this technique to analyze IPO strategies and crowdfunding behaviors, respectively. The mimicking variable is constructed by calculating the average offering amounts from comparable successful offerings in the recent past, reflecting the strategic decisions made by firms aiming to emulate the financial targets of previously successful campaigns. This variable correlates with the endogenous offering amount, aligning with the relevance criterion, yet

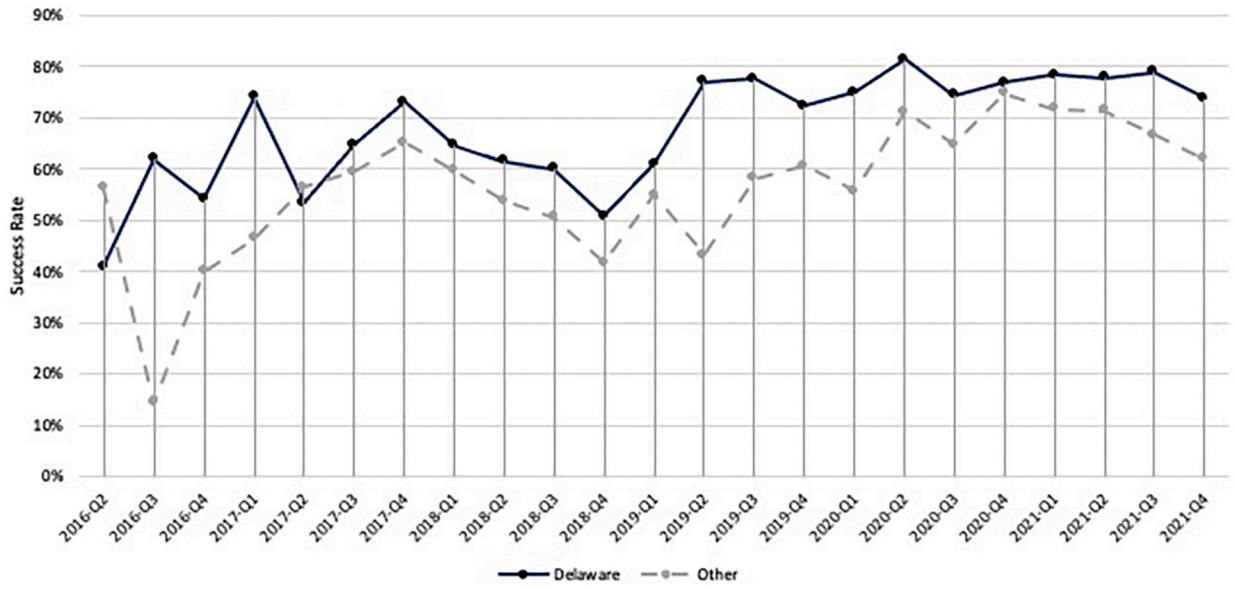

Fig. 3. Equity crowdfunding trend in average success rate for Delaware jurisdiction.
This figure illustrates the quarterly success rates of firms, comparing those incorporated in Delaware (solid line) to those incorporated in other states (dotted line). The success rate for each quarter is calculated as the proportion of successful campaigns out of the total number of new campaigns launched in that quarter, spanning from Q2 2016 to Q4 2021. (For interpretation of the references to color in this figure legend, the reader is referred to the web version of this article.)

Table 3
Regression analysis on success.

	(1) Success		(2) Success		(3) Success	
	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic
Explanatory Variable						
Delaware Incorporation	0.060***	3.39	0.062***	3.42	0.180***	3.25
Deal Characteristics						
Offering Amount	−0.069***	−10.16	−0.060***	−6.15	−0.191***	−6.12
Firm-level Control Variables						
Firm Age	0.034***	3.08	0.034***	3.00	0.110***	3.05
Number of Employees	0.005***	3.85	0.005***	3.58	0.016***	3.52
LLC	0.009	0.46	0.007	0.35	0.024	0.38
Financial Control Variables						
Post-Revenue	0.024	1.42	0.026	1.53	0.077	1.48
ROA	0.002	0.64	0.002	0.56	0.005	0.61
Total Debt-to-Assets	−0.002	−0.82	−0.002	−0.82	−0.005	−0.80
Platform Control Variables						
Underwriting Fee	−0.030***	−5.81	−0.027***	−5.39	−0.085***	−5.25
Financial Interest Fee	0.026***	4.08	0.026***	4.06	0.081***	4.13
Platform Popularity	0.083***	12.59	0.082***	12.62	0.236***	11.93
Macro & Fixed Effects						
Unemployment Rate	0.002	0.28	0.002	0.27	0.006	0.32
Population	0.001	0.07	0.002	0.22	0.005	0.19
Time Fixed Effects?	Yes		Yes		Yes	
Number of Observations	3527		3489		3489	
Root MSE	0.435		0.435			

