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Equity crowdfunding: a review in literature

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Abstract

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This dissertation aims at analyzing the phenomenon of crowdfunding and more specifically equity crowdfunding.

Firstly, we contextualize the crowdfunding process and its origins by defining it as a natural consequence of an ever increasing infomatization of financial processes and the life of private individuals.
This new way of sharing a common interests and of reaching a never before seen amount of interested entrepreneurs and customers for a common purpose will be discussed by trying to understand how it naturally evolved and became a viable alternative to more traditional financing methods.

Then we will have an in-depth analysis of the equity crowdfunding by defining its functions and forms in various countries and comparing it to more traditional investing models.

The last part will define key steps for a successful campaign according to various authors and success factors to be considered.

Executive summary

Crowdfunding has become a viable option to more traditional financing methods thanks to the growth and evolution of a dedicated market. Entrepreneurs can collect funds from a large crowd instead of dedicated financing specialists. With time portals and regulations have come to define a reality that, because of its recent nature, is still being defined.
General crowdfunding has been the origin for all the subsequent categories that have emerged in both the economic landscape and dedicated literature. Within these newly created markets, equity crowdfunding will be focused upon both as an economic reality and literary subject.
The dedicated literature has evolved from defining a framework of the phenomenon to analyzing the underlying factors that model the process.
The birth of the phenomenon was anticipated partly by similarly analyzed more traditional funding methods such as venture capital and business angels. Metrick A., Yasuda A., (2011) Venture Capital & The Finance Of Innovation comes into mind as a hybrid approach between financing methods in a relatively new market as well as Schwienbacher A., Larralde B., (2010) "Crowdfunding Of Small Entrepreunerial Ventures" in which ventures and projects are starting to shape and becoming a separate economic reality.
After a first phase of analysis the literature evolved, having the chance to evaluate the outcomes, and turned to mathematical models to understand winning strategies, modeling factors and overall advantageous proceeding methods.
One of the first articles to offer a theoretical model to analyze the process is Paul Belleflamme, Lambert, Schwienbacher's "Crowdfunding: Tapping into the right crowd". The authors wanted to identify factors that regulate the process both in case of equity-based models, profit-sharing schemes, and lending. Relying on the works of other famous names in the fieldm such as Agrawal and Mollick, they found out that in case of larger funding goals private investors are more interested in the financial profit-sharing of the company rather than a reward.
Analysis of this type has been made possible through the introduction of dedicated portals, in which the phenomenon could be sectorized and analyzed separately from hybrid and not well-defined funding methods. The increasing numbers of private participants and successful projects, as well as an evolution in regulatory approaches in different countries have made it possible to compare crowdfunding and the subsequent categories to conventional financing methods to establish similarities and differences (e.g. Gerber at al. (2013), Frydrych, Denis (2014), Pierrakis Y, Collins L., (2014)).
Equity-based crowdfunding funding methods, portals, regulation and literature evolved similarly. It first started as a general literary interest in the future profit-sharing promises of entrepreneurs to private individuals participating in crowdfunding projects (e.g. Lerro (2013) who, being an author in the country with the first regulation of equity crowdfunding had the possibility to be part of the initial phase of literary analysis of the phenomenon) and then, as equity crowdfunding established itself as a separately regulated reality later on, evolved into a dedicated literature stream where general and signaling factors could be analyzed more easily (e.g. G. Ahlers et al. (2015)).

Literature has evolved like the regulatory approach applied by the country on both crowdfudning and equity crowdfunding. It is interesting to see, thanks to the recent nature of these unconventional financing methods, how regulations evolved adapting themselves to both market numbers and general literature, creating an alive literary category by themselves.

The equity crowdfunding regulation in Italy (such as the CONSOB Regulation and later amendments and complementary regulations) is an example of continuously updating legislative and literary work, in which outcomes and numbers have changed the laws over the year. The laws have become less stringent and are shaping the market and the success factors that come along with it (e.g. the relaxation of the 5% participation of professional investors in Italian equity crowdfunding campaigns to 3%).

Because of its recent nature, equity crowdfunding is still evolving. In many countries, such as the U.S., regulatory approaches can be as recent as 2016 and are therefore just a glimpse of both the final regulation and nature of equity crowdfunding.

In the subsequent analysis we will try to recreate a similar approach, by first defining and contextualizing the crowdfunding phenomenon and its origins. Then we will introduce the four main categories that have crystalized throughout the years.

In the second part we will discuss equity crowdfunding. This new subject will be discussed as part of a natural desire and need for financing for SMEs. We will introduce the actors that participate in a project funding process and then analyze the various laws that different countries have created to regulate them. We will compare equity crowdfunding with more traditional funding methods, by understanding which may be the most relevant up and downsides and reasons to choose one financing method rather than the other ones.

The last chapter will be dedicated to a general understanding of how a successful strategy might look like and which are the factors that influence it.

The subject nature is very recent, and has substantially evolved throughout the years (e.g. in the 2018 Amendment to the italian equity crowdfunding regulation) making this dissertation possibly just a picture taken in a continuously changing environment.

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Introduction

Technological advancement and the informatization of everyday life has created new forms of interaction between entrepreneurs and the crowd. The evolution of social netwroks has given new possibilities to content creators to attract potential investors. This is especially true when talking about the birth of companies and their funding.

The process is mediated and facilitated by dedicated platforms who arose in the last decade consolidating the user experience and support the exponential growth in the sector. With the evolution of the crowdfunding market new forms of funding are created, such as the lending market and the equity crowdfunding market. The ladder is, because of its neophyte nature, in the process of evolution and legislative evaluation.

Laws are changing to ensure that this process thrives in a healthy environment. Event though considering how recent this phenomen is, it is obvious that it's potentialities and upsides can be considerable. Scientific studies, private individuals and regolatory bodies see in this movement a democratization of the funding process

Chapter 1: Crowdfunding

1.1 Definition

Crowdfunding is a process that allows fundraising (funding) from the crowd through the web by putting in contact the project's proponent with the mass of lenders through dedicated online platforms.

A phenomenon of the last decade is the digilatization of marketplaces through the use of the web 2.0. It is now possible to easily participate at the creation of start-ups even for the private citizen with a never before seen ease. Through the use of dedicated platforms interest individuals can find an incredible variety of projects and choose amongst them the ones in which to directly invest. The donors/lendors participate directly in the process of creation of a certain project or company and its market output. For the first time the private individual can closely be involved with the whole process starting from its conceptualization.

Individual projects and businesses are financed with a number of individuals, allowing innovators, entrepreneurs and business owners to use their social networks to raise capital.

The expansion of social networks facilitate a whole new experience and range of possibility for entrepreneurs to relate directly to the individual not only to define the projects goal (in the form of customer needs), but also to acquire know-how and inspiration as the individual becomes a co-author of the project itself.

The crowd is intended as a group of interlocutors that perform an "effort" and constitutes a group of reference users.

It emerges that crowdfunding does not refer exclusively to a fundraising approach, but to a real anthropological, social and economic phenomenon, as it involves a mass of individuals who create a network, combine their financial resources and enable entrepreneurs to fundraising by exploiting their contacts.

Estellés and Gonzàles (2012) have defined crowdfunding in this way:

"Crowdsourcing is a type of online participatory activity in which a person, an institution, a non-profit organization or a company proposes to a group of individuals, through an open and flexible announcement, the free and voluntary realization of a specific task. The realization of this task, of variable complexity and modularity, and in which the reference group must participate by making work, money, knowledge and / or experience, always implies a benefit for both parties."

This definition implies a certain return to the individual who has decided to participate to the crowdfunding project. The return may take different forms as will be defined later in the analysis of crowdfunding types.

1.2 History of Crowdfunding

The actual concept of crowdfunding is relatively old and has various roots. One example is the centuries old tradition of authors to rely on subscription schemes in which signatures would be collected. The author would then write the book only if a certain goal was reached. This model is not exactly the same since the payments of the interested subscribers would only be realized after the book was written.

Another exaple are war bonds. These are bonds that could be bought from private individuals to finance military conflics.

The birth of crowdfunding as we know it can be traced back in the late nineties. In these years, websites were gathering funds mainly for charitable initiatives saw the light.

Not much later, the first examples of online fundraisers related to the world of music appeared. The artists could count on a community of fans and began to ask for funding for the production of new albums or to organize their concerts. One of the first examples of successful online collection dates back to 1997, when the British group Marillion managed to get $ 60,000 to fund a tour in the United States. In two 2002 of the world's first platforms were born: JustGiving for online charity campaigns that, in 11 years of activity, has raised over 700 million pounds for the approximately 12,000 registered associations; later ArtistShare, a platform for musicians based on donations that gave them the opportunity to grant rewards for the loans received.

The evolution of crowdfunding went hand in hand with the evolution of the world wide web. With the new millennium and the advent of web 2.0, the internet has become increasingly accessible and connections were speeding up. This has allowed the development of the network as we know it today in which the social component, of fundamental importance for the functioning of crowdfunding, has assumed a pivotal role in the use of online resources. The possibility of creating "horizontal" networks has allowed the development in the mid-2000s of the first peer2peer lending platforms such as Kiva, Zopa and LendingClub.

In 2006 the term crowdfunding was coined by Michael Sullivan, creator of Fundavlog. The goal of this site was to create an incubator for projects related to video blogs and to give the possibility to make donations directly online. The Fundavlog project failed, but the implemented model had many points in common with the crowdfunding that would develop a few years later. The site aimed to raise funds from the crowd reached through the web and was based on the key concepts of transparency, shared interests and reciprocity that ensured the success of crowdfunding platforms in the following years.

It is in this scenario that the real crowdfunding was born; in 2008 and 2009 the two most popular platforms have appeared on the web: IndieGoGo and Kickstarter. The founders of IndieGoGo, Danae Ringelmann and Slava Rubin, set out to "democratize fundraising" and "empower creative entrepreneurs". These platforms immediately exploited the "social web" using social networks like Facebook, Youtube and Twitter and in a short time they became the symbol of funding from below

A success factor of these ideas were the fact that those who finance a project do not necessarily expect money in return, but also accept rewards such as prizes or awards, and then material or experiential reimbursements.
More recently we have witnessed the emergence of a large number of reward-based platforms in every part of the world. Many of the platforms born based on this model have specialized for certain types of projects or on specific geographical areas.
Finally, in 2010, crowdfunding based on financial holdings (equity-based) was born. GrowVC and CrowdCube are the first two platforms that saw the light respectively in 2010 and 2011. GrowVC defines itself as "a new model of community funding" and aims to develop a market to support technological start-ups with financing up to 1 million dollars. The great success of this crowdfunding model can be read in light of the economic situation of recent years: the credit crunch caused by the crisis that hit the global economy has impacted especially on start-ups. These companies, being risky by definition, have increasingly faced difficulties in obtaining loans from the banking sector, which at the same time had to limit risky investments in response to the new scenario of economic crisis and were uncetain of the legal implications of these new financing methods. Lawmakers are working to define the rules within which this financing model can develop, which is why equity crowdfunding is a model that is still evolving and must continuously confront the introduction of regulations by the authorities.
In Italy, for example, the phenomenon has become the subject of discussion following the issuing of the “Decreto di Legge” 8 October 2012 n.179 converted into Law n.221 in 17 December 2012, and subsequently with the Consob Regulation referred to the resolution n.18592 of 26 June 2013, which caused Italy to be the first country in Europe to regulate the specific case of equity-crowdfunding.
Crowdfunding in its initial form did not promise economic returns from funding and crowdfunders, who recognized the value of the project exclusively in social and emotional factors, in the possibility of realizing something useful or, in some cases, in the non-monetary reward paid. This is one of the reasons why the development of crowdfunding is closely linked to the social web, and it is thanks to the latter that the funders have had the opportunity to create social networks of peer-investor with common interests.
In order for a crowdfunding project to be born, we need the collaboration of three different actors:

-the "creator" or proponent: is the subject, the company or the association that proposes the project on a crowdfunding portal. Depending on the different types of projects, the creator can be a subject that collects capital for personal purposes, a company that seeks funding to carry out its business or an association that raises funds for social, humanitarian or scientific purposes;

-the crowdfunding platform: it is the virtual place where the transfer of capital takes place. The platforms can be divided according to the type of projects that allow funding, based on the proponents and / or investors to whom they are addressed or based on the geographical area on which they operate (in paragraph 1.2 we will provide in detail the classifications present to date in the literature). Most platforms are connected to the social web and allow to share projects on the most important social networks. This confirms and underlines the importance of the social component that underlies the phenomenon of crowdfunding.

-the crowdfunder: is the representative of the crowd that provides resources for the project. Based on the characteristics of the collection it can obtain returns of a completely different nature; these can refer to the social and emotional sphere, they can be rewards proposed by the creator and finally financial returns.

1.3 Types of crowdfunding

The types of crowdfunding have evolved and cristalized as a strict derivative from the online platforms. On these platforms types of returns, legislation applicable and relation between the individual and the entrepreneur have constantly changed until now defining the most modern types of crowdfunding. Though there are multiple ways to define the different types of crowdfunding, generally they are subdivided according to the type of return the investor has. We can divide the types in four general subgroups: reward based crowdfunding, lending based crowdfunding, donation based crowdfunding and equity based crowdfunding.

1.3.1 Donation based crowdfunding

This model is considered one of the first modern forms of crowdfunding. This model defines a process in which funds are collected without a remuneration purpose of the individual participating, through a tangible or intangible return. This type of crowdfunding is used in charity projects and for social initiatives, and is therefore substantially different from the other models The donors have an emotional involvement in the project and do not require returns. In these kind of projects high financial goals appear often to be demotivating for the donors. It is therefore suggested to wisely define a reasonable and proportional amount when considering this project approach.
The typical goals for these projects may vary but are usual a response to third worlds, disabled people and structural needs such as buildings. This forms is used by non profit companies and charity bodies. Usually the donor funds a project and not an association.
Other goals might include musical projects, art and cinematography.
As said before, one of the first modern crowdfunding events was the fundraising for a english music group, the Marillon, who were able in 1997 to collect 60000 pounds to finance a tour in America.
To answer to this donation need, JustGiving was born in the year 2000 and it 11 years it was able to collect over 700 million pounds for about 12000 charity associations.
In Italy there are around 15 platforms that enable donation based crowdfunding. These usually support non-profit organizations and are intended to create a network of donation willing individuals. Amongst these we can cite IoDono and ShinyNote.
On an international level GoFundMe is one of the most used
These websites often enable simple donations as opposed to goal-oriented and time restricted donations.
Because of its nature, this type of crowdfunding is not subjected to particular legal restrictions.

1.3.2 Reward based crowdfunding

Reward based crowdfunding defines a process in which individuals contributing comparatively small amounts of money to projects in return for some kind of reward. The size of the reward is usually a reflection of the amount contributed, but can also completely differ from the projects goal and can also be a simple “thank you” on the entrepeneur’s website.
This model is, as of today the most used (representing around three times as much websites as the donation based portals). The goal of these portals are also often represented by artistic and creative projects, book writing, cinematography, organizing and funding musical tours.
The type and amount of return is obviously less than the amount given but it certainly helps the cause and justifies the difference in usage with respect to the donation based portals.
It is often common to use different reward classes depending on the amount financed.
Commonly considered the first case of reward based crowdfunding project was the construction of the Statue of Liberty’s basement. This was advertised by Joseph Pulitzer’s publishing which was able to collect and amount of circa $100,000.

This model can be divided into sub-groups depending on the return:
-modal donation: one of the most common models in which the return consists of a gadget of some sort, a small price or a public mention;
-pre-order: in this case the return may take the form of the project’s final product and more specifically the certainty of purchasing the product/service. This model is more common in the artistic world. We can think of musical products, art or movies, but the highest collected sums are in the videogame industry, where genre fans fund indie-games developers.
-profit sharing or royalty based crowdfunding: the return is of a financial nature.

We may subdivide reward base crowdfunding depending in “Take It All” or “All or Nothing”:

-Take it All: the donation goal is clearly stated on the portal, but if it isn’t reached then the funds invested may be reinvested by the entrepenur or non profit organization according to their preferences. This form is mostly used in donation based crowdfunding;

-All or Nothing: the goal stated on the portal must be reached within a certain time span (usually 90 days). If this is not the case, then the crowdfunders will be reinbursed for the whole sum financed.

1.3.3 Lending based crowdfunding

This third model was born as a consequence of the global economic crisis and for the increasingly lacking confidence in the banking system, and foresees a system of loans between individuals through a web platform. This kind of finacial support does not take the form of an equity financing, but of a credit.

By lending money to a company the individual feels closer to its projects and, where the platform allows it, he can analyze the project, evaluate the risk and, if then decides to finance it, he can continues to follow its growth and development.
This is a model used a lot in Italy. According to the research carried out from the Catholic University of the Sacred Heart of Milan, it is used in 43% of the cases of projects funded through crowdfunding. This is due to the structure of the Italian market, given that a big percentage of businesses are SMEs
Three models can be identified:

• Micro-lending model;

• Peer-to-peer lending or social lending model;

• Peer-to-business model.

The micro-lending model is a model totally mediated by the platform of crowdfunding. Funding is collected by a local intermediary, who provides to provide the credit to various customers, who are generally represented by people with low incomes, including simple consumers and self-employed workers who traditionally do not have access to banking and financial services.
The peer-to-peer lending is social lending model that gives the possibility of gaining access to lending sums from private individuals.
Macchiavello, in its in-depth analysis, defines peer-to-peer lending (P2P) or social lending as "credit (as a rule of limited amount) to a certain subject, deriving from the collection of small amounts made available by different ed innumerable people, but such, as a whole, to be more than useful to finance a project". It is based on the creation of a community where those who need a loan and those who offer their availability to lend can interact with each other, without resorting to intermediaries, thus obtaining better conditions for both: lower rates for applicants and higher interest rates for i providers. One famous examples in Italy are Smartika, owned by Smartika s.p.a. Smartika sets the minimum limit € 1,000 and the maximum limit of € 15,000 regarding the sums obtainable from the applicants, while from € 100 to € 50,000 for the lenders. The rate of interest is substantially different from that of banking, being about 8.9% the one paid by applicants and 6.8% for lenders. The rate is chosen by the lender, but depends on the risk class assigned to him on the basis of the credit profile of the platform itself.
P2B platforms allow businesses to find loans from many different people, cheap and fast, and investors to get better returns by eliminating the cost and complexity of the banking world, but also to spread the risk by lending to many businesses. Due to the restricted regulations in many countries, the platforms peer-to business are not many in the world. The largest platform is FundingCircle and is located in the United Kingdom. In Italy, social-lending for businesses has arrived just recently with the launch, in September 2015, of the peer-to-business platform BorsadelCredito.

1.3.4 Equity based crowdfunding

Equity-based crowdfunding is the latest form of crowdfunding and is constantly evolving; consists in collecting risk capital for a company via the Internet. Investors, in exchange for their contribution of financial resources, receive a shareholding in the company's capital, effectively becoming members of the business venture. With equity crowdfunding, the crowdfunders invest in the proposing companies, obtaining as a reward for the shares, thus becoming part of the social capital of the company in which they have placed trust18. In equity crowdfunding, the backer, defined as the lender of the activity, as a simple stakeholder or a bearer of a general interest, becomes in effect a shareholder. When a company wants to attract venture capital from a group of people but does not want to rely on private equity funds or business angels, it can resort to equity-based crowdfunding.
Equity finance is a well established practice and private equity, venture capital and informal investors (angel) play an important role in business development. The main difference between equity crowdfunding and these traditional models is that instead of establishing a one-to-one relationship, it is open to a wide range of potential investors, some of whom could also be current or future clients.
The main features can be described as follows:

– the terms of the transaction must be appropriately defined, defining the portion of capital that is intended to be sold, the price and the procedures for rewarding investors;

– the costs to be incurred to launch the crowdfunding request are usually represented by a successful commission (success fee) and by legal or administrative costs, as well as any other charges for consulting the establishment of the company;

- the transaction allows you to have a large number of co-owners instead of a few large investors;

- it is necessary to demonstrate that the company is mature for the investment, through the presentation of a business plan and financial projections.

We will talk more specifically about equity crowdfunding in the following chapters.