This table reports the results of the two-stage least squares (2SLS) regression analysis, incorporating time fixed effects to determine the factors influencing *Success*, our dependent variable. The instrumental variables employed are 'the number of firms incorporated in state', 'Model Act', and 'mimicking offering amount'. Specifically, 'mimicking Delaware' represents the proportion of firms that were successfully incorporated in Delaware, while 'mimicking offering amount' reflects firms possible desire to mimic the offering amounts from comparable past successful campaigns. Model (1) utilizes the 'the number of firms incorporated in state' and 'Model Act' variables as instruments for *Delaware Incorporation*; Model (2) utilizes both the Delaware instrument variables and 'mimicking offering amount' as an instrument for *Offering Amount*; and Model (3) applies an IV Probit approach instead of the standard 2SLS method. Standard errors are clustered by quarter and state across all models. ***, **, and * indicate statistical significance at the 1 %, 5 %, and 10 % levels, respectively.

remains exogenous to the current campaign's unobserved determinants of success, fulfilling the exclusion criterion.

To validate our instruments and confirm the presence of endogeneity, we utilize the Durbin-Wu-Hausman test to compare IV and OLS estimates, ensuring the suitability of our IV approach, specifically the two-stage least squares (2SLS) regression. Additionally, the Stock-Yogo test assesses our instrument's strength in the 2SLS regression's first stage (Stock and Yogo, 2005). Our proposed variables show significant F-statistics, confirming their robustness as instruments.

Karpoff and Wittry (2018) argue that a firm's institutional and legal context has first-order effects on outcomes, especially when using state-level variables like antitakeover laws for identification. To account for the broader institutional and legal context that could influence both incorporation decisions and campaign success, we include the control variables 'Unemployment Rate' and 'Population'. Anecdotal evidence suggests that equity crowdfunding campaigns physically located in densely populated states and in areas with higher unemployment tend to raise more funds and achieve higher success (Hervé et al., 2019; Lazos, 2024).

5.2. Multivariate regressions

The regression analyses in Table 3 provide empirical support for this study's theoretical propositions, particularly underscoring the impact of Delaware incorporation on crowdfunding success, consistent across all models. Interpreting the economic significance of our linear probability model, we assert that incorporating in Delaware increases the probability of a successful campaign by approximately 6.1 %.

While Delaware incorporation is our primary concern, its significance is part of a more comprehensive set of factors that contribute to the probability of crowdfunding success. Among our controls, we observe that firm age and the number of employees positively correlate with success, implying that investors may favor companies with a longer track record and those with a perceived advantage in mobilizing their human capital to create value (Nitani et al., 2019). Conversely, the negative correlation between offering amount and success indicates that investors prefer campaigns with more attainable targets. This relationship could also reflect investor confidence in entrepreneurs who maintain a larger equity stake, interpreting it as a commitment to their business's future success.

The insignificance of financial variables, such as 'Post-Revenue' and 'ROA,' in predicting success may suggest that investors prioritize growth potential and strategic choices over immediate financial metrics. There is also not enough evidence to conclude that financial variables collectively significantly impact on success. However, the sometimes negative significance of 'Debt-to-Assets' could imply that investors are willing to accept heightened risk in their investments.

The significance of fees associated with platforms suggests that the immediate financial burden of underwriting fees could deter investors and that financial interests taken by platforms may send a positive signal of campaign quality to investors about a particular campaign. Moreover, a platform's popularity is positively associated with success, highlighting the importance of selecting a reputable platform, and possibly the role of network effects in attracting investors.

Table 4
Regression analysis on fundraising outcomes.

	(4) Amount raised		(5) Amount raised		(6) Amount raised/goal	
	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic
Explanatory Variable						
Delaware Incorporation	0.757***	3.50			0.260***	4.87
Predicted Delaware			0.654**	2.55		
Deal Characteristics						
Offering Amount	−0.380***	−4.62	−0.040	−0.18		
Firm-level Control Variables						
Firm Age	0.442***	3.24	0.357**	2.12	0.172***	4.41
Number of Employees	0.089***	5.28	0.076***	3.50	0.035***	7.46
LLC	−0.008	−0.03	−0.063	0.54	−0.177***	−3.35
Financial Control Variables						
Post-Revenue	0.251	1.22	0.106	−0.30	−0.016	−0.29
ROA	0.031	0.95	0.024	0.78	0.004	0.61
Total Debt to Assets	−0.025	−0.97	−0.024	−1.06	−0.018***	−3.10
Platform Control Variables						
Underwriting Fee	−0.372***	−6.04	−0.218**	−1.99	−0.008	−0.51
Financial Interest Fee	0.376***	4.61	0.382***	3.58	0.142***	5.70
Platform Popularity	1.078***	13.83	0.684**	2.51	1.589***	10.11
Macro & Fixed Effects						
Unemployment Rate	0.019	0.30	−0.004	−0.06	−0.003	−0.19
Population	0.003	0.04	0.037	0.44	0.033	1.51
Inverse Mills lambda			4.249**	2.19		
Time Fixed Effects?	Yes		Yes		Yes	
Number of Observations	3527		3527		3527	
Root MSE	5.164				1.278	

This table reports the results of the two-stage least squares (2SLS) regression analysis, incorporating time fixed effects to analyze the impact of Delaware Incorporation on *Amount Raised* and *Amount Raised/Goal*—the latter being the log ratio of funds raised to the campaign's funding target. Model (4) examines the absolute capital accumulation without consideration to whether the firm failed in the crowdfunding effort, while Model (5) employs a Heckman selection model, controlling for whether a firm was successful or not when assessing the total capital accumulation. Model (6) assesses the relative fundraising success. The instrumental variables in each model are 'number of firms incorporated in state' and 'model act'. Standard errors are clustered by quarter and state across all models. ***, **, and * indicate statistical significance at the 1 %, 5 %, and 10 % levels, respectively.

Our findings suggest that investors value the perceived stability and credibility associated with Delaware incorporation and consider the platform's track record and the firm's organizational choices, which may reflect a strategic alignment with market preferences and norms.

Table 4 explores alternative dependent variable specifications to deepen our understanding of capital formation success in equity crowdfunding. Model (4) examines the total capital raised by campaigns and reveals that Delaware Incorporation significantly boosts the natural log of amount raised by 76 % across all firms. This effect persists even when considering whether a firm was successful or not, with Delaware Incorporation still increasing the natural log of amount raised by 65 % in the Heckman selection model (5).[14] Similarly, Model (6) investigates the 'Amount Raised/Goal' ratio, which measures fundraising efficiency relative to campaign objectives. Once again, Delaware incorporation demonstrates a strong influence, reaffirming its association with crowdfunding success at the 1 % significance level.

Our analysis in Table 5 focuses on how the size of a firm, as proxied by its employee count, interacts with the benefits of Delaware incorporation. We perform our two-stage least squares regression with controls, regressing the interaction term on success and finding a significant negative relationship, which supports Hypothesis 2. This indicates that a higher number of employees diminishes the positive impact of Delaware incorporation on the success of equity crowdfunding campaigns. We also visualize the interaction effects in Fig. 4.

Models 8 and 9 investigate the interaction effects between the number of employees and Delaware incorporation on success. While the number of employees has a positive and significant relationship with success in our primary regressions, the differential impact observed here suggests that the Delaware incorporation is particularly pertinent for the smallest firms acting as a signal of quality and legal stability that compensates for the increased firm risk perceived by potential investors.

This finding aligns with the argument that Delaware's legal framework provides a critical advantage in contexts where transparency and operational history are limited. Smaller firms, which often struggle to establish credibility due to their lack of resources and operational track record, benefit disproportionately from the legitimacy conferred by Delaware incorporation.

Table 5
Regression analysis: relative effects of firm size.

	(7) Success		(8) Success	
	Coefficient	t-Statistic	Coefficient	t-Statistic
Explanatory Variable				
Delaware Incorporation	0.096***	3.85	0.097***	3.89
Delaware × Employees	−0.007***	−2.58	−0.007***	−2.61
Number of Employees	0.010***	4.62	0.009**	4.47
Controls	Yes		Yes	
Time Fixed Effects?	Yes		Yes	
Number of Observations	3527		3489	
Root MSE	0.435		0.435	

This table reports the results of the two-stage least squares (2SLS) regression analysis on *Success*. We introduce a Delaware × Employees interaction term to measure the effect of Delaware incorporation relative to firm size. The models retain the same controls as previous analyses and utilize 'number of incorporated firms', 'Model Act' as instrument variables in Model (7) and additionally 'mimicking offering amount' in Model (8). The analysis continues to control for time fixed effects. Standard errors are clustered by quarter and state across all models. ***, **, and * indicate statistical significance at the 1 %, 5 %, and 10 % levels, respectively.

[14] The Heckman selection model addresses potential selection bias by acknowledging that the analysis of the amount raised might be skewed if we only consider successful campaigns. This model involves a three-step procedure. First, we predict Delaware incorporation using instrument variables, helping to control for the potential endogeneity of the incorporation decision. Second, we estimate the likelihood of campaign success through a Probit model. We predict the amount raised in the third step, incorporating the inverse mills ratio as an additional regressor.