Chapter II: Equity Based Crowdfunding

2.1 Introduction

As seen there are a few different types of crowdfunding, this analysis wants, however, to focus on the particular aspects of one of the newest forms that the crowdfunding market has evolved into in the last few years: that is equity crowdfunding.
The process is defined as the financial participation of individuals in a project, by acquiring part of the company through the purchase of its equity.
The entrepreneurs propose their idea on dedicated platforms and private investors decide if they want to participate according to the information given and the goal set. The creation and evolution of this new phenomenon also provides a regulated and easy access to a widespread financing pool such as the common individual with no intermediaries.
This concept started gaining attention of the masses in 2008 from platforms such as Indiegogo and the year after from Kickstarter.
The first dedicated platform was GrowVC, born in 2009 were people could invest directly in the creation or participation of companies and consequently their projects. The success of this type of crowdfunding quickly caused a discuss between the economic actors that could, in the future, be influenced by such as phenomenon like more traditional financing sources like venture capitalists, banks and legislative bodies of coutries.
This kind of financing is particularly indicated for SMEs as it greatly diversifies the type of financial resources they can plug into and reduces their dependency from conventional financial support companies that rely on well defined business plans and returns.
The financial support needed by the companies is usually of high importance in the first phases such as birth ang growth of the company.
This process is also interesting for whom, like a private individual, has a modest financial means and still wants to participate in projects and companies of their interest. These are only partial causes of the quick spread of this practice.
As a consequence of the modernity of this mechanism, it is of interest of different countries to regulate equity crowdfunding to define its boundaries and prevent fraudulent behaviours.

This process is therefore a financing technique that combines the need for financing with the unique peculiarities of the crowdfunding process such as an affinity with the companies goals and a feeling of unity with the other backers and participants of the community. This form represents like no other an active participation of the community/investors in the growth, shaping and goal setting of the company. It is therefore a live movement, continuously shaped by its entrepreneurs, investors and finally customers.

2.2 History of Equity Crowdfunding

The evolution and spread of social networks have changed the way entrepreneurs are able to reach and interact with the crowd by creating new never-before-seen opportunities.
The first incidence of equity crowdfunding didn't happen on a crowdfunding platform, but on a web page of a British brewery called BrewDog. On this instance, the brewery reached its goal and collected around 2.2 Mio GBP in 2009.
In the same year, the first dedicated platform for equity based crowdfunding was launched: GrowVC. This website had the explicit goal of funding start-ups in their initial seed phase by creating a platform in which investments willing individuals may a have a unified and coherent experience and proposal of companies and their goals.
It was only a few years later that this concept evolved into our understanding of equity funding by gaining popularity on the masses through the creation of more and more websites such as Seedrs (UK) and Seedmatch (Germany).
From there the phenomenon spread quickly into becoming an international reality. As a consequence the need arose of the legislative bodies to regulate their national equity platforms and define their structure and limits.

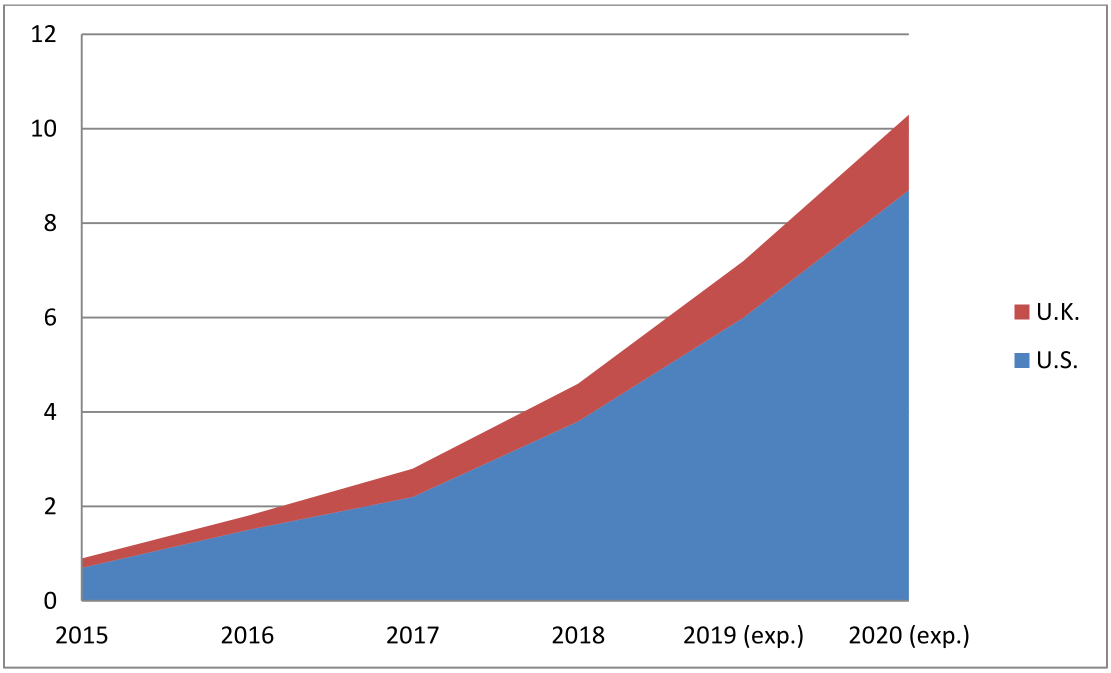

Fig. 2.1 Equity crowdfunding investment forecast for US and UK (in Billions USD)
Source: Business Insider

2.3 The parties involved

The equity crowdfunding process is defined by key actors such as the parties involved and the means that mediates the interaction. For simplicity's sake we will divide the forces at into 4 groups: the entrepreneur, the investor, the platform and the project.

2.3.1 The entrepreneur

The entrepreneur represents the person or group of people interested in the creation of a project. He is the economic party that wants both to receive financial support and has a more or less well-defined idea: this idea are the project or the company. The reasons for this party to start a funding campaign may vary and are subjective. The reasons include the need of funding. This may be caused by the difficulty of defining an accurate business plan because of the early subject of the company. The entrepreneur furthermore may not be interested in a an economical return, but identifies with the cause. Even if donation-based crowdfunding exists, creating a company to chase the objectives may have economical advantages from a financial leverage point of view. In this case the creator wants to see his dream realized and is therefore willing to sacrifice part of his decision power of the company he wants to create, to see it realized. An idealistic approach may be beneficial as it is, beyond the economic reasoning, an important factor in the definition and identification of the most suited backers. As we will analyze later on, a common belief and similar cultural reasoning are proved to be beneficial factors when talking about the success of start-ups. Another reason is the establishment of the company in a network. The creator wants to be visible, regardless of its goal or financial needs, in a high dynamic ever changing environment in which the platforms and the networks created are arguable the most valuable gain. The entrepreneur in this case wants to establish bi-directional relation with two other key forces: the backers and other entrepreneurs. Visibility is the key word. Other motives may be correlated with the specific process capabilities of the crowdfunding process because from its very birth, an equity crowdfunded process is tightly connected with the community it wants to thrive in. It must therefore be highly reactive to understand the constant external inputs without getting lost in the numerous amount of very different directions the project wants to be pulled towards. The creator is out to seek a direct relationship, that in many cases has shown to be beneficial, for both an experienced or a neophyte in the entrepreneurial world, with the customer/backer. In this case the creator is not forced to pursue the goal of success, since his goal is more related to learning the process involved. Many creators, in fact, even in cases of failure are willing to try again because of the perceived value of the experience, the connections created, he numerous lessons learn, the increase in their financial management and marketing skills acquired throughout the crowdfunding campaign.

2.3.2 The investor

The investors are a highly heterogeneous group out to find a common goal with the creator. The reasoning behind the backers may be parallel to the entrepreneur's and can be divided into two groups: a financial purpose or an ideological purpose.
The reasons why investors choose certain projects rather than others are many and will be discussed later on, but an investor may be out to seek more than an economical return. In

fact, most of the funding campaigns are related to a common meaning, rather than economical purpose, even if the ladder accounts for a high percentage of the investing market (Gerber et al.2011)

2.3.3 The platform

The platforms are on-line portals build to offer a unified experience for people willing to invest in projects and entrepreneurs who create them. The portal's role is to mediate and facilitate the interaction between these two actors under the influence of the legislative forces. They also act as the collection instrument for the financial support given from the backers. On these websites the entrepreneurs post a wide range of different projects that the backers can choose from according to their preferences.

A percentage of the remuneration gained from the creators will be given to the portal to finance its upkeep, maintenance and constant updates. The type and amount may vary from platform to platform and is dependent from the legislative choices of the respective countries. There may be some limitation in the amount of money asked. It is common practice to ask for a percentage fee. This can be applied in case of success of the funding process and takes the form of a premium. In many other cases the fee will be applied regardless of the success of the project goals. This is why it is important for the portals to create and environment in which success is more likely (Agrawal et al. 2013). In Italy the portals are regulated by Consob and have to follow strict rules in order to be able to mediate transactions between backers and entrepreneurs. It seems, however, quite clear that this kind of funding has relevant upsides and must be considered part of future investment possibilities and realities.

The legislative bodies tend therefore to evaluate the economic interests of the parties by controlling that the process may not degenerate as it can become a way to interact in a fraudolent manner.

The goals of these platforms have evolved coherently in the last years by becoming a unified crowdfunding experience also in terms of educating the parties involved. The platforms nowadays have sections dedicated to the education of entrepreneurs with suggestions and success stories told to motivate experienced and new creators to invest time and effort into this new phenomenon. The goal of the platform has slightly shifted from a pure monetary support website to a meeting of the minds. The success of the projects is without a doubt an important objective to be reached for every creator who wants to see their project realized, but in many cases the experience gathered throughout the experience is the most valuable asset for young businessman or whomever relates to these portals. (Castrataro 2012). The experience doesn't come without gains even at the cost of failure. Promoters have to acquire specific skills in order to create a successful project such as marketing, financial management and project management. This is why message systems and interaction processes between the parties involved have evolved, to facilitate a productive and create thought process that eases the meeting of like-minded individuals. It is, in the web 2.0, more important than ever to communicate effectively as it is the most relevant way to access to an important factor of success: the crowd. The portals take there the form of more advanced social platforms, in which creators can integrate their project offer with audiovisual instruments, constantly updated blogs and more.

The value derived from the crowd is not only a consequence of their willingness to participate economically. The portal acts as a meeting point also for private individuals who have technical skills useful for the project of their liking. In this case the backer can take the form of technical consultant. The relationship with the entrepreneur can take various forms, both economical and technical. The private individual is ready to invest more time and share the know-how derived from his expertise in order to see the project he is being part of realized. This is why, even in case of unsuccess, one of the most relevant upsides are the connection, monetary or not, that are being build and facilitated through the use of these dedicated platforms.
The platforms have also to mediate with another party: the legislative bodies of the respective countries. We will approach this argument in a more specific manner later on, as we will focus on some example cases around the world.

2.3.4 The project

The project is the cause of both the interaction between the parties and the birth of the portals. It can have various shapes: from a general starting idea to a full-on developed business plan that only needs backing.
A common factor in the proposal of equity based crowdfunding projects is the need for financial support. It is therefore important the give backers the availability of auxiliary information when posting a project on the portal. The projects are often times not well defined, because of their nature, in terms of returns. But this doesn't mean that the business plan is not going to be accurately evaluated by the potential backers. The portal usually asks for a number of indispensable information such as a description of the businesses they want to create, a business plan with the proceeding methodology, a marketing plan, the organizational structure, the growth strategy and so on. The business idea has to be described as detailed as possible since it is the main reason for a backer to finance the business. It is recommend to create a live and constantly updated information flow because for its very nature, this kind of process is dynamic and needs to keep the community involved as much as possible. This is because the community is an active part in the project. It acquires decision rights and must be informed step by step as the business plan unfolds.
The project, to be financed, benefits from being innovative and creative. The business plan is most like to be read not from financial professionals, but from common people who have a common interest or purpose. The business plan must therefore be concise and catch the readers attention. Information about the procedure and operational structure has to be available at a glimpse exactly like the deeper meaning or goal of the project. This means that the sole project idea may not be enough (Ahler 2015).
The project, and relative business plan, must also show a cost estimate. The cost is part of the project like the project itself, because it is directly related to the information amount the backer needs and requires in order to invest. The costs are related to the size of the project, to how well-defined it is and what can be realized with a successful outcome. It is wise to apply an error margin rounding up by e.g. 10% in order to cover unforseen costs. We must consider that the financial cost has also to justify the creation and implementation of the idea economically, and not only certain aspects like the R&D and marketing phases. In equity crowdfunding this is a focal matter, since the "reward" that may be present in other forms of crowdfunding takes here the shape of an economical and decisional return.

The entrepreneur must also define what happens in case of partial fulfillment of the crowdfunding plan. This must be clearly stated on the webpage. Will the project be interrupted or will a simplified version take its place? An option might be the before mentioned *keep-it-all* or *all-or-nothing* crowdfunding types in which respectively the entrepreneur gains access to the financial support regardless of the realization of the projects financial needs within the set time period or loose it.
A way to decrease the amount asked may be to directly seek technical and skilled professional figure. This enables a cost reduction and speeds up the process.
The project must, furthermore, have a deadline. Depending on the project size and nature the amount of time considered to be necessary to collect the amount of financial backing needed may vary. Deciding the length is not an easy task and can is correlated to the decisions taken in the business plan. In many types of crowdfunding the average time span is 9 weeks.

2.4 Upsides of Equity Crowdfunding

In this chapter we will look at the general upsides of crowdfunding and equity crowdfunding. The upsides and their relative strength depend on the country, the funding objective, the platform chosen, the reward mechanism and many other variables.

1) *democratized access to capital*: raising capital outside of your network by relying on venture capitalists, bank loans or business angels is not always a feasible option. These means often require a well-defined business plan, experience, a technical background and a return to hedge the risk and are therefore often not indicated for newbies, start ups and SMEs.
Raising capital has arguably never been this easy and often what it takes is a plan and a lot of motivation (Agrawal et al. 2013). This doesn't mean that crowdfunding has to be considered like charity. The market has evolved and become specialized, with more and more evolved marketing strategies. The companies that try to be crowdfunded are not "superficially" prepared. They are moved by legitimate intentions and often create by professionals, but the subject matter is often very innovative and cannot, therefore, be define in terms of returns and many other metrics that traditionally used financing methods use. Especially in the starting phases it can represent a serious difficulty being financed, most of all when considering start ups with no prior experience. Equity crowdfunding is denominated "democratized" because it offers the means for individuals who are only armed with a purpose, to go public and interact with a like-minded crowd. This is why it's also called bottom-up financing.

2) *demand measurement*: a high approval from the community is not only favourable from a financial or know-how level. The participants/backers in projects often also represent the customer. This means that, considering the reach of a platform, an entrepreneur can try to abstract the relative demand. A higher participants number is related to a higher involvement in the project, as a direct consequence of the affinity to customer needs. It is quite difficult to extrapolate a real demand from a platform, that has intrinsic limitations in the number and type of both creators and backers. Often the average individuals who uses these platforms is

not representative of the population, but is a defined part of it. The user is represented by a $100,000 salary a year individual, male and between the age of 24 – 35.

Still, often even a representative amount of backers is enough to proceed with project.

3) *the crowd is involved in the project*: never before has the relation between entrepreneurs and customers been this blurry. When talking about crowdfunding (and especially equity crowdfunding) the backers represent also the customer's needs. The dialogue is dynamic throughout the whole process as the backers can directly relate to and influence the project by looking at how appealing it might be from the customer's perspective. It can actively drive the project's steps, timelines and focus by changing it (Belleflamme et al. 2013). It is a cyclical relation in which a backer decides proportionally to his financial availability by talking actively with the creator. The product is empowered and directed by the precious help of the customer, who has invested in the project and is therefore actively seeking its success. For every step, there is feedback. In normal processes, the feedback reaches the project in defined moments and limited to what the entrepreneur might think the customer wants. In crowdfunding this process is continuous, unsollicited and free. This means that, while in traditional production methods, it would be costly to have a continuous customer response, in crowdfunding the creator can avoid expensive rework of the product by avoiding mistakes from the start. A traditionally made product can, even after having consulted the customer, choose to orient its user interface in such a way that it isn't intuitive or robust.

4) *the network*: crowdfunding is by its nature reliant on crowds. As said before, these crowds have both an economical and a technical purpose. Often the creator is out to seek specialized know-how or people to collaborate with. But the goal of the network can be very subjective. The entrepreneur may want to get to know the market and the biggest players involved, the competitors, the distribution channels, the sponsors, the customer and overall public relations.

5) *the marketing*: marketing can be expensive and account for the majority of the product's/service's costs. One of the upsides of crowdfunding is that the crowd is willing to invest, in many cases, not only financial means but also time. They are related to the cause of the project and will talk about it, share it on other social platforms if necessary. On many platforms the social media mechanisms are incorporate, costing less funding to unify the marketing effort.

6) *diversification:* crowdfunding can be a tool to diversify the customers and reduce the risk connected to a certain context. One of the key factors to gain global attention is a initial regional access. This is due to a phenomenon called home bias. We will analyze this effect later on, but it is a widespread cause of why consumers tend to prefer local projects. One might think that on online these differences are not relevant, especially when from a legal perspective the law applied is identical for all the services offered on the portal. Studies have shown that even on websites like eBay.com the effect is still very much present, so much so that underlining the nationality of a product may have adverse effects on a global

level. However, when considering the amount of investors on a global scale, this effect become less relevant. This is due to the fact that even in presence of this detrementary effect, the sheer number of global investors is way too influential to solely rely on local customers/investors. This means that according to the phase in which the project is, it may or may not be beneficial to advertise its regionality.
In the following image we can see how so called Friends & Family investors behave differently from distant investors. The difference is the relation with the backed project.

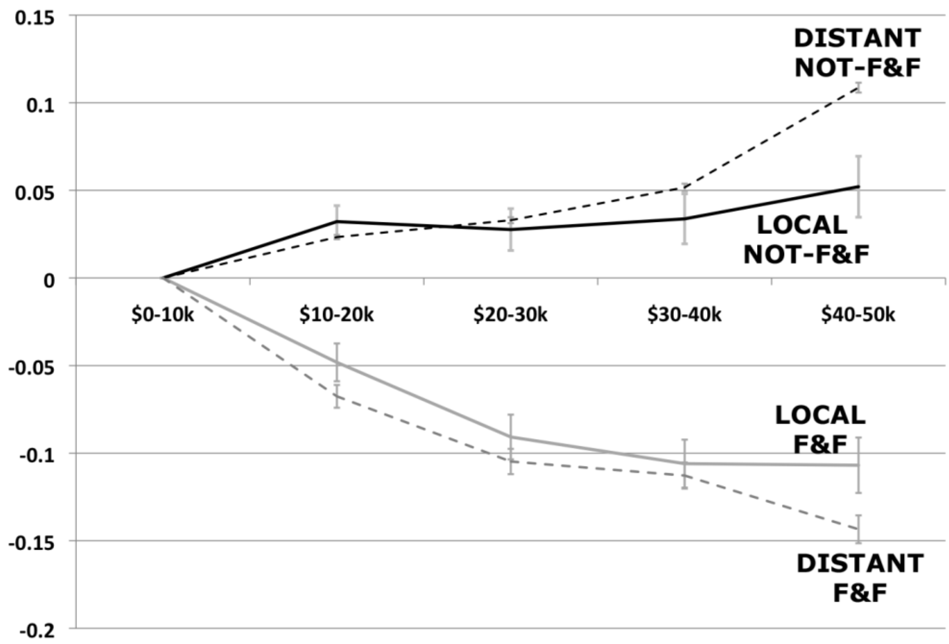

Fig. 2.2 Distance and likeliness of investment from different sources
Source: Agrawal, Catalini, Goldfarb, 2011

The first type of investor relies on the personal ties when evaluating the validity of a project. He know the person and the project, because it's local, and wants to invest especially in the early phases. On the other side, as stated before, distant investors tend to invest after the initial growth of the project. In this state the project has proven its validity by convincing many investors around the world. It is shown that the strength of this effect also depends from the product. This means that, for example, a musical genre that is connect to its regional origin, may be more subject to this phenomenon.