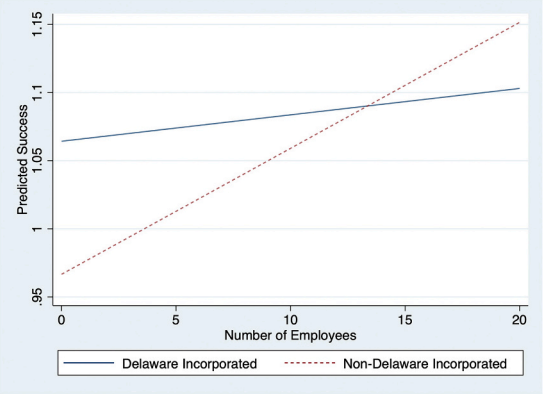

Fig. 4. Moderation effect visualization.
This figure illustrates the moderation effect for the interaction of Delaware Incorporation and Number of Employees on Success (full sample regression model 8). "Success" is modeled as a continuous outcome in the IV regression. The Y-axis exceeding 1 should be interpreted as an indication of the effect's strength rather than a direct probability.

An alternative perspective, suggested by Bebchuk et al. (2002), posits that Delaware firms might be more valuable because better-managed companies choose to incorporate there. However, this theory does not fully account for the differential impact observed between small and large firms in our analysis and that of Subramanian (2004). If the value of Delaware incorporation were primarily a reflection of managerial quality, we would expect to see a more uniform benefit across firms of different sizes. Instead, our results indicate that the positive influence of Delaware incorporation is most pronounced for smaller firms, which suggests that the decision to incorporate in Delaware is not merely a byproduct of existing managerial quality but rather a strategic move to mitigate the inherent risks associated with smaller size and limited operational history.

5.3. Robustness checks

Table 6 validates the robustness of our primary empirical findings by applying various model specifications to examine the consistency of Delaware incorporation's impact on crowdfunding success.

First, Model (9) extends the mimicking period for the offering amount instrumental variable to capture an entire year, thereby reducing potential bias from a limited temporal scope in assessing mimicry behavior.

Model (10) considers an alternative construction of the mimicking variable, matching on platforms and assets instead of platform and age. This shift enables examining strategic behavior based on firms with similar financials.

In Model (11), we refine our sample to focus exclusively on common stock and convertible offerings by excluding 'preferred stock' campaigns. Given the guaranteed dividend characteristic of preferred stock, akin to debt campaigns previously omitted, this exclusion enables an alternative evaluation of equity-only crowdfunding dynamics.

Model (12) utilizes a restricted sample that excludes campaigns completed after the end of the data collection period (<90 campaigns or 2.5 % of the sample). This exclusion criterion aims to eliminate any ambiguity stemming from incomplete data.

Across these varied specifications, the results concur with the primary analysis—Delaware incorporation maintains its positive relationship with crowdfunding success, albeit with slight variations in the magnitude of the coefficients. This stability indicates that the previously

Table 6
Robustness tests.

	(9) Success		(10) Success		(11) Success		(12) Success	
	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic
Explanatory Variable								
Delaware Incorporation	0.052***	2.79	0.057***	3.14	0.059***	3.08	0.061***	3.27
Deal Characteristics								
Offering Amount	−0.053***	−5.21	−0.053***	−4.91	−0.065***	−6.27	−0.058***	−5.93
Firm-level Control Variables								
Firm Age	0.030***	2.58	0.034***	2.99	0.040***	3.28	0.036***	3.07
Number of Employees	0.004***	3.10	0.005***	3.57	0.005***	3.51	0.005***	3.37
LLC	0.001	0.03	0.003	0.15	−0.009***	−0.41	0.007	0.34
Financial Control Variables								
Post-Revenue	0.027	1.54	0.027	1.55	0.024	1.40	0.025	1.46
ROA	0.001	0.42	0.001	0.35	0.001	0.09	0.001	0.47
Total Debt to Assets	−0.002	−1.03	−0.002	−1.08	−0.001	−0.35	−0.001	−0.68
Platform Control Variables								
Underwriting Fee	−0.028***	−5.13	−0.026***	−4.95	−0.027***	−5.03	−0.028***	−5.24
Financial Interest Fee	0.029***	4.39	0.026***	4.03	0.044***	5.92	0.025***	3.83
Platform Popularity	0.082***	12.26	0.081***	12.28	0.087***	12.54	0.079***	11.81
Macro & Fixed Effects								
Unemployment Rate	0.003	0.42	0.003	0.43	0.001	0.09	0.001	0.12
Population	0.001	0.16	0.002	0.24	0.004	0.48	0.002	0.20
Time Fixed Effects?	Yes		Yes		Yes		Yes	
Number of Observations	3324		3433		3099		3399	
Root MSE	0.435		0.436		0.432		0.435	

This table reports the variations in the two-stage least squares (2SLS) regression models to further probe the robustness of the factors influencing crowdfunding success. Model (9) extends the temporal scope of the instrument variable 'mimicking offering amount' to the previous year, capturing a longer-term mimicking sample for a potentially more stable instrumental variable. Model (10) adjusts the construction of the mimicking variable to reflect platform choice and total assets, rather than platform choice and firm age. Model (11) excludes campaigns with 'preferred stock' as their security type. Model (12) focuses exclusively on campaigns that were completed by the time of data collection. Standard errors are clustered by quarter and state across all models. ***, **, and * indicate statistical significance at the 1 %, 5 %, and 10 % levels, respectively.

observed Delaware effect is not sensitive to the choice of model parameters.

6. Conclusion

6.1. Summary of findings

While prior research (e.g., Daines, 2001) highlights Delaware as a jurisdiction of choice for startups due to its corporate-friendly laws and specialized Court of Chancery, Subramanian (2004) and Litvak (2013) have since provided evidence of decreased relevance for IPOs and larger firms. Our study extends the understanding of institutional quality to investigate if Delaware incorporation remains relevant for opaque ventures in equity crowdfunding. By integrating legitimacy and signaling theory, we theorize that Delaware's established legal efficiency, clarity, and protection of shareholder rights mitigate information asymmetries and provide a competitive advantage that legitimizes the business, thereby attracting increased investment from the crowd.

Our dataset, encompassing the complete sample of regulated equity crowdfunding offerings in the U.S. market from its inception in May 2016 through the end of 2021, provides a robust empirical foundation to substantiate these claims. The dataset allows for an extensive evaluation of the Delaware effect and offers a unique look at the U.S. ECF market's evolution. This sample horizon captures the market's nascent stages and progression toward a more mature environment, providing a unique opportunity to observe the interplay between legal frameworks and market dynamics.

Our empirical results find a relationship between Delaware-incorporated ventures and higher success rates. This investigation not only underscores the strategic value of a firm's legal domicile in reinforcing investor trust, particularly in the face of potentially concerning financial metrics, but also reveals how Delaware's legal reputation can differentially benefit the smallest of crowdfunding firms, adding a dimension to our understanding of the interplay between legal domicile, governance, and equity crowdfunding efficacy. Because the impact of Delaware incorporation's signal may be more pronounced for investors with a higher degree of legal knowledge or those who actively seek out this information (Goethner et al., 2021), we suggest that platforms could enhance the transparency of this signal by providing more educational resources and transparency on incorporation to investors.

6.2. Relevance to other legal settings

Delaware's corporate law is particularly attractive to a global audience because it allows for corporate ownership without requiring residents to be based in the United States. This flexibility is beneficial for international investors seeking to invest in or own U.S.-based corporations without the necessity of establishing residence in the country. More importantly, the incorporation attributes of Delaware are echoed in other jurisdictions with similar legal frameworks. Regions offering robust shareholder protections, a well-established rule of law, and efficient enforcement mechanisms may create similar environments that are also conducive to reducing information asymmetries between nascent firms and investors (Langley, 2016; Cumming et al., 2024; and Lazos, 2023). For example, Belgium has recently enacted provisions akin to those of Delaware law, highlighting a trend toward adopting legal frameworks that support equity crowdfunding (American Chamber of Commerce in Belgium, 2018). Additionally, the UK's legal environment

is known for its strong shareholder protections and well-established corporate governance framework, likely contributing positively to the success of equity crowdfunding (Doing Business, 2020).

The rise of blockchain-friendly jurisdictions like Wyoming, which has enacted laws to promote cryptocurrency and blockchain adoption, further demonstrates the evolving landscape of business incorporation and its implications for startups operating in other novel technology sectors (Avan-Nomayo, 2021; Allen et al., 2021).

Finally, we note that Delaware law is the product of regulatory competition, and there is an active debate as to whether regulatory competition leads to a 'race to the top' or a 'race to the bottom' (e.g., Romano, 1985 vs. Subramanian, 2004). Similar regulatory competition exists in other jurisdictions around the world. For a discussion of the European case, for example, see Bellenghi (2021). Mounting a challenge to Delaware has not been viewed as likely to be profitable. However, a potential source of change to the effect could come externally from increased competition among other states looking to replicate Delaware law, such as Texas, or if calls to federalize incorporation ever come to fruition (Bebchuk and Hamdani, 2002).

6.3. *Future research directions*

Future research should investigate the sustained influence of legal frameworks like Delaware's on crowdfunding ventures, particularly regarding market integrity. Such studies would deepen our understanding of the Delaware effect and offer insights for policymakers and practitioners about the legal frameworks that bolster the growth and stability of the crowdfunding ecosystem. Comparative analyses across jurisdictions and other countries, as Piva and Rossi-Lamastra (2018) suggested, could pinpoint the legal attributes that most significantly impact crowdfunding efficacy, enhancing our grasp of how legal environments shape corporate finance activities. Furthermore, it would be intriguing to examine the significance of Delaware incorporation as a signaling mechanism compared to other established signals, such as prior financing (Kleinert et al., 2020; Kleinert and Vismara, 2024).