6*) risk hedging*: when talking about financing and projects there are always risks to consider. Something might not go according to plan and needs therefore financial means to put the project back on track. While these bumps may be hard to overcome when talking about bank loans or venture capitalists, it is easier to hedge the risk when the number of financial backers is high and part of a potentially even bigger crowd.

7) *easier process*: the unified experience and the average user have made it possible for everyone with enough dedication to get into the crowdfunding world. Bank loans are often by no means easy to obtain and are often the most tedious step in the process. Crowdfunding makes this step easier. To get funded on a online platform the process is much easier. The

entrepreneur has to establish a goal and define it, make a business plan that can easily be understood by the average backer and video to accompany it.

8*) low cost*: depending on the platform and type of funding the creator wants to receive, the costs may be very low. When talking about all-or-nothing campaigns, cited above, there is not penalty for not reaching the goal. In this case you only pay the fee when the goal is reached. The funds return to the relative investors and that's it. The commission fees for posting a project on the platform are around 5%.

9) *possible time save*: average successful funding campaigns take as little as 9 weeks to get funded and if a campaign reaches around 30% of its final goal within the first week, its chances of being funded are very high. The overall process is more efficient and will cost you less time, than for example applying for a traditional bank loan.

2.5 Downsides of Equity Crowdfunding

The crowdfunding process has, however, also downsides, for both investors and entrepreneurs:

1) *ideas can get stolen*: as in many other project processes, if the creator want to go public there is a risk that someone copies the idea. Often projects launched on crowdfunding platforms are in their embryonic state, funds have not been collected so there is no financial availability to protect ideas with copyright or patents. If the motivation and marketing is effective, then the crowd is not likely to switch to a competitor, but the low barrier of entry makes it even easier to copy seemingly successful ideas.

2) *fraud*: no system is perfect, nor the traditional one, nor this one. Title II in the JOBS Act is called the ''Capital Raising Online While Deterring Fraud and Unethical Non-Disclosure Act of 2012." The ever present issue of fraud and fraud detection is also present in the crowdfunding world and may take several forms. According to Medium.com fraud occurs when:

-"A crowdfunding campaign solicits and accepts money from backers or investors using deliberately misleading pretenses about the nature of the project or the expected outcomes;

-Backers or investors commit to funding a project, business or cause with a deliberate intention to cancel or reverse the transaction—or to extract returns not offered to other backers or investors;

-An intermediary attempts to aid or engage in the above behaviors or deliberately fails to complete transactions."

According to Mollick (2013), project backers on Kickstarter "should expect a failure rate of around 1-in-10 projects, and to receive a refund 13% of the time. Since failure can happen to anyone, creators need to consider, and plan for, the ways in which they will work with backers in the event a project fails, keeping lines of communication open and explaining how the money was spent. Ultimately, there does not seem to be a systematic problem associated with failure (or fraud) on Kickstarter, and the vast majority of projects do seem to deliver."

One of the first examples of fraud on crowdfunding portals was filed against Ascenergy. This oil and gas company was partly complying to the JOBS act. The commission reported that the company had spent "at least $1.2 million of the offering proceeds, but only a few thousand dollars appear to have been used for oil and gas-related expenses. Instead, a significant part of the $1.2 million has been spent on payments to Galbadon or companies he controls, or for expenses unrelated to the oil & gas business, including, by way of example, foreign travel, fast food restaurants, Apple stores and iTunes, dietary supplements, and personal care products."

3) *money laundering*: potentially anybody can become and investor or a creator. This has maid it fairly easy to money launder. From Investopedia: "Money laundering is the process of creating the appearance that large amounts of money obtained from criminal activity, such as drug trafficking or terrorist activity, originated from a legitimate source."
Zachary Robock says: "A similar system could be used to funnel money out of the country to fund terrorism. If fifty fake investors crowdfund a sham company that purports to do charitable work abroad, the investors could transfer funds to the company by purchasing (worthless) equity, and the company could transfer the money abroad under the guise of its business." Banks have well-defined anti-money laundering laws and requirements. When talking about crowdfunding platform one of the precautions they take is to collect information about the investor and other key figures in the company. They also report any legal activity to the authorities.

4) reputation: the skills acquired are valuable in case of success and failure. We must consider, however, that in high market competitivity, investors will consider also the possible variables such as prior failure. This might be a consequence of negligence of the entrepreneur, or just circumstantial or contextual. In any case a prior failure may impact negatively further project ideas as investors project their idea of past failures into the future.

5) underestimating time and costs: it is true that in a lot of cases, the crowdfunding procedure might be faster and less costly. The time needed, however, to create a successful funding campaign is still significant. The crowd relies on a continuously updated stream of information, to respond in an effective manner and updating these sources of information is a time consuming task. There is also a risk tied to the time invested. You may invest in project that is not successful, and this represents a cost. Investing time in a campaign is time that can be invested elsewhere, maybe in a more productive manner. Especially when considering personnel hired for all the needs a new company has on the crowdfunding platforms, such as marketing campaigns for visibility the costs can be considerable. These

costs are realized and can be backed in case of successful funding, but in case of failure they're still to be reckoned with.

6) legislative complication: when talking about crowdfunding, especially equity crowdfunding, we're talking about a new subject. The legislative implications are still now clear and continuously changing responding to a dynamic market that is constantly changing. The laws are usually national and apply to the project, the platform, the personnel involved, etc. It is often quite difficult to establish the legal validity of a project, especially if innovative and when it has never been done before.

7) risks related to a new company: crowdfunding is not exempted by all the risks that apply to a more traditional company creation. It may be a useful tool to finance the company its early stages, and to proceed dynamically with constant and reliable help from the investors, but the problems that arise when creating a company are still there. Especially in Italy, where equity crowdfunding represents a small percentage of the crowdfunding market, the implications of creating a company represent a time consuming task (Freedman, Nutting 2015)

8) heterogeneous investors: what might be an upside can definitely be a downside. The pool of investors in a crowdfunding platform represented in some percentage a well-defined investor. Around he's mid 20s, medium-high salary and male. However, the crowd is extremely diverse when considering its totality, both culturally and educationally. Thanks to the incredible reach of the web 2.0 you can connect with virtually anybody interested in your project, given the needed visibility. This means that an entrepreneur's project is potentially able to reach a very diverse crowd. This crowd has different intentions, purposes, proceeding mechanisms and goals. One way of defining better the investors is to create a well made and clear business plan. This might take the form of a more technical approach, at the cost of thinning down the potential backers. The project is constantly at risk and being torn in as many directions as the investors are.

9) equity dilution: a similar problem is equity dilution. In crowdfunding the stimulus derived from the crowd is exceptionally precious input, that can, however, be considered according to the entrepreneur's liking. If certain ideas do not impact successfully the proceeding of the project, then they can easily be discarded (at the cost of loosing backers). When talking about equity crowdfunding the problem is more complex and endemic. The backers invest in the company itself. They are, for all purposes, equity investors with the relative decision power. This means that if from one hand I can tap into a massive crowd for financial and technical reason, on the other hand this crowd will be able to actively influence the creators project idea and methodology. This represents by far one of the biggest downsides.

10) professional investors: according to many legislation, 5% of the funding as to come from professional investors. If this goal isn't reached then the campaign, even if successful, will fail. This means that the company that wants to be funded has also to be visible to banks, venture capitalists, etc.

11) vetting: there are also regional downsides. In the U.S. for example, according to the JOBS Act vetting has to happen. Zachary Robock writes that “The JOBS Act requires that funding portals take measures to reduce the risk of fraud, including obtaining a ‘background and securities enforcement regulatory history check’ on the issuer, its directors, officers, and 20% or more shareholders, as well as any other measures a funding portal deems appropriate.” This process can be very time consuming is open to interpretation. The validity of a crowdfunding campaign can be argued with if anyone of the participants is somehow related to fraudulent activities. The vetting process is also applied from the investment platform to determine the potential backers. According to Medium.com, a famous investing platform called 1000 Angels selects approximately 1% of the potential investors. This highlights how different platforms have different rules. Also when applying to a crowdfunding platform as an investor, there is a considerable chance that the request is not going to be accepted. Only a fraction of the potential content creators and entrepreneurs are allowed to post their projects on the platform.

12) Re-selling: investors might be interested in the value of the company for trading purposes. They might want to buy in at an initially low cost and re-sell the companies equity when it is launched or it grows. It is not possible to re-sell any of the shares withing a 12 month period in the U.S. These stocks, furthermore, are private and there is not public listing for private stocks. This means that if the investor wants to re-sell he would have to actively look for customers.

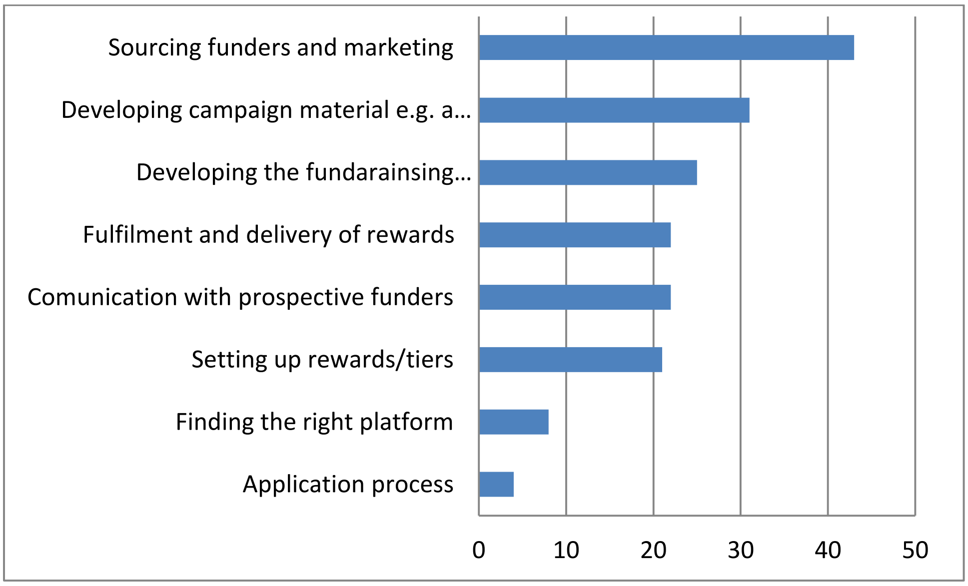

Fig 2.3 The biggest difficulties according to entrepreneurs during a crowdfunding campaign
Source: kickstarter.com

2.6 Numbers of equity crowdfunding around the world

The crowdfunding phenomenon is with its 10 years an economically recent creation. Throughout its short life span it has seen some impressive growth rates in many sectors and geographic regions. We will try to analyze, through the use of numbers, how the market has evolved and changed and how equity crowdfunding is finding its place in the landscape of financial funding.
We can have an idea at a glance in the following graphs, in which absolute crowdfunding values.
The very birth of this phenomenon is often attributed to the economic crisis that happened in 2008 and the subsequent growth might have been partially caused by an economy expanding again. According to Massolution the volume of equity based crowdfunding tripled with respect to the previous year in 2014 on a global level.
The biggest markets on a global level are the North American one and the European one. In 2015 the accounted for 787.5$ bn and 177.5$ bn respectively. (Massolution 2015:55).

2.6.1 In the U.S.

The U.S. is the economic powerhouse that started the crowdfunding phenomenon. It seems like a natural consequence that its numbers speak the loudest. Nevertheless, only in 2016 legislation was created to define rules for the process. This is partly due to the harsh regulations in which it was forbidden to partake in the purchase of equity from platforms if not registered as a broker.
CrowdExpert.com gives an impression of the extent of the market with its database of the 35 largest American sites for equity crowdfunding. According to this database, the market for equity crowdfunding in startups was around $1.2 billion in the year of 2015, with an additional $900 million invested in real estate. This results in a total volume of $2.1 billion for the American equity crowdfunding market.
In the following table we can see comparisons between different types of crowdfunding. As we can see, the equity based crowdfunding still accounts for a little percentage of the total volume. This is partially caused by the stringed legislative rules of the JOBS Act Title III of 2016. In the following table (figure 2.4) Alternative financing methods in the U.S. are shown in comparison. We will explain further how the maximum amount that can be funded rule might be choked the real need for equity funding in the market.

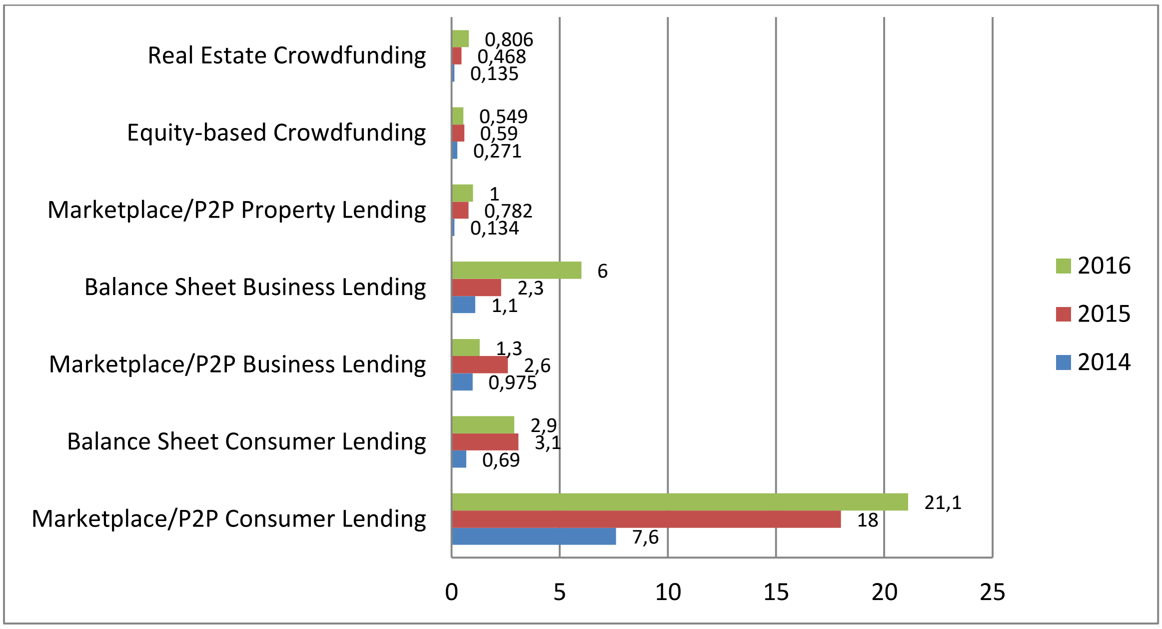

Fig 2.4 Alternative financing methods by market volume in the U.S. (in USD)
Source: group.growvc.com

2.6.2 In the United Kingdom

The united Kingdom is the undisputed pioneer of equity crowdfunding. Its quite forgiving legislative has created a thriving environment of this type of alternative equity investments.
While the market volume for startup financing via the crowd was just short of €32 million in 2013, it jumped up to €280 million in 2015. The total British market volume for equity crowdfunding (including real estate) in 2015 was approximately €389 million according to a study by Cambridge University.
In 2015, equity crowdfunding accounted for more than 15% of total UK seed and venture-stage equity investment. The segment was one of the fastest growing ones considering all alternative finance segments and the entirety of these new asset classes are expected to continue their growth trajectory in the future. Crowd financing of startups and growth companies alone amounted to €287 million. Whether this trend will continue after Brexit is still unclear, but British equity crowdfunding platforms managed to be the largest venture capital lenders in the country in early 2016.

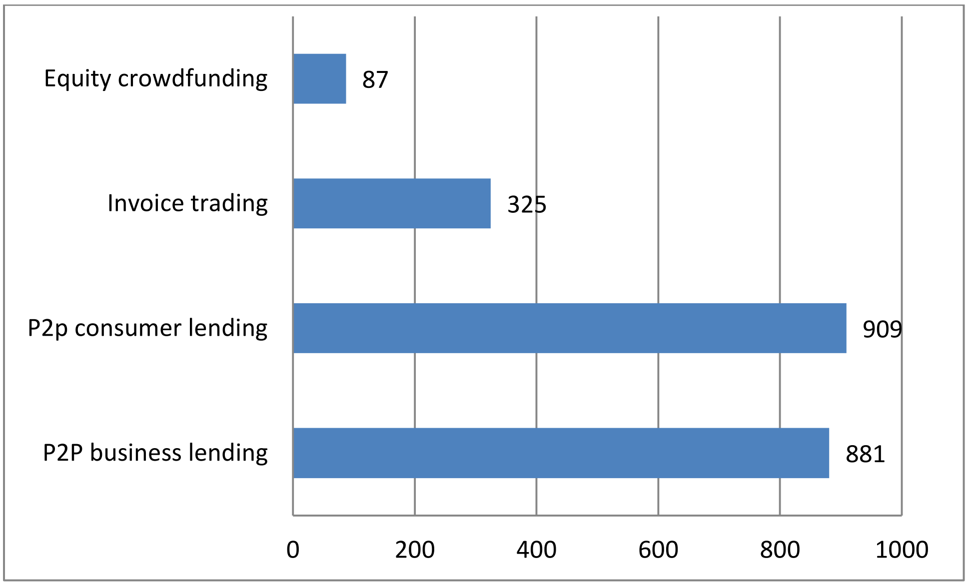

Fig 2.5 Alternative financing volumes in the UK in 2015
Source:beta.gov.scot

Equity crowdfunding on average grew 410% in the 2 year time span between 2012 and 2014. The following year it grew a 395% from £84 million to £332.
According to statista.com the numbers are similarly impressive, but the total annual volume of equity based crowdfunding in the United Kingdom (UK) from 2015 to 2016 grew from £245 million to £272 million, increasing by “merely” 11% and possibly indicating a slow-down of the phenomenon.

Equity crowdfunding is offered by 31 per cent of platforms, while donations and rewards crowdfunding are each offered by 23 per cent and 22 per cent of platforms respectively. While there are only a handful more equity-based platforms than rewards-based or donation-based platforms, equity-based crowdfunding makes up a much larger proportion of the total amount raised through crowdfunding each year; amounting to around 10 per cent of the market, compared to less than 1 per cent for donations-based and less than 2 per cent for rewards-based. This indicates that there are a large number of donations and rewards based platforms which are raising relatively little money for projects. Crowdfunding models under the category ‘other’ are offered by 6 per cent platforms. These models include financial products such as community shares and debentures. The largest number of platforms focus on Business Finance (60 per cent of platforms), with the majority of lending-based and equity-based platforms catering almost exclusively to this sector.
British equity crowdfunding platforms managed to be the largest venture capital lenders in the country in early 2016. Choosing the right platform is critical for your equity crowdfunding campaign success. There are a handful of UK based equity crowdfunding platforms that offer slightly different services and focus. Some focus on industry niches such as tech start-up’s or environmental projects only. The most popular platforms include Crowdcube, Seedrs, and Syndicate Room.

The two most used and famous platforms in the UK are Crowdcube and Seedrs. Because of the relaxed economic environment that created itself after the regulation of the crowdfunding markets, these platforms have been and example for crowdfunding portals worldwide, both in terms of success rate and service offered.
Crowdcube started operating in 2011. The platform offers investors opportunities to invest in companies from the startup, early stage, and growth phase with a starting sum of £10. Crowdcube is FCA licensed for the distribution of equity participation. A crowd of 300,000 investors, 430 financing rounds, and around €217 million capital raised make Crowdcube the market leader Great Britain and in Europe as a whole. Crowdcube's biggest competitor is Seedrs. Seedrs was the first platform to receive a license to distribute equity participation by the British Financial Conduct Authority (FCA).

2.6.3 In italy

Italy was the first country to regulate equity crowdfunding. Considering this, it is even more baffling how the numbers, of a potentially exponentially growing market could be held back. In these last years it became obvious that the laws are stringent and create a considerable problem for young entrepreneurs with innovative (and especially non-innovative) ideas to gain access to funding, even in non-traditional markets. The response of the Italian Government has been a general relaxation of the laws, to create an environment in which it would be easire to gain access to funds, even if the ecoomic return or the more widely used economic evaluation parameters are not easily definable, because of the innovative nature of the project. The market has, therefore, been established quite quickly initially, but didn't experience the same growth as in the other country's markets.
The stringent laws have been relaxed also in 2018, so it is interesting to see if the Italian market will be able to catch up to the impressive growth rates of the UK or other big players.
From 2013 until mid 2018 more than 17,5 million euros have been collected through equity crowdfunding only. The authorized only portals interface the creators and the investors with formats similarly seen in other countries and give the possibility to invest into the desired company's equity
From the Crowdinvesting Observatorium of the Milan Polytechnic we have a general picture of the 2017 numbers and some projections to 2018.
In Italy portals have to authorized by the Italian Government. This procedure, regardless of how tedious and slow it might be, is also a reality in many other countries such as Germany and the UK. The officially created platforms are 21, hardly comparable to the 77 ones that were created within 2016 in the UK. Interestingly enough, the more stringent laws and the possibily more in-depth evaluation of the equity crowdfunding portals of the proposed projects, have created a higher success rate overall of the projects: from the 144 new projects published this year 73 were successful. This implies a success rate of 60.3%, which is far higher than the around 1/3 change of succeeding in the US and the UK. Of the 22 projects currently looking for funding, 8 have already been funded and surpassed the minimum goal. The success rates and overall number change depending on the sources.

The numbers, however, still reflect the biggest limitations in the Italian Regulations: when the market first was regulated only innovative start ups could apply to dedicated portals. After an initial evaluation period the law was relaxed to expand the possibility of

participation also to “innovative SMEs”. The definition of these two categories will be given later on, but it suffices to know that requirements were less strict. That is why, of the 137 companies that posted projects: 122 were innovative start ups, 12 were innovative SMEs and 3 were so called “investment vehicles”.
From 2018 all SMEs are, with some restrictions, able to apply their project ideas to the dedicated portals.
The average funding campaign had a goal of €236.768. This number may be limited by the maximum amount fundable. The average traction of equity capital offered was 16.57%.
The average percentage of received funding over funding goal is 158.1%. This means that for some projects, the goal represents only a minimum amount. According to the platform and the funding agreement, however, the funding process can continue even if the goal is reached. In this case the only limitation is the willingness to fund of the backers and the time limit set at the start of the campaign. This number is especially impressive if we consider that some of the campaigns have been terminated successfully even without reaching the goal. In these cases the entrepreneurs can state a desired goal, that can be higher than the minimum amount necessary, at the cost of creating a product or service that is in some way less refined and expensive.
From the introduction of the equity crowdfunding regulations €17.563.310 have been collected through the use of portals. These numbers are much lower than other country’s, but considering that the law is sensibly changing, it will take some times to experience the full potential of this financing method. According to Statista, the largest number of companies using Italian equity crowdfunding platforms was based in the region of Lombardy (43 people), followed by Lazio with 13 and Piedmont with 11 in 2018.
From the following table we can see a comparison between the equity crowdfunding volumes and the lending crowdfuning volumes. As we can see, the lending volumes drastically increased showing the exponential growth typical of emerging markets.
Equity crowdfunding in comparison has has a much slower start, that we established to be caused by the regulation which experimented with the best solutions to regulate this new market. The last couple of columns represent only the first semester, so if we’re not considering seasonal changes, the 2018 figures could be double as much. In this case also equity crowdfunding would show the economic growth of an emerging market, unleashing its full potential. The 2018 regulation opened up the dedicated platforms to an incredible variety of projects and entrepreneurs who want to see them realized.
The following images are an elaboration of the tables present in the Equity Crowdfunding report of the Polytechnic of Milan of 2018.

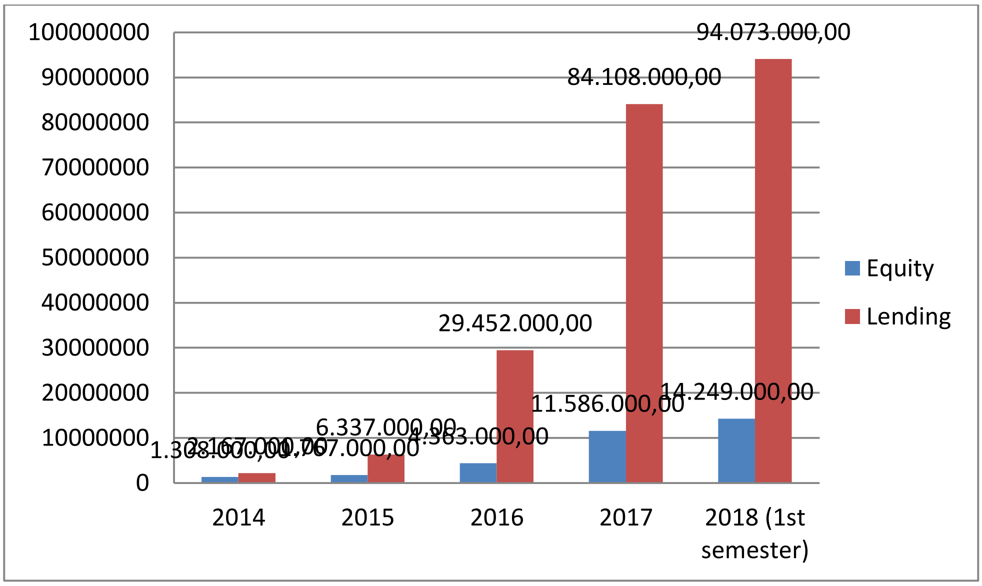

Fig. 2.6 Volumes gathered (in mio €) from equity and lending crowdfunding campaigns in Italy

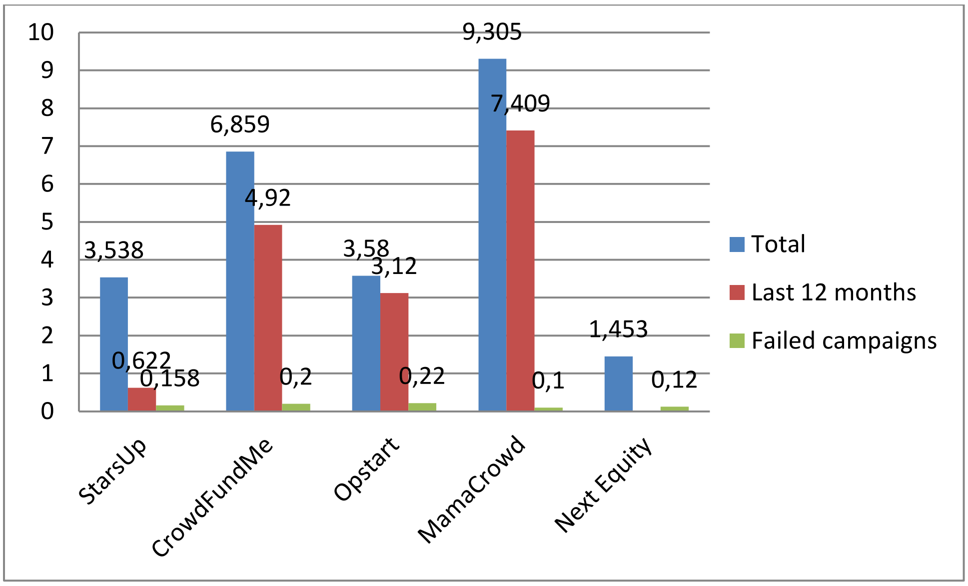

Fig 2.7 Capital gathered (in mio €) until the 30/6/2018 from CONSOB authorized equity crowdfunding portals in Italy

	2016	2017
Posted campaigns	43	69
Succesful campaigns	19	43
Failed campaigns	9	24
Success rate	67,80%	64,20%
Funding raised	4,363m€	10,126m€

Fig 2.8 Figures of the equity crowdfunding market (updated until 30/6/2018)

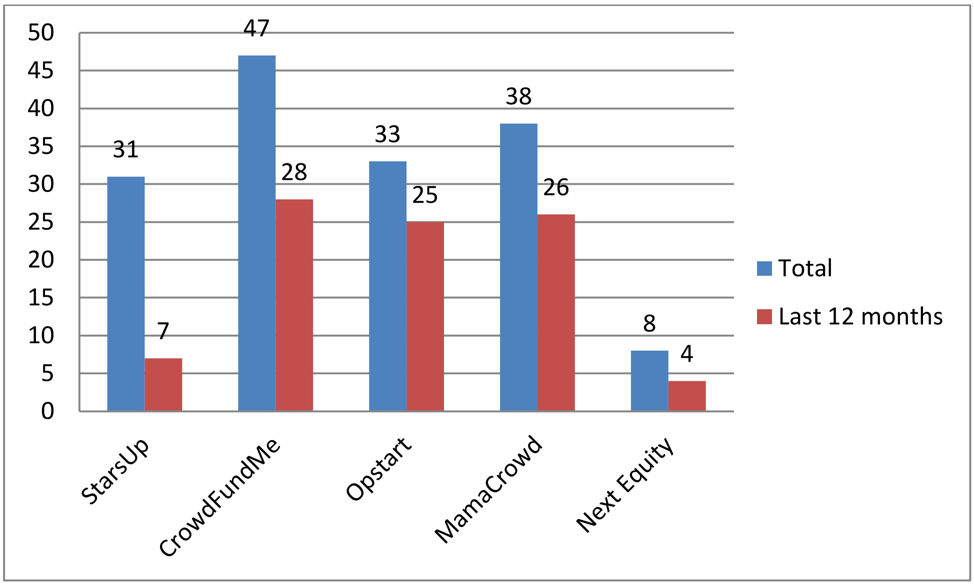

Fig. 2.9 Cumulated number of campaigns posted on authorized equity crowdfunding portals in Italy (updated until 30/6/2018)

2.7 Equity crowdfunding vs other financing methods

Equity crowdfunding was born as a necessity for the democratization of funding possibilities and succeeded because of the thriving world of social networks.
How is the funding through this process different from more conventional means and why was this form of funding the result? We will try to understand the birth of equity crowdfunding by analyzing some of the most used traditional forms of investing and funding, such as private equity firms (such as venture capitalists), business angels.
These analysis will then highlight some of the differences between the models.

2.7.1 Venture capital

Venture capital is a form of private equity. Private equity are investment funds in the form of limited partnerships (which are dependent by one general partnership who has management control and shares the profits of the firm) and whose investors are normally large institutional investors. These funds are not publicly traded. The following image will clarify the logic relation between the actors.

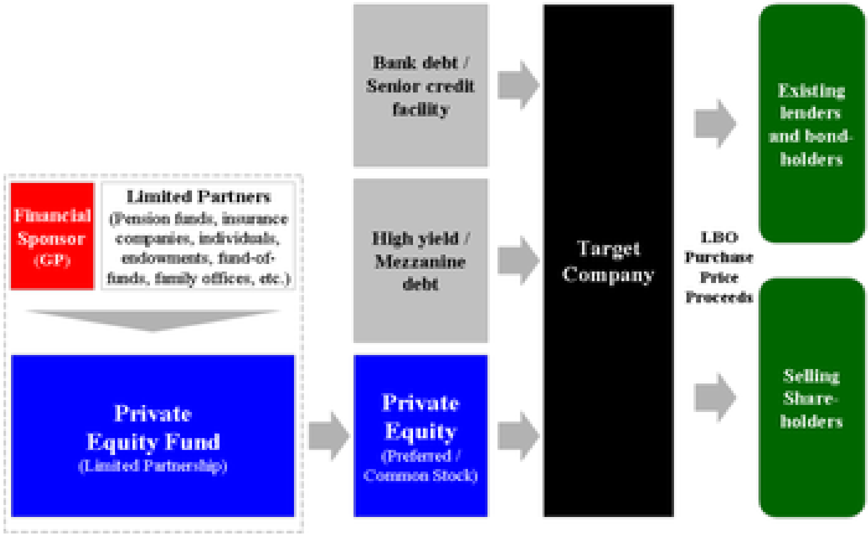

Fig 2.10 Mechanism of a Private Equity Fund
Source:wikipedia

These funds use extensively debt financing, with techniques such as the "leveraged buyout", to fund the target company. This is effective because it lowers the cost of capital, be decreasing the total cost of financing. The interest payments on debt have the peculiarity to reduce income tax liability. One of the most well-known forms of private equity is venture capital.

Venture capitals (from here on VCs) are private equity organizations who invest in early-stage companies that, according to some metrics, have high growth potential. However, private equity funds tend to buyout the target company (also in their mature stage), whereas VC uses a range of investment strategies.

Typically the time span in which the desired return is expected can start from a few years to around seven years. So the investment is medium to long-term. The participation of Vcs to a company's strategic and financial advancement has studied to be positively correlated to an above average growth and success rate.

Vcs work by pooling investments from major professional investors. In this phase funds are gathered into a portfolio. The funds are then allocated to a range of different non-quoted companies. These companies will be supported through monitoring and managed strategically.

The goal is, through financing strategies and know-how sharing, to create a company that is more valuable than before, with return rates similar to those predicted by their initial analysis. The target company will then be sold or put on the public stock exchange for profit maximization.

According to Metrick and Yasuda, there are five distinctive characteristics of the VC:

- it is a financial intermediary investing capital raised by investors directly in a portfolio of companies;

- it invests exclusively in unlisted companies;

- it plays an active role in monitoring and supporting the companies in the portfolio;

- it has the primary objective of maximizing the financial return with the exit from the investment through the sale or the stock exchange listing (IPO);

- it invests to finance internal growth of companies.

2.7.2 Business angels

Business angels are a form of financing that has similar goals with equity crowdfunding. Angel investors have been contributing to economic growth for decades, and can be defined in the following way:"An angel investor is an individual who provides capital from his or her own funds to a private business owned and operated by someone who is neither a friend nor a family member. Angel capital may be in the form of straight debt, convertible debt, or equity."

These individuals invest with private funds in the target company in exchange, for example, of shares. This funding process usually happens in the first growing stage. This is because, BA are not only moved by economical reasons. Surely they have interests in the economic return of the investment, but business angels enjoy being evolved in the business and its growth. They might also only be interested in the expansion of their network and know-how. They are individuals with prior expertise who will participate not only economically, but also by sharing their know-how. These are private investors, who where business owners or managers, retired or not, who enjoy directing a company or being part of an innovative project.

These individuals can aggregate themselves in groups called "angels groups" or "angel networks". According to a Harvard report written by William R. Kerr, Josh Lerner and Antoinette Schoar "angel funding is positively correlated with higher survival, additional fundraising outside the angel group, and faster growth measured through growth in web site traffic". This means that companies and projects funded by Ba are more likely to be successful than without them.

From a company growth perspective, business investors follow so called FFF investors and more professional funding types such VC.

Because of their particular involvement in the company, there is no upper limit for the funding of a BA. The BA have a connection with the company and are willing to take high risks to see it succeed, but they also expect high returns.

The process of a relation with a business angel start with a pre-screening phase, in which the BA assesses the economical value of the company and its potentiality. A screening phase in which they deepen their knowledge about the company, possibly by gaining access to usually confidential information like strategies and production processes. An investment phase will follow. In this phase the funding happens. The following step is the analysis of production and management processes in which the BA can participate by dedicating know-how, time and potentially other resources (Freedman, Nutting 2015).

The coming of equity crowdfunding changed the figure of the angel investor for two mains reasons. "The first reason is that before equity crowdfunding, individual angel investors typically had to commit large sums of money to participate in an angel deal, which usually amounted to tens (sometimes hundreds) of thousands of dollars in return for straight equity or debt that could be, under specific conditions, converted to equity. By contrast, through

most Title III crowdfunding portals and broker-dealer platforms, investors are able to buy in for much smaller amounts—as little as $1,000 or even much less.
The second reason this new class of crowd-angels is different is based on access. Before equity crowdfunding, the average investor did not have easy access to private securities offerings. Angel deals were offered mainly to angel groups, the members of which were accredited investors only; professional angel investors who were well known for writing checks to entrepreneurs; and strategic investors who worked in the same industry as the issuer and therefore were colleagues of or had affiliations with the issuer or its broker-dealer. Now, thanks to equity crowdfunding, many angel deals are aggregated on portals and platforms for everyone to see, no matter who you know or don't know."

2.7.3 Other models of financing

The world has shown modern approaches, hybrids and other solutions to the funding problem. In this section we will talk about some of them.
In many cases, when a company is at its earliest stages, the entrepreneur has to rely on his own funds. In this case, there may not even be a business plan, as can be a consequence of an initial technical analysis and Gantt creation. To do this, technical expertise is required, experience and general know-how. If the creator has not the possibilities to solely rely on his knowledge he has to acquire other resources which cost. In these early stages, the self-financing of an entrepreneur is called bootstrapping and is deeply connected to personal funds availability.

If the funds a creator has are not enough to jump start his idea, then the next logical network to tap into are the individuals closest to him. In the majority of cases in this phase the entrepreneur reaches out to family and friends. This approach is called FFF, short for "Family, Friends and Fools". These people may lack technical know-how and economic interests, but are motivated by the deep connection between them and the creator. Fools defines those individuals who, because of personal ties, take big risks by funding economically uncertain businesses (Agrawal et al.2011).

Bank loans are another way to get access to funds. These are, however, difficult to come by for various reasons. Firstly, the phase we are talking about is the initial concept and marketing phase. The businessman may lack financial credibility or expertise. To get access to a bank loan the creator has to meet many requirement, namely he has to have experience, a well-defined business plan and returns, and some way to ensure that in case of failure, he won't be insolvent (collateral) (Macchiavello 2012)

When talking about later phases of financing, invoice trading may be beneficial. In this process a company creates an auction in which the bidders can offer starting from a minimum starting price. The winner will get the invoice accredited and pay a parte of the sum (usually around 90%) within the following 2 days. The goal of this transaction is to secure working capital, because in many cases a credit is going to be repaid after long periods of time, making further investments not possible.

Impact finance may be another solution. This is a new financial model with not just financial goals. The investors look for investing opportunities, but consider also the positive environmental impact of the target company. The goal is to change positively the economic and social landscape by actively seeking projects that have a beneficial impact on the environment. The funding individuals and their respective groups may vary, from philanthropists to insurance companies. The sectors targeted are different but show this deeper and not purely financial goal. Depending on the start ups project, this may be a valuable option (S. Greene (2014), A guide to Impact Investing).

Public funds are also an option. These are state regulated, but act usually just as an incentive and are the consequence of a long bureaucratic process.

2.7.4 A comparison between funding models

The various funding models, their validity and feasibility change according to various factors such as economic and social context, the phase at which the company is, whether it has prior experiences of not, the quantity necessary, which are the collaterals available, the company objectives and the desired relationship with the financial backers.
All models have pros and cons. If we consider the FFF model and bootstrapping, we have to understand that these funds are the most easily available, but are usually limited. They represent personal funds invested because of personal relationship with the creator and are a viable option only in the earliest stages.
When talking about VC and BA, the VC's fund manager has the double duty of collecting funds from professional investors (individuals or institutional investors) and to allocate them in a portfolio of different target companies. Whereas BA have direct control over the fund allocation, investors who lend money to VC have not. Angel investors directly choose how to create the portfolio and the portfolio companies, without a middleman. So the VC manages a pool of funds, whereas business angels use their own.
These two models are radically different. VC are a group of professionals, who use various metrics to establish the economic feasibility of a project. BA are moved often times for different reasons, such as a deeper connection with the cause of the project. Furthermore VC may be more suitable in case of substantial financing. The funding attainable from a VC can be very large (Freedman, Nutting 2015).
Loans are often a viable option, but the feasibility of the project has to be assessed also from the creator, because otherwise the collateral may be at risk. Depending on the stage of the company, from its earliest seed stage to the growth stage, we can order the probability of funding in this way:

-for the seed stage: bootstrapping, FFF, public funds;

-start up stage: business angels, venture capital;

-growth stage: venture capital, other corporate investors and loans.