Additionally, the nascent stage of equity crowdfunding opens avenues for comprehensive research into its ecosystem, encompassing a variety of stakeholders. Following Signori and Vismara (2018) and Hornuf et al. (2018), future work could explore the post-crowdfunding phase, assessing firms' abilities to attract further investments from venture capitalists, and IPOs. Despite the challenges posed by incomplete data and disclosure preferences among angel investors (Wong et al., 2009), such research is necessary to understand the long-term outcomes of the legal mechanisms that influence early crowdfunding success.

CRediT authorship contribution statement

Douglas J. Cumming: Writing – review & editing, Writing – original draft, Validation, Project administration, Methodology, Investigation, Formal analysis, Data curation, Conceptualization. **Sofia Johan:** Writing – review & editing, Writing – original draft, Validation, Supervision, Project administration, Methodology, Investigation, Funding acquisition, Formal analysis, Conceptualization. **Robert S. Reardon:** Writing – review & editing, Writing – original draft, Validation, Project administration, Methodology, Investigation, Funding acquisition, Formal analysis, Data curation, Conceptualization.

Declaration of competing interest

We wish to confirm that there are no known conflicts of interest associated with this publication and there has been no significant financial support for this work that could have influenced its outcome.

Data availability

Data will be made available on request.

Appendix A

Table A1
Descriptive statistics (original values).

	N	Mean	Median	Std. deviation	Minimum	Maximum
Amount Raised	3539	266,883	73,472	549,891	0	5,000,0000
Offering Amount	3539	70,316	25,000	193,832	1	5,000,000
Firm Age (years)	3539	3.10	2.04	3.59	0.03	45.07
Number of Employees	3539	6.28	3	16.45	0	700

	Full Sample		Successful Campaigns		Unsuccessful Campaigns		Mean Difference	p-value
Number of Observations	3,539		2,353		1,186			
	Mean	Std Dev	Mean	Std Dev	Mean	Std Dev		
Amount Raised	266,733	549,891	399,793	634,006	3,194	17,729	396,597	0.00***
Offering Amount	70,316	193,832	53,520	155,434	103,640	250,101	-50,120	0.00***
Firm Age (years)	3.10	3.59	3.31	3.62	2.69	3.49	0.62	0.00***
Number of Employees	6.29	16.45	6.74	12.55	5.38	22.23	1.36	0.00***

Table A2
Descriptive statistics (transformed values).

	N	Mean	Median	Std. Deviation	Minimum	Maximum	VIF (first stage)
Success	3539	0.66	1	0.47	0	1	
Amount Raised	3539	8.30	11.20	5.66	0	15.42	
Amount Raised/Goal	3539	1.43	1.14	1.40	0	9.24	
Delaware Incorporation	3539	0.56	1	0.50	0	1	
Offering Amount	3539	10.33	10.13	1.17	0.69	15.42	1.09
Firm Age (years)	3539	1.14	1.11	0.71	0.003	3.83	1.40
Number of Employees	3539	4.99	3	5.20	0	20	1.18
LLC	3539	0.24	0	0.43	0	1	1.21
Post-Revenue	3539	0.53	1	0.50	0	1	1.39
ROA	3539	−1.68	−0.39	3.22	−12.85	0.27	1.59
Total Debt-to-Assets	3539	2.34	0.44	4.58	0	18.26	1.64
Underwriting Fee	3539	6.13	6	1.75	0	12	1.30
Financial Interest Fee	3539	0.83	0	1.27	0	10	1.14
Platform Popularity	3539	3.34	3.87	1.48	0	5.05	1.58
Unemployment Rate	3539	5.72	4.80	2.77	2.10	30.60	6.12
Population	3539	16.41	16.78	1.04	13.26	17.49	1.48

Table A3
Correlation matrix.

Variables		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(1)	Success	1													
(2)	Amount Raised	0.94	1												
(3)	Amount Raised/Goal	0.71	0.77	1											
(4)	Delaware	0.13	0.15	0.17	1										
(5)	Offering Amount	−0.17	−0.08	−0.34	−0.03	1									
(6)	Firm Age (years)	0.13	0.14	0.16	−0.04	−0.01	1								
(7)	Number of Employees	0.12	0.15	0.20	0.09	0.00	0.29	1							
(8)	LLC	−0.09	−0.10	−0.15	−0.36	0.08	−0.02	−0.13	1						
(9)	Post-Revenue	0.12	0.14	0.13	0.03	0.01	0.47	0.29	−0.05	1					
(10)	ROA	0.01	−0.01	0.01	−0.07	0.02	−0.05	0.02	0.07	−0.01	1				
(11)	Total Debt-to-Assets	0.02	0.02	−0.00	0.08	0.02	0.20	0.05	−0.09	0.11	−0.60	1			
(12)	Underwriting Fee	0.04	0.04	0.12	0.02	−0.13	0.05	0.08	−0.08	0.00	0.00	0.01	1		
(13)	Financial Interest Fee	0.05	0.07	0.14	0.09	−0.02	0.08	0.09	−0.06	0.00	0.00	0.04	0.14	1	
(14)	Platform Popularity	0.27	0.30	0.24	0.17	−0.09	0.19	0.17	−0.15	0.17	−0.06	0.06	0.33	−0.09	1

Note: Correlations >0.0373, 0.0285, and 0.0238 in absolute value are significant at the 1 %, 5 %, and 10 % levels, respectively.