Equity crowdfunding can be applicable to the earliest stages to the growth stage. In some cases it has success also when the project is established, but more traditional options may also be viable.
A difference between equity crowdfunding and BA, VC is that in the former they may not be a decisional involvement of the backers in the strategic choices of the company. They have acquired at least partial voting rights, but in BA and VC the participation can be substantial and consistent throughout the growth stage. A common desire of these three models is to receive capital gain upon selling their shares. Furthermore, the contracts established between crowdfunders are, because of the sometimes huge numbers of individuals involved, quite standardized. When using the other two financing option the contracts are financial tools to tailor specific and contextual needs. In equity crowdfunding the due diligence process is certainly less a priority, as consequence of the smaller funds. This means that a lot of companies that wouldn't qualify for the other two methods, because of lack of return plans, or even lower returns that what may be wanted, qualify in the eyes of the crowd investors.

As is shown in the figure below, the difference also resides in the moment in the target companies hypothetical growth, in which they invest.

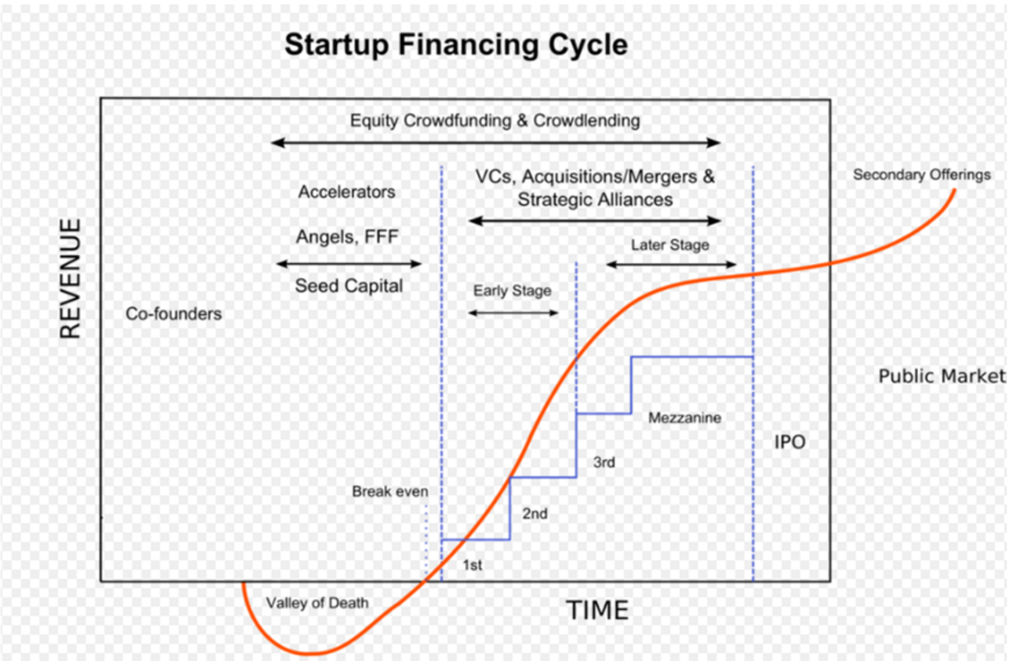

Fig. 2.11 Various financing models in a startup's lifecycle
Source: http://www.netvalley.com/silicon_valley_history.html

The "valley of death" in represented in the image is the moment where revenue is negative, as a consequence of self-financing without returns.
In the following picture we can see the total annual funding quantities of Vcs, angel investors and crowdfunding.

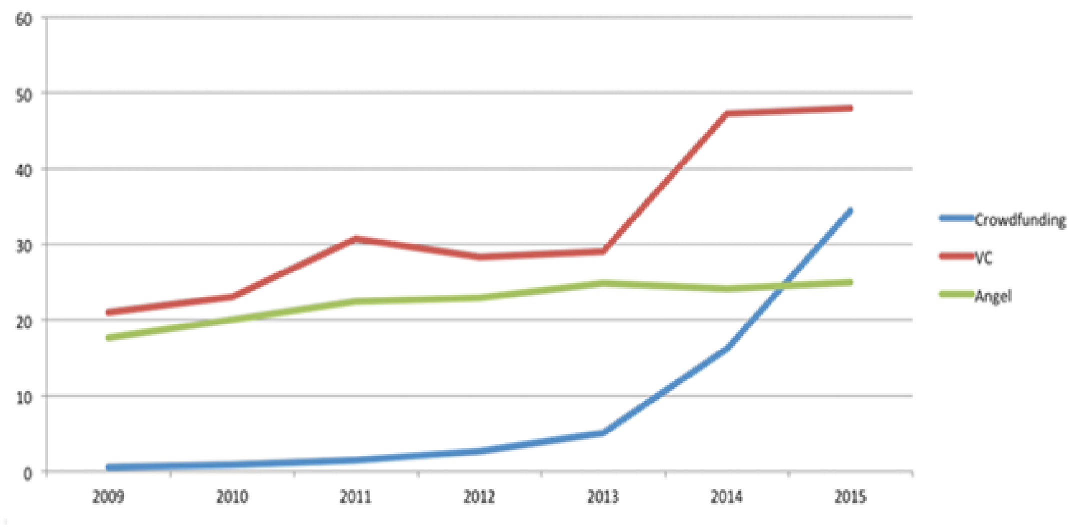

Fig. 2.12 A comparison between funds invested with crowdfunding, VC and Angels methods
Source: crowdfunder.com

Chapter III: Equity crowdfunding regulations and markets around the world

In this section we will analyze how crowdfunding and equity crowdfunding have evolved to be a regulated part of the economic landscape. We will analyzed contextual differences and legislative solutions that rule the exercise of crowdfunding. We take a look at the world's most influential player and try to understand how different solutions affect the crowdfunding landscape.

3.1 The regulation in Italy

We will start our analysis by looking at the solutions adopted in Italy, both because it is the home country of the Politecnico di Torino and because it was the first to regulate equity crowdfunding.
The following part is an elaboration of the 3rd Italian report of Crowdinvesting ("Terzo Report Italiano sul Crowdinvesting" based on a study of the Politechnic of Milan School of Management).
Equity crowdfunding was introduced the 17 December 2012 in Italy by the *D.L. 179/2012* ('Decreto Sviluppo Bis') converted into *Law 221/2012*. The decree is part of a series of laws and measures by the "agenda for sustainable growth" of the Monti Government and the main areas of intervention concern digital infrastructures and services, the birth and development of start-ups. up-to-date, tax instruments to facilitate the creation of large-scale projects with private capital, attracting foreign investments in Italy and other liberalization measures in the insurance sector.
The policy intent was to introduce and regulate the pooling of risk capital through the Internet with the goal of favoring the birth and development of *innovative startup companies*.

Definition of innovative startup company: from the official governmental recap of 2016:

"The financial object considered by the decree are capital companies, also incorporated in a cooperative form, whose representative shares or units of the share capital are not listed on a regulated market or on a multilateral trading system, which meet the following requirements:

1) are new or have been established for less than 5 years;

2) have their main office in Italy, or in another member country of the European Union or in States
acceding to the Agreement on the European Economic Area, provided they have a seat or a branch of production in Italy;

3) have an annual turnover of less than 5 million euros;

4) do not distribute or redistribute profits;

5) have as their exclusive or predominant social purpose development, production and marketing of innovative products or services with high technological value;

6) they are not constituted by merger, company spin-off or following sale of company or company branch;

7) finally, the innovative content of the company is identified with the possession of at least one
of the following three criteria:

- at least 15% of the greater between turnover and annual costs is attributable to assets of research and development;

- the overall workforce is constituted for at least 1/3 by doctoral candidates, doctors of research or researchers, or at least 2/3 from members or collaborators to any title with a master's degree;

- 3the company is the owner, custodian or licensee of a registered patent (industrial property right) or holder of original computer program registered."

The D.L. 179/2012 intervened in art. 30 modifying the Consolidated Law on Finance (TUF, in the part that governs the public offers) and put some specific stakes for the equity Italian crowdfunding. The goal was to entrust CONSOB with further legislative measures in order to guarantee that non-professional investors would have an understanding of the investment opportunities and to regulate crowdinvesting platform environment. The regulation was divided in 3 sections. In the first section the financial means and the actors involved were defined. The second part talked about the norms and laws to consider regarding the official register of companies ant the duties of the portal. The third part defined the 'Ordinary Section' (in which the authorized platforms are listed) and the 'Special Section' (in which investment firms and banks that are managing equity crowdfunding portals are listed). This stated:

1. collection of the funds must be carried out through Internet platforms managed by investment companies and banks authorized for the relevant investment services that they have communicated to the CONSOB, before the start of operations, the goal of the management activity a portal as well as the authorized subjects based on certain requirements must be registered in a special list kept by CONSOB ('ordinary' section of the register), provided that the latter transmit the relevant orders
the subscription and purchase and sale of financial instruments representing capital exclusively to banks and investment firms;

2. campaigns had to be proposed by companies that qualify as innovative start ups and must concern equity securities of the capital;

3. the amount of the offer must not exceed the established limits (art. 100 paragraph 1 of the TUF), or in this case € 5 million.

The law then asked CONSOB to define specific operating procedures.
After a consultation with the system stakeholders at the beginning of 2013, the CONSOB Regulation was published in June 2013; and stated facts about:

1. the requirements of integrity and professionalism of the operators of the portals authorized in the section 'Ordinary' of the register, as follows:

- must act with transparency, diligence and correctness avoiding the occurrence of conflicts of interest and ensuring equal treatment for all recipients of offers (investors);

- ensure transparency towards investors by making all information regarding the offer available in a detailed, clear, correct and not misleading manner; in addition, the attention (on the part of the managers) of investors other than professional investors must be drawn on the appropriateness that investments in high-risk financial assets are adequately related to their financial resources;

- ensure the correct updating of the information conveyed on the portal, accessibility for at least the twelve months following the closing date of the offer and full availability to those who request it for a period of five years;

- refrain from making recommendations regarding the financial instruments subject to the individual offers;

- indicate the criteria according to which the offers are selected and provide all the information regarding the activity performed by the issuer (start-up or company in general) and its corporate structure;

2. the authorization and sanctioning process;

3. the rules of conduct of portal operators and the minimum disclosure to be provided to potential investors, especially on possible risks;

4. the requirement that at least 5% of the financial instruments offered be subscribed from "professional" investors or from banking foundations, financial companies for innovation and development, incubators of innovative startups, with the aim of providing to small investors a minimum signal on the quality of the issuer. This means that without reaching 5% of professional backers participation even a successful project couldn't be funded;

5. provide an obligation for the issuers to include in their statutes of incorporation appropriate measures to guarantee to the investor a way out in the case where the controlling parties of the company gives way, or makes use of tag along clauses (which allow investors to sell their shares together with those who sell) or withdraw;

6. the right to cancel the subscription order for investors, to be exercised within 7 days.

The reference law was then amended by the D.L. 3/2015 ('Investment Compact') and other measures that have extended the opportunity for equity crowdfunding to the new category of 'innovative SMEs'' (that is to say all the small and medium Enterprises that operate in the field of technological innovation, regardless of the date of establishment), to collective investment schemes of savings (UCITS) and corporations that invest mainly in innovative startups and innovative SMEs, to 'tourism startups' provided for by article 11-bis of the D.L. 83/2014.

The 'innovative SMEs' are defined as:

1) must have a number of employees less than 250 and an annual turnover that does not exceeds 50 million euros or a total annual balance sheet not exceeding 43 million of Euro;

2) must be established in the form of a joint stock company or a cooperative company;

3) must have residency in Italy or in one of the Member States of the European Union, provided that it has a production or branch office in Italy;

4) must have the certification of the latest financial statements and any balance sheet consolidated financial statements drawn up by an auditor or a registered auditor in the register of auditors;

5) must not have shares listed on a regulated market;

6) must not be registered in the special section of the innovative registry start-ups of the companies, foreseen by the art. 25, paragraph 8, of the D.L. 179/2012.

The 'innovative' part of the SMEs was defined quantitatively in a later section. The volume of expenditure in research, development and innovation had to be equal or greater of the greater amount between cost and total value of production by 3%.

Subsequent to the experience gathered in the former months of platform activities, CONSOB deemed it appropriate to revise the Existing regulation, publishing a new document in 2016, which introduced relevant changes and 'relaxed' some constraints, with general consent and appreciation from part of the community formed around the nascent industry:

1. The list of "professional" investors was extended to those classified 'On request' under the MiFID (Markets in Financial Instruments Directive) regulations by the intermediary of which they are customers, making it is easier for companies to meet the requirement of a minimum quota of 5% of the offer; moreover, also the undersigned part was considered eligible in the calculation of 5% from 'serial' investors in crowdfunding (such as business angels) or physical people with experience in directing startups or innovative SMEs;

2. the obligation of the crowdfunding platforms to start the activities within 6 months from the authorization was introduced, with consequent penalty of the forfeiture of the authorization itself;

3. it gave the possibility to the portal operator to verify directly, for each order of acceptance of the offers received, that the client has the level of experience and knowledge necessary to understand the essential characteristics and risks that the investment involves (verification that can only be carried out by banks and estate inter-mediation activities).

A further incentive to reduce transaction costs was the introduction (always in the D.L. 3/2015) of the possible regime of dematerialization of shares and shares for SMEs and innovative startups that laid the foundations for the development of a secondary market of the shares subscribed in crowdfunding. The cost of the transfer practice (which was hardly less than € 400) represents today a powerful disincentive respect the investment of small sums of money.

Another significant innovation for the world of equity crowdfunding has been the increase of 30% of the tax deduction rates (for natural people) and deductions (for legal entities) in favor of those investing in venture capital of startups and innovative SMEs, under the conditions described by the MEF Decree of 30/1/2014.

3.1.1 The 2017 Amendment and 2018 Resolution

In 2017 the Stability Law (Law 232/2016), through a specific amendment, has extended the possibility of equity crowdfunding to all SMEs; D.L. 50/2017 has eliminated any doubt regarding the applicability of the standard not only to the SpA but also to the Srl.
The D.L. 129/2017 then changed some rules of the Consolidated Law on Finance (TUF), better specifying what is meant by PMI, and imposing the adhesion of the portal operator to a compensation system to protect investors or, alternatively, the stipulation of a professional liability insurance that guarantee equivalent customer protection.
After a public consultation, with Resolution no. 20264 of 17/1/2018, Consob has implemented the legislative innovations mentioned above and updated the 2013 Regulations, introducing some significant news. The 'Regulation on the collection of risk capital through online portals' (Regolamento sulla raccolta di capitali di rischio tramite portali on-line of 2013, then changed in 2018) is divided into 3 parts:

1) **PART 1** - General Provisions: in this section regulatory sources are stated, the most important definitions are given (such as SME, portal, portal manager, control, offer, etc.) and the website for communication with CONSOB is given;

2) **PART 2** - Registration and discipline of the managers of the portals: creation of the register, subscription in the register, conduct rules, sanctions and precautionary measures

3) **PART 3** - Regulation of the offer on the platforms: conditions of the offers on the portal and amendments to the 26.6.2013 Law (n. 18592).

We will now look in more detail some of the 2018 amendment points, subdivided into the 3 componing parts.

PART 1- General Provisions

This part starts by defining the following terms:

a) "Consolidated Text": the legislative decree of 24 February 1998, n. 58;
b) "decree": the decree law 18 October 2012 n. 179 converted, with modifications, from the law 17 December 2012 n. 221;
c) "offerer":
01) *small and medium-sized enterprises*, as defined in Regulation (EU) no. 2017/1129 of the 14th June 2017;
1) *the innovative start-up company*, including the social start-up;
2) *innovative small and medium-sized enterprise*s ("innovative SMEs"), as defined from article 4, paragraph 1, of the legislative decree 24th January 2015;
3) *the collective investment company* ("UCI") that invests predominantly in small and medium-sized enterprises;
4) corporations that invest mainly in small and medium-sized companies companies, as defined by the decree of the Ministry of the Economy and Finance 30 January 2014;
d) *portal*: the online platform with the exclusive purpose of the facilitation of risk capital raising by bidders;
e) *manager*: the person who professionally exercises the management service of portals for raising risk capital for bidders and is registered in the appropriate register kept by Consob;
e-bis) *subjects that receive and complete orders*: the banks, the SIM, the EU investment firms, companies from third countries other than banks and, with reference to orders relating to shares or quotas of UCIs,;
f) *control*: the hypothesis in which a subject, natural or legal person, or more subjects jointly, have, directly or indirectly, also through shareholders' agreements, the majority of the votes that can be exercised in the ordinary meeting or have sufficient votes to exercise a dominant influence in the ordinary assembly;
g) *offer* means a public offering conducted through one or more portals for the raising of risk capital;
h) *financial instruments* means the shares and units representing the capital social security or UCIs, subject to public offers conducted through portals.

It follows by mentioning the official email address at which documents and eventual questions have to be sent to: portalicrowdfunding@pec.consob.it

PART 2 - Registration and discipline of the managers of the portals:

1. definition of minimum insurance coverage requirements to be offered to investors both at the individual investment level and at the overall level for the platform;

2. the possibility for the platforms to voluntarily give up the authorization

3. the strengthening of organizational safeguards in terms of conflict of interests (with a specific regulation for managers who intend to raise capital on their own Platform). Consob intends to avoid that platforms can launch equity crowdfunding campaigns on themselves. The reason is that, according to Consob, the platforms are not able to ensure sufficient management of the conflict of interest. In support of his thesis, Consob refers to complex technical-legal explanations concerning Mifid 2, but does not explain what he means by conflicts of interest regarding the specific case of platforms that self-place their shares. The conflict of interests can manifest itself in two ways: on the one hand towards the other campaigns, which are in parallel, which could be penalized in terms of visibility on the platform; on the other, to investors who may not fully informed as the platform presenting itself could be more lenient than it normally is with other companies.

4. the reduction of the threshold of 5%, relating to the minimum fraction of the offer it must to be subscribed by 'qualified' investors, to 3% for offers made by small and medium-sized companies in possession of the certification of the financial statements and of any consolidated financial statements, relating to the last two years preceding the offer;

5. the definition of whistleblowing policies;

6. Clearly, the extension to all SMEs of all standards previously reserved for SMEs only innovations, including the obligation to provide in the Articles of Incorporation the right of withdrawal or sale for investors and to publish any shareholders' agreements, as well as other information relating to the identity of the financial advisors of the issuer, of its governing body control and auditors

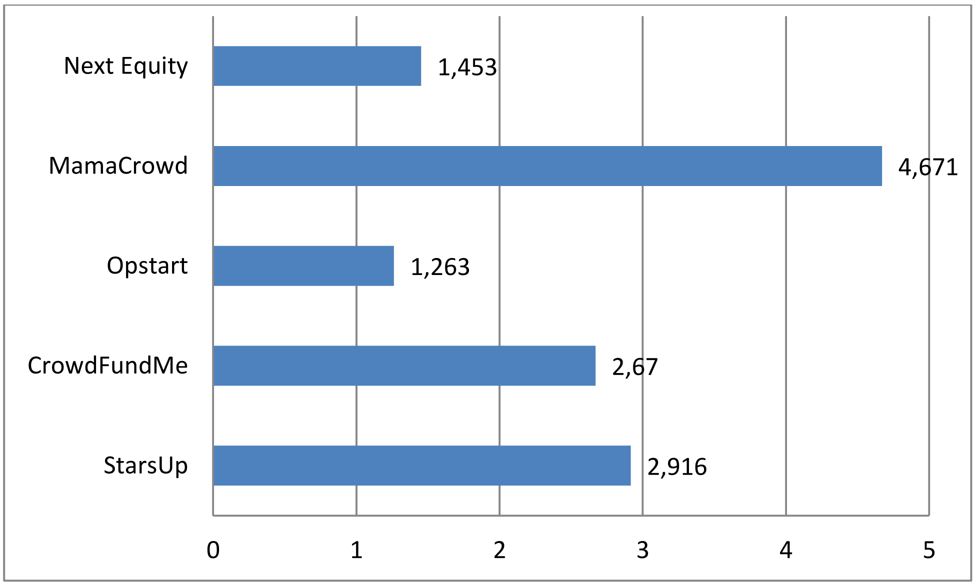

Fig. 3.1 Capital gathered (in mio €)
Source: Crowdinvesting del Politecnico di Milano

3.2 The regulation in the U.S.

Before the introduction of crowdfunding and equity crowdfunding laws, investing into start ups or any other high risk/reward company/project was highly impractical and illegal.
Until then the only legislation similar to the one later on introduced was enacted in 1933 and defined the role of angel investor. As above, angel investors are usually wealthy private individuals with willingness to participate in projects of their liking, usually not just for the possibility of a financial return, but also for emotional involvement. In this law, angel investing was made possible for either literally the wealthiest people in America, founders of private companies or from "Family, friends and fools".
This law was named the Securities act of 1933 and was later on further expanded by the Securities and Exchange Commission (SEC). In this law the concept was further extended in these two points:

- the definition of "accredited investors": issuers of company stock shares could sell those share only to this type of investors. They are defined as individuals with a net worth of at least $ 1 million or an annual income of $200.000. The shares could be sold to an unlimited number of these investors. The stock share could also be sold to so called "non-accredited investors". In this case the number of investors was limited to 35, and the transaction could only occur if the non-accredited investor understood the risks of investing in a start-up and if there was a personal relationship with the founder or close advisers

- private issuers could offer shares only to people with whom they had a "substantial" relationship with. Furthermore no advertising or general solicitation could occur, so the general public could not be informed actively.

Until modern legislation, these were the rules. This is one of the possible reasons for which Apple stock, that was already purchasable in 1977, wasn't highly marketed nor well-known. Americans with an average net worth and wage didn't have the possibility to interact with companies of their choice both because prohibited by law, and because the knowledge of the existence of the shares of these companies were a privilege of the few.

3.2.1 Introduction to the JOBS ACT Title I, Title II and Title III

Under the Securities Act of 1933, any company that wants to offer securities to investors, whether debt-based or equity-based securities, must either register an offering with the SEC or comply with the conditions for an exemption from SEC registration.
From "Equity Crowdfunding for Investors" of Freedman and Nutting, we understand that registration is *very* expensive and time-consuming (whether or not the offering is successful), so small and midsize companies usually attempt to rely on one of the several exemptions that the SEC the courts have established over the years. The cost varies and depends on the complexity of the business, the ability of the management team to provide support to outside attorneys, etc. According to Samuel S. Guzik "For a relatively small company conducting an initial public offering, these fees alone will generally range from $200,000 on the low end to well over $1 million. These costs can drop significantly for a company that is already public, often as low as $25,000 to $75,000, since the company will have already developed comprehensive SEC disclosure documents, including audited financial statements, and typically will have internal financial controls in place."
For a larger company the price can go up to several million dollars
In 1982 Regulation D was created. It is a set of rules adopted by the SEC created to clarify the conditions of certain exemptions from registration under the Securities Act of 1933. Reg D actually contains three different exemptions for private offerings: Rules 504, 505, and 506. Of the three, Rule 506 is by far the most popular; it accounts for 99 percent of the capital raised in Reg D offerings and 94 percent of the number of successful raises.
In 2012, capital raised under Regulation D offerings amounted to more than $900 billion. The first non-regulated equity platforms appeared in the United States in 2011 using web-portals that offered reward-based crowdfunding.
Rule 506 allowed an unlimited number of accredited investors and up to 35 nonaccredited investors in each private securities deal off-platform. To simplify compliance (because Regulation D mandates significant disclosure when nonaccredited investors are involved), Reg D offering platforms chose to allow only accredited investors to register on their platforms and participate in the equity offerings. On Reg D platforms, Rule 506 allowed investors to "self-certify" their accredited status, usually by checking a single box on the platform's registration form. Rule 506 does not limit the size of an offering in terms of dollars (Freedman, Nutting 2015).
Before the regulation made in September 2013, general advertisement and solicitation to the public was prohibited for all securities offerings. Company stock issuers could, as mentioned before, only conclude deals with people with whom they had a strong personal relationship with. To clarify, For equity offering platforms, *general solicitation* means announcing or advertising the offering outside of the platform where the offering is listed.

Many years had to pass to see regulation about this type of financing. In 2012 a legislation changed the game forever opening (at least partly) and regulating the market of private funding. The United States Congress gave to the public the possibility to interact with angel investors and to advertise to the general public.
The Jumpstart Our Business Startups (JOBS) Act, signed by President Barack Obama on April 5, 2012, aimed to encourage small businesses in the United States by relaxing securities regulations. This act is also called Title III or the crowdfunding act, because it gave the possibility to private companies and projects to be funded by the general population and not just a selected few.
The goal was to regulate the financing of small-medium enterprises.
This law is sub-divided into smaller sections called books, more specifically seven of them (book II and III define crowdfunding). The bipartisan consensus was a consequence of the general understanding the SMEs are the financial spine of the U.S. A change in the jurisdiction was for at the time President Obama of the highest importance. He understood the for the economic well-being he had to deregulize and relax some of the constraints present in previous regulations, as to consider emerging platforms and means of financing that were more and more popular. Around one fifth of the GDP of the U.S. is a derivative of start up efforts and closely related to more jobs in general.
The JOBS act was not only a response to an emerging need, but also the bigger need of an economy that had to expand again from the 2008 contraction.

The first three chapters of the JOBS act talk about equity crowdfunding, more specifically:

- **TITLE I**: talks about "Reopening American Capital Markets to Emerging Growth Comapanies".

- **TITLE II**: talk about "Acces to Capital for Job Creators"

- **TITLE III**: defines Crowdfunding

3.2.2 TITLE I

This part has been nicknamed the "IPO on-ramp". In this section ECGs are defined (emerging growth companies) and all the requirements a company needs to be defined as such. Afterwards, exemptions and duties of these newly created companies are defined in-depth.
An ECG is a company with less than $1 billion of yearly revenue, indexed for inflation.
Some specifications are added such as:

- the time span in which a company is considered a ECG, more specifically the time interval in which gross revenues are lower than $1 billion:
- the 5 year time span during which a company is considered an ECG. This time span starts from the date at which the first share is sold.
- the date the company is considered a "large accellerated filer", I.e. the date on which the company becomes a public company that has all the following characteristics at the end of the fiscal year:

1) the company's stock is equal to or higher than $ 700 million and that this has been higher than $ 700 million even at the end of the second quarter of the same fiscal year;

2) the company is subject to disclosure obligations set forth in sections 13 (a) or 15 (d) of the Exchange act for at least 12 months;

3) the company has submitted at least one annual report to shareholders pursuant to section 13 (a) or 15 (d) of the Exchange act;

4) the company is no longer eligible to make use of the EGC exemptions on corporate reporting needs.

The following part establishes exemptions about wealth growth in companies and the duty of the ECG to inform the state. Some laws are changed and rectified, such as: the 1934 Securities Exchange act and the Investor and Protection and Securities Reform Act of 2010.
Furthermore, for EGCs it is not necessary to have more than 2 years of auditing of the financial statements in order to register the company for an initial public offering of its shares, and in particular it does not have to present any financial data concerning the financial period preceding the IPO.

3.2.3 TITLE II

Title II lifts the ban on general solicitation and advertising for private offerings under Rule 506 of Regulation D of the SEC (Securities and Exchange Commission). The benefit of general solicitation is that issuers can announce their offers to a much wider pool of potential investors (but still must sell shares only to accredited investors). Title II also permits general solicitation for the sale of some restricted securities to “qualified institutional buyers”.
Regulation 506 was changed mainly in two parts:

- Rule 506 (b): often called the “traditional part”, allowing 35 nonaccredited investors to invest in the company, and prohibiting general solicitation and letting accredited investors self-certify.

- Rule 506(c): called the “new” part. It lifts the ban on general solicitation and limits an offering to accredited investors only. It also requires Reg D platforms to “take reasonable steps” to verify each investor’s accredited status.

In Title 2, it is also specified that the investment offers of innovative start-ups can not be accepted by the general public, but only by accredited investors, and it should be noted that the issuer must take measures to ensure the membership of the investor in this class. Which means that active steps have to be taken to evaluate the economic properties of the investor.
With the approval of this section the ban to general solicitation has been lifted. This ban, applicable only to innovative start ups, has almost 80 years and is a derivative from the Securities Act of 1933. The modification of the regulation allows EGCs to use tools such as Facebook and Twitter to advertise their proposals on crowdfunding platforms. Until then,

the general solicitation, that is to say, publicizing the fact that a capital increase is being made, was allowed only to companies listed on the stock exchange and to people with certain financial requirements.

It is interesting to see how the figure of the accredited investor changed over time. To belong to this group you have to belong to one of the 8 classes defined as follows:

1) Trust funds with assets exceeding $ 5 million

2) Managers of employee benefit plans with total assets of more than $ 5 million;

3) Individuals whose individual net assets exceed $ 1,000,000;

4) Individual directors, managers or shareholders of a securities sales company;

5) Companies in which all shareholders are accredited investors;

6) Individuals with annual income of the last 3 years above $ 200,000.

7) Banks, insurance companies, and registered investment companies;

8) Charitable organizations with total assets exceeding $ 5 million;

3.2.4 TITLE III

Title III is the section that directly regulates equity crowdfunding and is therefore the most relevant for this analysis. It's full name is "Capital Raising Online While Deterring Fraud and Unethical Non-Disclosure Act of 2012". As seen from this nomenclature high importance is given both to the relation of these new funding forms with the internet and to the regulation of fraudulent activities on them, but the most important change is that Title III legalizes the offering of up to $1 million in securities (equity and debt) by private startups and small businesses to all investors (including nonaccredited investors) through two kinds of intermediaries: broker-dealers or the newly created class of regulated entities called funding portals. The rules for the regulation and limitations of equity crowdfunding are written in this section, like the type of investor they can target.
Title III is because of its modern subject, continuously changing.
Because of the risks involved, in the U.S. investors are limited in how much they can invest during any 12-month period. The inflation-adjusted investment limits depend on the net worth and annual income:

- If annual income or net worth is less than $107,000, then during any 12-month period, investors can invest up to the greater of either $2,200 or five percent of the lesser of your annual income or net worth.

- If both annual income and net worth are equal to or more than $107,000 then, during any 12-month period, backers can invest up to 10 percent of your annual income or net worth, whichever is less, but not to exceed $107,000.

In addition to investment limits described above, other requirements and procedures have been put in place to protect and inform those who invest in crowdfunding offerings. Among the most important, backers can invest only through an online platform of a broker-dealer or a funding portal, an intermediary that was created by the JOBS Act itself. Informing investors about these investments and their potential risks have been important points in the JOBS Act, since they are likely to be early-stage ventures and may be highly risky. That is why, companies that conduct offerings under Regulation Crowdfunding are required to disclose, among other things:

- A description of the business of the company and its anticipated plan of business, including its name, legal status, physical address and website address.

- A discussion of the material factors that make an investment in the company speculative or risky.

- A discussion of the company's financial condition.

- The names and positions of the directors and officers; the name of each person who is a beneficial owner of 20 percent or more of the company's outstanding voting equity securities; and additional information such as the business experience of the directors and officers over the past three years.

- The price of the securities or the method for determining the price.

Investors will be limited in their ability to resell the investment for the first year—and may need to hold the investment for an indefinite period of time. While they are allowed to transfer shares to certain parties such as a family member or the firm that issued the securities, this may not be easy to do.
The investor has 48 hours to change his mind and retrieve what he has invested.

3.3 The regulation in the UK

The UK has proven to be Europe's biggest player in the crowdfunding market. Its permissive regulation and open mindset have created a wealthy trading process in which many forms of crowdfunding flourish. Amogst them equity crowdfundig has demonstrated to be a valuable contribution to the creation of high risk projects.
The UK economic structure is prone to the support of innovative ideas. This is a consequence and a reason why over 90% of the SMEs belong to the private sector. A natural consequence of this financial situation is the need to stimulate SME's growth by providing it with the financial tools it needs, also in the seeding stage.
As in many other countries, one of the reasons of the gaining popularity of the alternative financing methods is the bridging of the funding cap. Government loans and generally more relaxed bank evaluations may be a way for the state to bridge the gap between ideas and finalizing projects. In 2016 the UK considered the possbility of forwarding by law to alternative financial markets all those SMEs who were rejected by traditional institutions such as banks. This would make it easier for the SMEs to receive funding, and may change the perceived value of the SMEs with respect to the bank, It is certain, however, that to

increase the economic contribution of highly innovative start ups also the understanding of the banks, venture capitals and other institutions have to change in order to consider cases that have been, for now, not eligible for a funding. Many young entrepreneurs, on the other hand, opt for incubators. These help the content creators, especially if inexperienced, to create complementary business works, such as business plans, and to relate to those key individuals who are able to transform an embrionic idea into a reality. Angel investors are definitely an option as well, since they account for more than £1 billion of the funding market. A new reality in the UK are also challenger banks, These institutions take a more modern approach to the traditional banking system. The alternative funding market in the UK grew exponentially till 2015. From 2016 onwards however the trend slowerd down, possibly because of choices such as the Brexit. However the market is still very much growing and the consequence of Brexit are difficult to evaluate.

The British Government has shown how important the creation and maturation of this market is by contributing financially in equity crowdfunding projects and directly supporting the entrpreneurs. Investors in equity crowdfunding campaigns can have tax benefits. Investors with available funding of up to £ 1M, who invest into high-risk companies can receive a 30% tax relief on their investment. Since 2012, this program was extended to also cover nascent companies in the seed stage, which can be used by investors looking to invest up to £ 100,000. A tax relief of up to 50% can be received in combination with capital gains tax in some cases.

From a legal point of view, equity crowdfunding falls under the Financial Services and Markets Act 2000, however the approach of selling non-readily realizable securities (i.e. securities, which are often lacking a liquid market) through an equity crowdfunding platform was not specifically considered in the FSMA 2000.

In the second quarter of 2013 the Financial Conduct Authority (FCA), however, has started to approve UK based equity crowd funding platforms. The biggest consideration was the idea of giving retail investors, who do not possess vast investment knowledge both the freedom to invest while still offering considerable protection, e.g. limiting direct offers to professional clients or retail clients who will not invest more than 10% of their available assets.

The Financial Conduct Authority (FCA) regulates all equity crowdfunding platforms in the UK. The FCA also enforces the Prospectus Rules, where if a raise goes beyond €4.3m, the company will need to produce a prospectus which will need to be approved by the FCA.

In 2013 the market volume for startup financing via the crowd was just short of €32 million, but it jumped up to €280 million in 2015. The total British market volume for equity crowdfunding (including real estate) in 2015 was approximately €389 million according to a study by Cambridge University. Crowd financing of startups and growth companies alone amounted to €287 million.

One of the reasons why in Italy, even if regulation of the Italian market has anticipated the regulation in the British market, the equity crowdfunding process doesn't have has much success, nor similar number is because the regulatory approach has been more relaxed. The UK FCA regulation does come with its limitations, but they appear to be more contextually effective than in Italy, where an overwhelming bureaucratic apparatus and procedures may suffocate emerging crowdfunding projects.

Some of the restrictions the FCA applies are reminiscent of the Italian and US approach to regulate the funding phenomenon. Initially for example. investors are required to self certify themselves as being a high net worth individual or experienced investor with a view to protect individuals who may not be aware of the risk involved when investing in small and medium sized enterprises. This is similar to the approach in the US, where initially the funding process was an exclusive for so called “accredited investors”, who had to have a high net worth to participate. Being an experienced investor on the other side resembles more the Italian approach, in which, according to the most recent changes, the focus point is on the education of the investors, that have to understand the high risk of the procedure. On the other hand, in Italy there is also the legislative obligation to have at least 3% of investors, that is backers that are interested in a crowdfunding projects, to be officially recognized professional investors. These have to come from banks, venture capitalist and other recognized financial institutions to be valid.
In the UK, equity crowdfunding investments are subject to authorization. All platform operators must possess the appropriate license for the distribution of equity participation. Furthermore, experienced and inexperienced investors must be separated through a screening process, which is the basis of how much an investor is allowed to invest in an equity crowdfunding project.
An advantage of the UK financial environment is the limitation of asymmetries between entrepreneurs and investors through means such as the “Companies House” data policy. It is extremely easy to access, even privately, to many important informations about a companies internal and economic structure through the UK government portal. (gov..uk) This is an official registrar of companies. All forms of companies (as permitted by the United Kingdom Companies Act) are incorporated and registered with Companies House and file specific details as required by the current Companies Act 2006. All registered limited companies, including subsidiary, small and inactive companies, must file annual financial statements in addition to annual company returns, which are all public records. Only some registered unlimited companies (meeting certain conditions) are exempt from this requirement.
The aftermath of the Brexit is difficult to measure, but according to the 2016 numbers, Despite the decline overall, there was no significant drop in deal numbers after the EU referendum, suggesting Brexit has so far had little to no short-term impact on equity investment. The long-term effects remain to be seen.

3.4 The regulation in Germany

The first reward-based crowdfunding platforms in Germany started in 2010. This was when the term “crowdfunding” was brought to the broader public. Prior to that there were already some lending- and donation-based platforms on the market. A year later in 2011 equity-based crowdfunding started to evolve with the financing of startups. Over the next couple of years many crowdfunding platforms of different types entered the market. Today there are more than 60 active platforms that have an operational base in Germany.
Although Germany followed a laissez-faire approach regarding crowd-investing regulation, regulatory changes were undertaken in the German Small Investor Protection Act which

came into force in July 2015. The US CROWDFUND Act, or JOBS Act Title III, which came into force in October 2015, served as model to the legislative adaption.
Before the German Parliament passed the act on crowd-investing, platforms bypassed the security law through profit participating loans, which were not regulated in the German Security Prospectus Act. Through this financial instrument, which allows investors to benefit from returns, but only if profits are made by entrepreneurs, crowd-investing platforms were able to manage projects with unlimited sums (Wardrop et al. 2015). However, with the act the regulatory gap was removed and an exemption for crowd-investing were established.
The so called "Kleinanlegerschutzgesetz", the first law that gives equity-based crowdfunding a legal framework, became effective in summer 2015. Equity-based crowdfunding projects, that issue subordinated or profit participating loans, do not need a costly prospectus, if the maximum funding sum does not exceed a certain amount. Instead a "financial assets information leaflet" (up to 3 pages) is requested, which has to be deposited at the Federal Financial Supervisory Authority. The law comes along with more rules, as the right to withdraw from the investment within 14 days or a warning that needs to be shown when on advertisements for the project. Platforms need an approval according to §34f Gewerbeordnung (GewO) for "Vermögens- und Finanzanlagen". Banks did not enter the crowdfunding market on a grand scale yet. They are involved when it comes to financial transactions, but you rarely see them as a provider of crowdfunding services. Only in the field of charitable crowdfunding, several banks started to run regional platforms. Some of the leading banks in Germany published reports or were involved in the financing of academic studies about crowdfunding. This can be interpreted as a clear sign that banks have crowdfunding on the radar. The German Crowdfunding Association announced in 2018 that the German parliament had approved the implementation of the European Prospectus Regulation and, at the suggestion of the federal government, has decided to raise the upper limit of the prospectus exemption for crowdfunding issuance from the current €2.5 million limit to €8 million per issuer per year. With this new regulation, Germany beats other European countries to the punch, in particular France which is planning to make a similar change by year end. However further regulatory limitations remain to be lifted. At the hearing in the German Bundestag in June 2018, the Crowdfunding association has issued recommendations which have yet to be approved and implemented. The exemption from the prospectus requirement mandates that investors stay within certain subscription limits (on investment limits with reference to Germany and the United States, see Bradford 2015). Unlike the UK, German law only limits the amount that an investor may invest in one issuer (single issuer limit), but not the amount that an investor may invest in the entire crowdinvesting market (aggregate limit). The exact amount of the subscription limit depends on the investor's freely available assets and monthly net worth:

- The current individual investment limits of €1,000 per investment and €10,000 per investor per annum are too low. The government announced that these limits could be raised in the context of the evaluation of the crowdfunding law, the Kleinanlegerschutzgesetz, KASG, at the end of 2018.
- The brokerage of securities is still subject to high regulatory requirements. The association proposed a standardized intermediary license for online trading. Unfortunately, this issue was not addressed.

- The Crowdfunding Association calls on the federal government to start a dialogue with the industry in order to make the prospectus-free securities practicable.