Table A4
Delaware incorporated campaign descriptive statistics.

Platform (a)	Number of campaigns	Success rate	% of DE-incorporated campaigns
Wefunder	1130	66.5 %	57.8 %
StartEngine	941	71.9 %	57.4 %
Republic	425	87.1 %	74.6 %
Netcapital	244	77.8 %	52.0 %
MicroVentures	138	83.3 %	55.8 %
SeedInvest	86	51.1 %	74.4 %
Other	575	35.5 %	34.0 %

Security type (b)	Number of campaigns	Success rate	% of DE-incorporated campaigns
Common Stock	1301	66.6 %	53.8 %
Preferred Stock	396	71.4 %	58.3 %
Hybrid Equity (grouping)	1842	65.3 %	56.6 %

Characteristics (c)	Delaware incorporated (yes)	Delaware incorporated (no)	Mean difference	*t*-Test
Success	0.72	0.59	0.13	0.00***
Amount Raised	9.06	7.34	1.72	0.00***
Amount Raised/Goal	1.64	1.15	0.49	0.00***
Offering Amount	10.30	10.37	−0.07	0.08*
Age (years)	1.10	1.15	−0.05	0.04**
Number of Employees	5.39	4.48	0.89	0.00***
LLC	0.10	0.41	−0.31	0.00***
Post-Revenue	0.54	0.51	0.03	0.136
ROA	−1.89	−1.42	−0.46	0.00***
Total Debt-to-Assets	2.70	1.88	0.82	0.00***

(*continued on next page*)

Table A4 (*continued*)

Characteristics (c)	Delaware incorporated (yes)	Delaware incorporated (no)	Mean difference	*t*-Test
Underwriting Fee	6.16	6.08	0.08	0.00***
Financial Interest Fee	0.94	0.70	0.24	0.00***
Platform Popularity	3.56	3.06	0.50	0.00***

This table reports characteristics of Delaware Incorporation. Table (a) reports how Delaware incorporation is represented across the top 6 platforms. The 'Other' classification comprises of the 65+ other platforms within our sample, but none of which make up >2.5 % of the total number of campaigns. Table (b) similarly reports how Delaware incorporation is represented across the security types that comprise our sample. At the time of filing, firms must select the type of security they are offering from a list of 'Common Stock', 'Preferred Stock', 'Debt', or 'Other'. We further separate 'Other' filings into the groups: 'Convertible', 'Membership Unit', 'SAFE', 'Class A', 'Class B', 'Non-Voting Common Stock', 'Crowd Notes', 'Tokens', and 'Revenue Share'. The remaining unclassified filings remain in the 'Other' group. We group 'Common Stock', 'Class A', 'Class B', and 'Non-voting Common Stock' because of their similarities in offering a straight form of equity. We also group 'SAFE', 'Convertible', 'Crowd Note', and 'Membership Unit' as Hybrid Equity. Last, we drop all 'Debt', 'Revenue Share', 'Tokens', and other types of campaigns from our sample. Table (c) reports descriptive statistics and a two-tailed *t*-test for our primary explanatory variable Delaware Incorporation. The *t*-test is applied to compare the means between campaigns incorporated in Delaware and those incorporated elsewhere. When appropriate we use the unequal variance (Welch) *t*-test. ***, **, and * indicate statistical significance at the 1 %, 5 %, and 10 % levels, respectively.

Table A5
Legal form of business.

	C-Corporation		LLC	
	(9) Success		(10) Success	
	Coefficient	t-Statistic	Coefficient	t-Statistic
Explanatory Variable				
Delaware Incorporation	0.053***	2.66	0.082**	1.98
Deal Characteristics				
Offering Amount	−0.073***	−8.32	−0.058***	−5.02
Firm-level Control Variables				
Firm Age	0.058***	4.60	−0.030	−1.06
Number of Employees	0.004***	3.20	0.006*	1.84
Financial Control Variables				
Post-Revenue	0.031	1.66	0.034	0.86
ROA	0.001	0.21	0.008	1.14
Total Debt to Assets	−0.001	−0.64	−0.003	−0.54
Platform Control Variables				
Underwriting Fee	−0.031***	−5.45	−0.021*	−2.13
Financial Interest Fee	0.026***	3.53	0.030*	2.15
Platform Popularity	0.081***	9.19	0.090***	8.67
Macro & Fixed Effects				
Unemployment Rate	−0.006	−0.81	0.022*	1.94
Population	−0.001	−0.04	−0.001	−0.09
Time Fixed Effects?	Yes		Yes	
Number of Observations	2619		848	
Root MSE	0.428		0.447	