- The Crowdfunding Association had also argued that not only public limited companies, but also limited liability companies (GmbHs) be included in the scope of the crowdfunding regulation. A request in this sense was rejected. The Crowdfunding Association welcomes, however, that the political will to facilitate crowdfunding for young companies, which operate mainly as GmbHs, exists.

According to Tamo Zwinge "it is especially important that the new crowdfunding exemptions apply to startups. The federal government must improve their conditions. The unequal treatment of corporations and limited liability companies does not strengthen SMEs and startups". Since the crowdfunding regulation does not currently apply to GmbHs, they will not benefit from the new €8 million exemption limit and remain limited to prospect-free issuance of only €100,000.

The market for equity-based crowdfunding is divided into three main categories: startups/SME's, energy and real estate. Real-estate crowdfunding shows a tremendous growth over the last year and with it comes along new platforms entering the market. Established platforms focusing on startup financing are developing new investment models as e.g. venture debts, crowd-voting or special purpose vehicles that allow a direct stake in equity.

In the interest of investors, the Federal Government wants to create more transparency for capital investments. These relate to information on the capital investment itself, but also on the companies involved in the issuing. In particular, the identity of the provider, the issuer and also the platform shall be highlighted. For the purpose of better cost transparency, all costs, commissions, fees and other services incurred by the issuer for the brokering of the capital investment must also be emphasized in the Key Investor Document. In order to improve the comparability of the Key Investor Documents, the required information must also be displayed in a fixed order. The overriding objective of these changes is to standardize Key Investor Documents more transparently to potential investors.

The strict prospectus requirement gave German crowdfunding platforms a strong incentive for regulatory arbitrage by designing investment contracts not covered by German prospectus regulation. This is why in November 2012 crowdinvesting platforms in Germany began to broker subordinated profit-participating loans (partiarische Nachrangdarlehen) to the crowd. These are hybrid investment contracts which are loan-based but mimic features of equity. At the time of introduction to the crowdinvesting market these investment contracts were outside the scope of German prospectus regulation (Klöhn/Hornuf/Schilling 2016). Therefore, by switching to profit participating loans, crowdfunding platforms greatly increased their potential to earn fees. Before, they could collect a maximum amount of (less than) EUR 100,000 per offer without triggering a prospectus requirement. After the introduction of profit participating loans, there was no limit as to the maximum amount to be collected.

Even when the offering is exempted from the prospectus requirement, the issuer must prepare a socalled "investment information sheet" (Vermögensinformationsblatt, VIB) which must contain the most essential information about the investment. As start-ups offer investment contracts not covered by MiFID (Markets in Financial Instruments Directive) German crowdinvesting platforms do not fall into the regulatory scope of this directive.

Hence, their activities are not governed by the German law implementing MiFID and they are not overseen by the federal securities regulator BaFin. Instead they fall under the regulatory reach of the Trade Regulation Act (Gewerbeordnung), an act not specific to securities issues which also contains some rudimentary organizational and conduct of business rules for financial intermediaries who are acting outside the reach of MiFID. For the same reason, no capital regulatory requirements apply to crowdinvesting platforms in Germany. Instead, they are required to obtain professional liability insurance under the Trade Regulation Act.

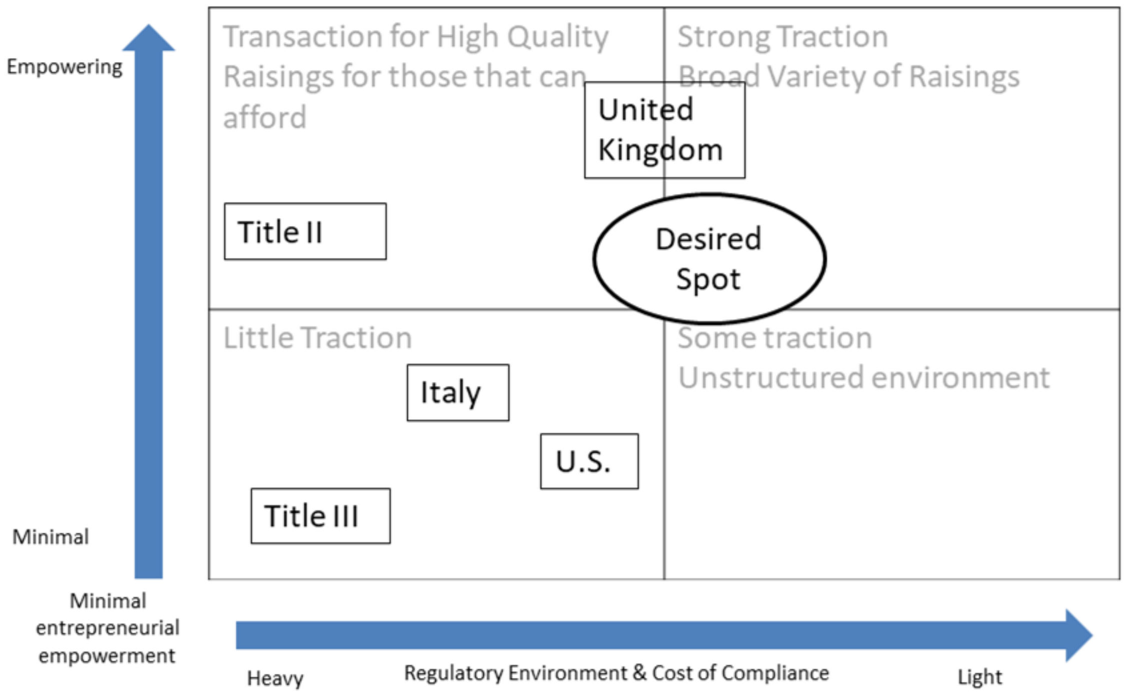

Fig 3.2 Graphic representation of the Regulatory approaches of different countries with respect to equity crowdfunding

Source: http://www.paulniederer.com/2015/01/holistic-equity-crowdfunding/

Chapter IV: An introduction to successful strategies for crowdfunding projects

4.1 Introduction

There are three main phases in which we can subdivide the initial seed stage fundraising for a startup looking to start the commercial or industrial development of one of their projects, the crucial activities are:

1)identifying the context for innovation in terms of space and demand;

2)being able to react quickly to the opportunities presented when they present themselves;

3)being able into transforming these possibilities into what the context needs by succeesfully codifying and transmitting the potential for growth and profit to potential investors.

The second phase is also known as opportunity recognition and is one of the key steps for the creation of new businesses, the basis for a successful exploitation of market needs as well as the basis for successfull technologies and products,. The downside with conventionally used financial instruments is that investors rely on accurately set plans and forecast and well defined economic returns and growth rates to decide if a certain investment is worth taking. The third phase is which the projects idea is turned into more than a proof of concept and is turned into reality is responsible for less failure than the second phase. The projects pursued in crowdfunding are often of uncertain return, which is why venture capitalists in many cases won't be the best financing method, even if they are looking for entrepreneurial content and high potential innovations. It is the norm for investors to proceed to carry out independent quantitative and qualitative assessments with respect to documents and information transmitted by startupers. On the contrary, in the case in which he decided to entrust his business project to the judgment of the crowdfunders, different factors come into play. Mollick underlines the crucial importance of communication and the care of aesthetic aspects in the interaction between the founder and the project backers since the private individual, as skilled and economically educated as he might be, is more susceptible to the emotional and aesthetic influences than a big corporate player. Achieving marketing objectives is without a doubt important if we are talking about expanding an initial crowd to what might be a size of economical sustain of the project, but most of all important is to involve users and lenders already in the first and fundamental step in the birth of an innovation: the very phase of opportunity recognition. When talking about crowdfunding campaigns, it is important to understand that the project itself might vary quite quickly since it is tightly connected to the perceived value scala of the investors. Evaluating the set of parameters for which a project should be jusdge is as important as being responsive to market opportunities (new technological advancements, a change in the social and economic context). The initial phase in which the feasibility of a project is assessed by the founders is correlated to the communication level with the crowd.
The crowd represents a highly heterogeneous set of individuals united from the common perception of the project the entrepreneur is proposing. But just like their perception of your

project's goal their degree of variability in terms of experiences, reactions, needs and specific skills varies greatly. A classification of project backers on the basis of the predisposition to take a proactive role towards the projects constantly presented hase been proposed by Lehner in 2013, distinguishing between: passive listeners, simple receptors of the flow of information transmitted by the founders of the campaigns, and active seekers of investment opportunities, among the offers proposed on web platforms.

A careful planning of communication strategies and the appropriate tools are needed to reach a set of heterogeneous targets is needed to Involve a network of investors in the phase of opportunity recognition, stimulating their financial suport, for which a business plan, ad single channel of transmission of crucial information, would have a limited effect. A crowdfunding campaign is first and foremost a tool to present a technological innovation, a new product, as a charity initiative, to a large audience of potential project stakeholders, with the aim of reaching the aggregate investment threshold necessary for implementation. The level of heterogenity considerably hardens the task of defining a universally understandable and effective message for the potential backers, in which strategic information has to be undestood to a similar degree in which a business plan is analyzed by venture capitalist or business angels (Giudici et al. 2013). For the startuper who decides to finance their project through crowdfunding, it is important to recognize the oportunity in front of them just as making the network of lenders understand, identify and assess its potential in terms of innovative scope and profitability. Taking into account the differentiation of investors between active and passive listeners, the communication and persuasion tools and strategies used by the campaign founder must also be designed not only on the proposal of data and evidence to support the project, but also to attract and stimulate interest in those segments of the network that remain passive listeners.

Immediately emerges the weight of organizational tools and frameworks able to aggregate and attract lenders' attention in the web-communities, involve them within the project's vision and objectives, stimulate their participation in the level of donations and ideas, and finally facilitate the dissemination by them within the same network or in other virtual environments. The platforms for sending feedback on the web page of the crowdfunding campaign, spaces for direct communication between the investors and the team of founders, like the networks of friends and family present on Facebook, represent, in the context of crowdfunding (Belleflamme et al. 2013).

channels of strategic value for the success or failure of a crowdfunding initiative, such as expected profit of the project.

It is therefore of crucial importance that the startuper or the team of founders know the features and characteristics of the tools made available by the crowdfunding platforms, or be able to exploit the alternative levers via the web 2.0, in case he decides to propose your own individual project on the internet.The financing strategy based on the use of a crowdfunding platform has rapidly and globally become the most widespread way to present a projects to the general public. These platforms may have a broader purpose, that is, available for a very wide range of types of projects and models for collecting capital (Kickstarter, Indiegogo), or specialized in certain sectors, such as in some specific forms of crowdfunding, (e.g. JustGiving for donation-based crowdfunding).

Some of the most relevant benefits derive from the sheer mass of investors that can be aggregated, starting from the already existing and registered lenders community on the

platforms, from the possibility of using advanced tools and programs for the collection of capital and the transfer of investor data to databases. guaranteed by the platform itself, and by the protection on the repayment of the amount paid. The creation of an autonomous web space for ad-hoc crowdfunding initiatives, managed directly by the project owners themselves and founders of the campaign, have gradually become an increasingly reduced alternative to a fundraising strategy intermediated by dedicated platforms. A progressive standardization of financing models, interfaces for the implementation of the crowdfunding projects and communication and investor protection parameters have been generated by the diffusion of platforms with a global distribution and by networks of increasingly large financiers. We are looking at he consolidation of a new market type with consequent gradually homogenization of offered tools, operational frameworks and practical guides for startupers and campaign founders. It is common practice nowadays to offer advice for auxiliary videopresentations, manuals for the drafting of a project plan or, in the case of equity crowdfunding, a real business plan, guides for the effective use of widgets and virtual tools for the connection of the campaign homepage with blog and social networks owned by the founders (e.g. growvc.com). In a fast moving and changing market such as the crowdfunding platforms, it is natural to assist to constantly updated operational frameworks and best practices emerging to guide founders towards effective organization and management efficient campaign and projects proposed to the crowd.
Online portals dedicated to the analysis and success stories of funded crowdfunding projects, such as the Success School made available by RocketHub, can be found online. On these portal founders who have reached their threshold describe the strategy used, the expected objectives achieved, as well as their feelings and opinions, in spaces created by the platform managers in order to fulfill the role of a guide for anyone intending to launch a new project. The following part of the analysis is based on the material that can be found on RocketHub in a more extensive fashion.

Creating a crowdfunding campaign is a complex process, which requires careful planning of the strategy, the tools available to make it effective, and the channels to effectively communicate benefits and profit prospects to potentials. investors (Schwienbacher, Larralde, 2010). We will try to disassembly a campaign and the strategic activities involved in a series of phases and consequential processes between them, can be useful for any research work on the theme that has the purpose of understanding the functioning of crowdfunding, both for startupers and founders directly involved in the preparation of their own initiative, in order to outline a sequence of organized key activities. The research published in 2010 by Schwienbacher and Larralde is one of the first organic studies to try to scientifically analyze the phenomenon and the reasons why it has become a viable alternative to common financial support methods.

Seven main elements that may have influenced its birth and propagation are identified: the lack of pre-existing financial resources, the presence of risk factors and asymmetric information, the particular organizational form imposed by crowdfunding, monitoring on consumer preferences, the estimated funding target, the implications generated by the presence of a vast set of stakeholders, as in the case of equity crowdfunding, and finally the

advantage offered by the web community of consumers and users in terms of creativity and strategic direction.
The first aspect deals with the need of resources by the startuper and represents possibly the main motivation behind crowdfunding, an funding method able to solve the growing difficulty for a wide range of entrepreneurial and non-profit projects to access the capital.
The second element defines another key advantage of using crowdfunding platforms: the possibility of diluting between a high number of interested individuals both the financial need amd the risk linked to a new business activity.
The third and fourth discriminating factors, which include the consequences for the organizational and management structure of the business or of the initiative funded through crowdfunding, as well as the possibility of checking and testing the opinion of consumers on the proposed prototype or innovation.
The fifth element concerns the value of the cash-need for the launch of the new entrepreneurial project the higher the threshold for completing the crowdfunding campaign, the higher the critical mass of investors sufficient to support the project will be.
Regarding the sixth factor, the legal implications on equity participation are directly related to national equity crowdfunding regulations, where they are in place. An example is the JOBS Act of 2012, in the US, which introduced a wide range of innovations in order to create an environment conducive to further development of equity-based crowdfunding. The seventh and last discriminating factor, is represented by the value offered by online communities in terms of experience and creativity: a ompetitive advantage compared to other forms of financing.
The operational advice that can be exctracted according to Schwienbacher and Larralde (2010) from these seven points will follow in the next chapter.

4.2 Key steps and strategies in literature

In this chapter we will try to outline a strategys that are effective to launch a funding campaign. The winning strategy is made of key steps that have to be executed, evaluated and contextualized considering the economic environment, the projects nature, the financial goal, etc. An entrepreneur with experience is the one who can understand in which direction to move with each step. The following part is an elaboration of Schwienbacher and Larralde’s and other author’s approach to successful campaigns.
The first step to be taken can be summarized by the combination: design and launch. The preparation of a crowdfunding initiative, represents the most opportune moment to define the groups of supporters that we intend to involve, the contact points on which we can leverage, in terms of interest and expectations of reward, and outline a program of activities to be carried out at the level of promotion and dissemination of information on the campaign. The team of founders or the startuper, prepare, define and select the material to realize the project's home page, based on the spaces made available by the platform that will be chosen by them to host the campaign. These are tools and channels of communication with the community of potential backers to whom the initiative will be proposed, such as a title, a presentation video, a project plan in which to describe the objectives and a general

program of activities to carry out to carry out the project, once the crowdfunding phase has been completed. It is a well-established practice that the platforms require prior consultation on the adequacy of the campaign, on the honesty of intent and on any unclear points concerning the objectives. It is therefore necessary to submit the prepared material to the approval of the platform managers, which in case of affirmative answer, will allow the publication of the project, which will be made immediately functional for the financing by the investors.

The campaign, now fully operational, therefore enters a second phase, of solicitation and analysis of feedback. Just as trust represented the discriminating component between success and failure in the aggregation of lenders during the course in the prior phase, passion and emotional involvement are the most important aspects in the establishment phase is an appropriate level of attention and participation in project developments, throughout the duration of the crowdfunding program, is a complex task for the founders, and requires continuous efforts to create opportunities for the enthusiasm of lenders. This commitment must also be balanced with the tools and channels of communication available to the founders, and oriented to obtain an effect of reducing the drop in emotional involvement in the central phases of the campaign; this objective can be achieved by intensifying the dissemination of updates on the project, to keep the flow of technical information on the development of the initiative constant, and preparing a program of online and real events to create spaces and opportunities for discussion directly with the founding team. The founding team can immediately draw, from the initial reaction of the network of active users on the platform and on the web, the level of appreciation of the prepared material, the planned communication strategies, and the objectives as well as the project's mission itself. It is therefore of crucial importance at this stage, the commitment of the founders to solicit and encourage the participation of lenders or users who are simply interested, to provide feedback and opinions on the quality of the presented project plan, the presentation video, or on the preferred design if it is a crowdfunding campaign to support product innovation. Progressively in terms of the depth of the relationship between the founder and the supporter, direct contact, information via email, updates via blog, press releases and social networks, as well as real events to meet and discuss directly with the founders, represent not only effective marketing opportunities to expand their network to the outside, but also tools to monitor and keep active their community of lenders, throughout the campaign timeline. The initiative, however, would remain limited to the contribution of those active users only in seeking investment opportunities or new products (active seekers), without an accurate dissemination of information of interest to intercept the contribution or even the attention of passive users (passive listeners). It is therefore necessary, in a third phase, that the founders of the campaign are dedicated to activities of promotion and dissemination of strategic information with all the online communication tools available, whether they are spaces prepared by the platform or e-mail, addressing the networks of supporters already present on social networks, and finally through personal involvement, in the case of family or friends.

With the completion of the campaign, completed the period set up for the collection of capital, and reached the planned funding threshold, the threshold, the crowdfunding can be said to have ended during the fourth phase. The founders or the startuper will have to take care of implementing the project plan presented to the public on the Internet in the first phase of the process and prepare the guaranteed rewards to investors or donors, be they special mentions or personal thanks, or the supply of the new product, in case the financing was connected with a pre-order. A fifth and last step, extrapolated frequently from the observation of the behavior of the founders, is found in the participation of the same to subsequent campaigns carried out by third parties, providing suggestions, advice and information on the most effective activities to carry out to achieve the objectives, while many cases, participation is also made with the financial contribution.
The description made by the authors on phase one, which we have defined as "design", allows us to highlight the relevance of a targeted and effective use of tools and channels for online communication, available in the interfaces provided by the platforms for the design of the crowdfunding campaign home page. A presentation video, a blog space designed for the constant publicizing of updates on the progress of the project, as well as a clear description of the objectives and mission of the initiative, represent the main levers through which to show the quality of a new technology, a charity initiative, a new product, and to show the level of preparation and adequacy of the founders themselves or the startuper. As part of Mollick's research (2013) on the sources of success for the campaigns in Kickstarter.com, carefully planning its communication strategy is crucial to obtain positive results in terms of impact and added value on the perceived quality of the initiative or project.
Steps two and three represent the two key moments of the process, and the actual steps during which crowdfunding takes place: the collection of capital and feedback on the subject of the campaign.