This table reports a two-stage least squares (2SLS) regression model on success by legal form of business. In our sample, 2629 firms are C-Corporations; 849 are Limited Liability Corporations (LLCs); 2 are general partnerships; 4 are limited partnerships; and 55 are 'Other' which could be a sole proprietorship, public benefit corporation, or S-Corporation. Model (12) looks solely at C-corporations, using the same methodology as our primary model, except for now excluding the LLC control variable. Model (13) looks solely at LLCs. Both models utilize the 'the number of firms incorporated in state' and 'Model Act' variables as instruments for *Delaware Incorporation*. Standard errors are clustered by quarter and state across all models. ***, **, and * indicate statistical significance at the 1 %, 5 %, and 10 % levels, respectively.

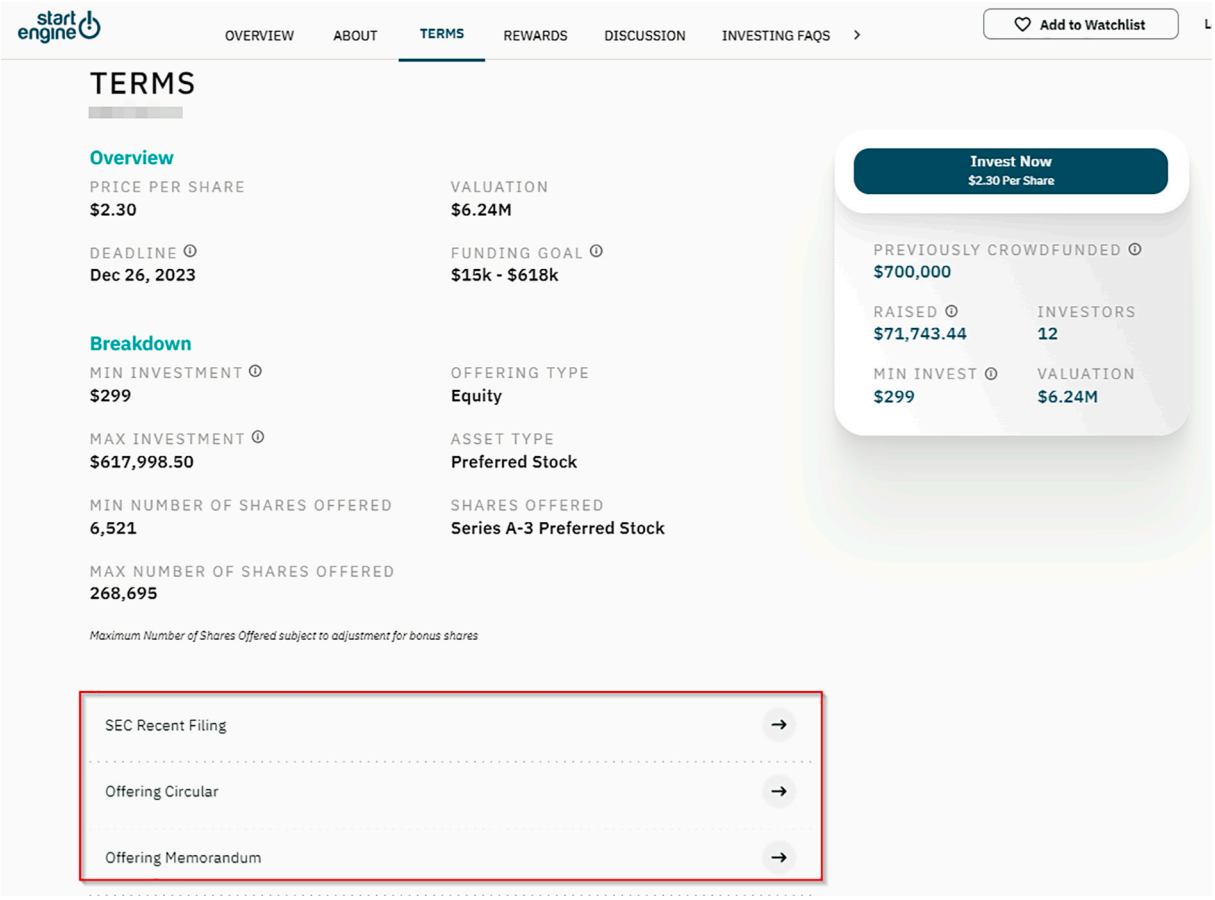

Fig. A1. SEC filing information.
This figure demonstrates how investors can access detailed company information, including financials and incorporation location, through a link to the SEC Form C filing. This example from StartEngine is indicative of the level of transparency some platforms provide, facilitating investor due diligence. While the SEC requires companies to file a Form C, the ease of access to this filing on campaign pages may differ across platforms. The campaign shown is anonymized to protect privacy.

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