In the model proposed by Gerber et al. (2013) and Cordova et al. (2015), the impact of crowdfunding in terms of disseminating strategic information on an initiative or prototype, and as a source for gathering constructive opinions and feedback from supporters, takes on a significant weight. The next step, which is identified in the dissemination of information on the project and the campaign in the network of investors, and in the consequent collection of capital by interested users, brings to light the marketing function of crowdfunding, through mechanisms of information transmission between communities and within a virtual community, such as the effect of imitation and word of mouth. At this point, it is important to make a further reflection on the fourth phase of the life cycle of a crowdfunding campaign, which concerns the moments of completion, the realization of what is described in the project plan and the preparation of the rewards provided by the founders. If we exclude crowdfunding cases linked to the launch of a prototype, where financial support is identified with the pre-order of the new product, such formal and informal commitments link the founders of the campaign to the actual, and possibly timely, provision of the expected rewards and do you guarantee to the project backers

Both Mollick (2013) and Kuppuswamy and Bayus (2013) provide research results and data to empirically observe the ways in which projects are completed, and supporters get what is expected. A further distinction is made with respect to equity crowdfunding, which presents, in most countries, precise processes for underwriting investments by supporters, supervised by the relevant stock exchange commissions (SEC, Consob, in the US and Italy cases), the part of the crowdfunding platforms does not provide any formal and legally recognized commitment between founder and project backer Mollick's research provides some relevant conclusions in this regard. On a basis of 381 projects funded on Kickstarter until July 2012, selected by the author and belonging to the "design" and "technology" categories, only 14 of them were re-presented to obtain new funding, thus missing the estimate initial cash-need adequate, or the founders have stopped responding to requests from lenders, making themselves untraceable: the risk of fraud remains therefore at 3.6%, an extremely low level. Although it does not have advanced mechanisms for the control and protection of registered lenders, the level of risk of bankruptcy for the initiative that also completed the crowdfunding campaign remains below 5%.
The crowd does not have the right methodology and knowledge to carry out a risk assessment that is as effective as that of a venture capitalist, however, it is able to produce realistic measurements and evaluations on the quality of a project, on the preparation of its founders and developers, and on the honesty that animates the initiative proposed by the same, based on the same indicators that we have already highlighted in phase one of the cycle of crowdfunding life. This result underlines once again the importance of planning and a careful strategic planning of communication in the context of a crowdfunding campaign. Video presentation, updates on the progress of the project, direct participation of founders in online discussions with their supporters, are not just tools (essential, in any case) to ensure a strong pool of interest and increase the prospects for success of the campaign ; on the contrary, they offer a very important added value in terms of guarantees for the investor community, which can test directly, communicating with the founders or the startuper, the validity of an initiative and the preparation of its developers.

The model proposed by Steinberg, with the collaboration of DeMaria and Kimmich (2012), was realized using the experience and knowledge of the sector of the authors and collaborations involved, to obtain an operational guide suitable for any case of crowdfunding on the platform, with a set of steps to follow to set up and manage your campaign effectively. The goal of Steinberg et al. (2012), is to provide aspiring founders and startupers with a comprehensive set of tips and proposals to maximize the benefits from their respective initiatives. The first step to take is an accurate and realistic assessment of the potential and value of the product or service (a charity initiative, such as a fundraising) offered to the virtual audience in the crowdfunding campaign, and the experience of the startuper or the team of founders in relation to seven possible determinants of success, which represent the benchmarks with which to compare

1. The idea behind the product or initiative must be solid and able to attract the interest of a diverse and demanding audience of investors;
2. The preparation of the prototype or service program must have been accurate and detailed;
3. The presentation must be effective and impactful;
4. Pre-arranged rewards must be able to attract attention and stimulate interest in the investment or donation;
5. Lenders, or more generally project backers must be motivated to participate in the campaign throughout the course of the campaign;
6. The founders must know and be able to use marketing strategies through social networks and web 2.0;
7. Exploiting the participation or advertising contribution of recognized and already existing products, or similarly influential personalities, can significantly increase the satisfaction rating towards the new prototype or initiative.

Steinberg, DeMaria and Kimmich (2012) dedicate a large amount of their research in the presentation of benefits and characteristics of main crowdfunding platforms at a global level. We will focus on the presentation of the road map outlined by the authors for the conception, conception and launch of the campaign, based on four progressive stages: planning and design of the campaign (Pre-launch Preparation), preparation for launching the campaign (Launch Program), campaign management (Post Launch Management), collection of feedbacks, and developments following the completion of the initiative (Follow Up).
The preparation phase of the campaign (pre-launch planning) and preparation of the project, takes on critical importance, since an accurate planning of the steps to follow, of the elements or individuals to be used and involved in the initiative, as well as the objectives outlined and expectations that can be expected, are able to decisively condition the success or failure of a crowdfunding campaign.
The study and the analysis of already existing projects, completed or in progress can be a valid support; observe the characteristic elements of each of them, identifying weaknesses, learning techniques and management models, and finally assessing the expected funding target with respect to the project entity, measuring the appropriateness of crowdfunding as a tool for financing one's own initiative or prototype, acquiring strategic information on the messages and design of a successful campaign, and get a more accurate estimate of the expected cash-need. Determining the value of the planned funding target to start and implement the project is one of the most critical activities for aspiring entrepreneurs looking for capital through a crowdfunding campaign. The initial steps are also the most appropriate time to establish the time frame of the campaign. Especially in cases where the chosen platform uses a threshold-pledge mechanism, the appropriate duration of the funding campaign has a strategic role: setting a limit too close to the launch could limit the chances of success, since the aggregation of Investors around the project may not be as quick as planned in the planning phase.
Immediately before making an initial assessment of the work done, and moving on to the next phase (Launch Program), it is of great help to create a first group of supporters around the project, and create a trend of interest towards other users, especially active seekers, engage their network of family and friends. These are in fact the project backers most likely to finance the project from the initial stages, when there are still no value aspects or

elements to find its validity, basing its contribution exclusively on the existing trust relationship with the startuper or the founding team. The preparation for launching the campaign (Launch Program) is a decisive phase for the realization of the communication strategy and direct interaction with the supporters, in order to outline a virtual space able to create interest and transmit effectively the message of the founders and the description of the project. Based on the empirical observations made on the main platforms, by Steinberg, DeMaria and Kimmich (2012), a standard web presentation of a crowdfunding campaign, counts two essential components: a video and a detailed description of the project. The presentation video offers a decisive contribution to capture the interest of any project backer: the communication code is based on an immediate visual impact, which should strike the attention of the viewer in the first 0-15 seconds. It should be understandable for any category of supporter, and realized with a high quality resolution. The description of the project plan, usually placed with a lateral configuration to the presentation video, is the document that represents the key tool of the campaign to incentivize the financial contribution of investors: it must contain an accurate presentation of the project, and represent the certification of the value of the prototype or initiative, as well as the basis for justifying the economic participation of the community of donors.

If the video is nothing more than a channel of immediate persuasion, to attract the attention of passive listeners and invite them to listen to the opportunities contained in the campaign in question, the description of the project is the most effective tool for the next phase. For passive listeners attracted by the potential value of the investment, it represents the space through which to deepen the characteristics of the initiative, and to know the objectives and the mission of the founders; for active seekers, it is the main channel through which to transmit the strategic information to which they are interested, one of the most important determinants for the selection of projects to contribute to.

For the authors, it is necessary to pay particular attention to the definition of rreturns provided for supporters. The financial participation in a crowdfunding initiative is realized on the basis of the investor's expectations to obtain value in exchange for the payment of a share of capital to satisfy the cash-need of the project. Except for donation-based crowdfunding cases, for which the expected reward is of an eminently symbolic nature, and therefore difficult to measure in quantitative terms, the value expected by the lender is realized in a copy of the prototype of interest, in a participation in the service offered, or in a financial profit (ROI), at the level of profits obtainable from the subsequent sale of the quotas or from the expected dividends, similar to an ordinary share (equity-based), both of interest on the loaned amount, as in the model lending-based. Measuring the value of a reward for financial participation is a complex process, which requires to consider a series of determinants and variables, such as the intrinsic value of the prototype, derived from the fixed costs of design, testing, production and marketing, the target funding set (threshold), and finally an estimate of the symbolic value for the supporter. These activities represent an ordinary process if the crowdfunding campaign foresees the pre-order option of the new product; at other times, the team of founders opts for rewards outside the product itself, or from a first version of the service (in the case of new computer programs or videogames), offering rewards that represent a formal public thanks to the financiers, inserting the names of the project backers in the final credits of the project, or sending them merchandising material and invitations to events where it is possible to interface directly with the developers.

The third phase, Post Launch Management, is a process of managing and controlling the crowdfunding campaign, the developments that may occur during the course of the campaign and finally the challenges posed by the interaction with the supporters and the feedback obtained, as well as by the implementation of strategies that could prove to be ineffective once they have materialized (a wrong marketing campaign, which would be followed by a low participation and a low level of visualization by the network of lenders registered on the platform). The authors emphasize three essential operations to ensure the success of the campaign at the end of this life cycle phase. A first activity is represented by the frequent updating of lenders on the progress of the project. Taking care of direct relationships with supporters at constant time intervals, and possibly daily, generates positive results in the dissemination of information of interest to the project within the investor community, or between the individual networks of the lenders themselves: a crowdfunding campaign updated in detail and on a regular basis, will increase the probability of being recognized as an initiative of interest, and thus receive further financial holdings. justified by positive perceptions and feedback obtained through peer-effect mechanisms. A second crucial operation, closely related to what has been described above, is the constant monitoring of online public conversations between the network of supporters registered at the platform, in the forums for communication and the exchange of opinions, and the constant participation in discussions of potentials. and effective project backers on the online communication spaces on the project's home page. Finally, the third and last activity recommended by Steinberg, DeMaria and Kimmich (2012), concerns the maintenance of a high level of concentration, even during the development phase, on the promotion and marketing activities of the prototype or the launched service, as well as the campaign same.

Once the period of the campaign has elapsed, regardless of the success or the possible failure of the initiative, the follow-up phase begins for the founders. Collecting feedback and considerations on the project and the crowdfunding campaign just ended, can be a solid basis for testing the level of involvement and the components to be improved in a potential, future initiative. The most interesting aspect of the Follow Up phase, due to the implications generated that exceed the boundaries of individual campaigns, producing positive spillovers of experience and knowledge towards other parallel initiatives, is the contribution offered by the founding teams to other startupers and founders through direct and indirect testimonies. Sections such as the "Creator Handbook" available to all users on the Kickstarter platform site, are nothing more than spaces created gradually and incrementally by the experience of the management teams and control of crowdfunding platforms, with the contribution of project developers and campaigns of value, and not necessarily successful. The failure of an initiative, if analyzed and decomposed in its cause-effect relationships, can offer an important opportunity to understand the mistakes made, the lack of alignment in the efforts of the members of a team of founders, or an error perception of the value of a prototype as a charity campaign. The sharing with the peers of the acquired knowledge and opinions gained during the respective campaigns is an increasingly widespread practice, both through the spaces made available by the platforms for support and advice to the creators of new projects, both through the direct interaction between founders or independent blogs, and represents one of the main vectors of the progressive standardization of design, management and administration techniques for crowdfunding campaigns (Dellarocas C. 2003, Lawton K., Marom D. 2012).

When talking specifically about equity crowdfunding, many of the steps can be replicated to achieve a successful campaign, but the complexity of such a project can be more complex. A first aspect of this complexity is a consequence of the different quality of information offered to investors registered on the equity-based platform, which must comply with the impartiality and transparency requirements determined by the national supervisory agencies (e.g. Financial Services Authority of the United Kingdom).

A second aspect concerns the type of radically different project that is found between the equity crowdfunding campaigns and the reward-based, lending-based or donation-based fees: if communication and marketing strategies, as well as the tools and channels themselves used by startupers and founders remain effectively similar, projects launched through equity crowdfunding must interact with a differentiated audience of investors compared to the lenders' communities that can be identified in platforms such as Kickstarter or IndieGoGo. The supporter of an equity-based campaign chooses to make an investment based on the participation, as a stakeholder, in the project itself. Whether or not voting rights are attributed to it in the subsequent shareholding structure, the motivation for participation is in the background: not necessarily, the investor is driven by return on investment (ROI); more frequently, the willingness to be part of a project, to actively contribute through its own capital and its own knowledge and experience to the growth of society, is considered as the prevailing justification. A deep involvement in the entrepreneurial structure itself, is evidenced by the prospects that emerge after an equity crowdfunding financing, such as the acquisition of the option right in case of entry on the stock price lists, a certain weight in the governance of the startup, and participation in the division of profits. It is immediately understandable how a video of creative presentation, or a set of details on the birth of the project and long-term objectives, focal components of a typical project plan on a common crowdfunding platform, are not sufficient to justify an investment of such impact (Steinberg S. 2012).

An accurate business plan is one of the fundamental components of an equity-based initiative and represents the stock of strategic information on the prototype and future developments of the business project. A detailed description of the product value, of the reference market, of the individual components of the campaign, such as the professional and academic experiences of the founders, provides transparency and orientation to success for the crowdfunding campaign, and a solid foundation for financial support. On many platforms it is possible to offer the project business prospectus only for those investors who are really interested, who request them once they have captured the interest of the initiative: however, the visibility of the business plan, aligned with a quality marketing campaign and a creative and emotionally captivating video presentation, gives the project's home page a major impact.

The presentation and visibility of assessments on the financial perspectives in terms of ROI, possible exit on the stock market, on a reliable cash-need and adequate to the future of the business venture, take on the same importance. Such information, if present on the home page of the equity crowdfunding campaign, offers lenders a realistic view on the preparation of the founders, on the reliability of the data provided, on the solidity of the project, and finally on the ambitions of the startuper or the founders.

Describing a possible growth trend, or delineating the net present value of a project, are activities that need to be started and justified. CrowdCube offers aspiring campaign founders a detailed set of options through which to make financial forecasts. The subjective analysis of the value of the project or of the prototype is one of the possible solutions, although financial instruments such as the calculation of the net present value or cash flow (DCF, discounted cash flow) represent a basis for estimates of greater reliability and accuracy.

Carefully measuring the initial cash-need, and obtaining realistic examinations on the future growth prospects of the project, is a necessary solution in equity crowdfunding campaigns not only as a support to the community of financial backers, to select with greater security and transparency the initiatives on which investing, but also for the same founders. An equity crowdfunding campaign is much more than the online proposition of a new product or service, with pre-purchase options, such as reward-based crowdfunding, and the determination of a realistic threshold or less produces implications relevant to the future of the business venture, risking to cancel its ambitions due to incorrect assessments of financial needs.

4.3 Success factors

In this chapter we will analyze the most important success factors for an equity crowdfunding campaign. Success in this case is defined as the ability to reach the set goal of funding within the set time period. The success of a campaign, like many other more traditional projects, depends on many factors lots of which are circumstantial and contextual. We will analyze factors that are generally positively correlated with crowdfunding campaign success.

Entrepreneur Background and Nature

The characteristics of the entrepreneurs and the businesses affect the likelihood of attracting funding. Besides being correlated to crowdfunding success, entrepreneur's characteristics have been shown to be an important screening factor for angel investors and VC. This applies especially to the entrepreneurs who participate and to those who created the project. Prior research about venture fundraising showed that passion and determination as well as trustworthiness are positively correlated to the ability of being funded. According to Frydrych et al. (2014) organizational legitimacy is affected by the entrepreneurs' composition and backgrounds. Frydrych et al. (2014) states that groups and pairs fare better in crowdfunding initiatives in comparison to individual entrepreneurs. It seems individual entrepreneurs do not inspire legitimacy to potential investors. The heterogeneity of the entrepreneurial team also seems to have an impact on the success of the crowdfunding. Additionally, projects created by females demonstrate higher success rates than those created by male entrepreneurs. According to Frydrych et al. (2014), the education level and work experience of the entrepreneur also affect organizational legitimacy and thus success rates. In equity crowdfunding, small businesses with more board members and ones with higher levels of education have been shown to attract investment and have more backers overall. According to Belleflamme et al. (2013) the age of the organization does not affect crowdfunding success or amounts in independently facilitated crowdfunding. But Ahlers et al. (2015) state that the older the organization, the faster they are able to attract their funding.

As for the characteristics of the business itself, there are varying success factors. Companies that have been in business longer prior to pursuing equity crowdfunding are more likely to raise their target amount of capital quicker. However, according to Belleflamme et al. (2013), the age of the company does not affect the amount of capital raised nor the success of the crowdfunding when facilitating the initiative independently without a platform. It seems the age of the company affects the speed with which crowdfunding initiatives are completed, not the amounts raised. Research has shown that angel investors consider an entrepreneur's prior industry experience and prior entrepreneurial experience when deciding whether to invest. Potential investors value prior entrepreneurial experience due to the fact that in order to realize financial reward from an early-stage investment the venture must have an "exit" (buyout or public offering). Entrepreneurs who have had previous successful exits understand the expectations of investors and have shown their ability to deliver financial rewards. Similarly, the size of a non-profit business has a negative correlation with the amount of donation. It also seems external reinforcements of legitimacy do not affect success. According to Ahlers et al. (2015) external certification, such as patents and government grants have little or no significance on the success rate of crowdfunding initiatives.

The Nature of the Social Network created

The crowdfunding process is closely related to the ability to reach a significant amount of potential investors. The entrepreneur's network plays an important role since it is a complement to the crowd that can be reached through dedicated platforms. If the creator invests enough time and focuses on reaching and connecting with potential backers, he may create a community, where individuals support the entrepreneur in more way than one. Creating an active community where members interact with each other is an important starting point. Members are part of a social network on their own and will share information with their unique networks and other community members enhances the gain attainable from a network. This is why transforming a backer into an active part of the network may transform an increase drastically the reach of the project. This "social network effect" means entrepreneurs are able to tap into a bigger crowd than they would have originally through second grade networks. The individual social capital, or goodwill, available to the entrepreneur through their social network has a positive impact on the likelihood of reaching the target amount of funding. The goodwill is the amount of interest, time and effort shown by the supporters for the projects. Only the most convinced backers will go out of their way to invest time and energy to diffuse the project and possibly enhance it by personally helping and participating. This is why it is important to create a personal connection with backers, at the cost of investing far more time in strictly non-financial activities such a blogs and daily project updates. In equity crowdfunding, small businesses with better networks have been shown to have a bigger probability to attract funding and have more investors (Ahlers et al., 2015). The larger the network is, the more powerful the effect is. Through a community the entrepreneur can use their social network as a means to interact with the larger crowd. Building a supportive community is a critical aspect for a crowdfunding initiative to be more profitable than traditional funding.

According to Agrawal et al. (2015) and Saxton and Wang (2013), social pressure and obligation play an important role in online crowdfunding. In cases where the funder is close to the entrepreneur seeking funding, family and friends feel obligated to contribute. In crowdfuding activities the relation created between the investor and the project's cause often times are not dependent on an economic return. The backers identify on an emotional level with the project and are willing to support it in as many ways as they can. Crowdfunders rely more on social dynamics, because they possess less knowledge and managerial skills compared to professional investors. This interaction and influence leads to certain a type a herding behavior, where members of the community are highly affected by the opinions and actions of other community members. Herding behavior is a big factor in online communities supporting initiatives, because of the openness of interactivity and discourse on social media and crowdfunding platforms. Herding behavior drives decision-making due to lack of individual information and the costliness of acquiring relevant information to identify the target investor. Furthermore, because of the generally considerably high numbers of investors, there may be information overload. The options and suggestions coming from the crowd are as various and different as their desired outcome and idea of the project. This makes funders use the actions of other funders as a source of relevant knowledge. Crowdfunding platforms cannot eliminate these effects emerging from socially connected individuals. One way to alleviate stress from information overload is to narrow the amount of choices. Introducing popularity data, such as short-lists and staff-picks, regarding available funding initiatives helps direct the attention of funders. Funders are more affected by information aggregating tools like top-5 lists than more fragmented information sources. However, it should be noted that this herding behavior does not always translate to number of funders. Herding behavior drives people to associate with similar ventures as their peers. But this herding also comes with a high percentage of people that are not willing to financially contribute to the venture. Entrepreneurs can, therefore, increase their audience size by utilizing not only their own networks, but also the networks of their supporters. Organizations have the possibility to reach a much larger number of people through the networks of their advocates. This social network effect creates a community of participants that interact with each other and have an impact on each other. Social dynamics are fundamental aspects of crowdfunding communities, because the ecosystem is built around relationships within heterogeneous networks. Potential funders take note of comments and feedback concerning initiatives and follow the community consensus.

According to earlier research the goodwill available to entrepreneurs impacts their crowdfunding success positively.

Entrepreneurs are able to reach a larger number of people through the networks of their supporters than they would on their own. By gaining access to the supporters' networks and having supporters share information with their unique networks, more people hear about the crowdfunding project and potentially fund it. Moreover, Frydrych et al. (2014) state social dynamics are more important to crowdfunders than to professional investors. This is due to the "unprofessional" nature of crowdfunding.

Duration and Timing

When defining a crowdfunding campaign a general rule is to set a time interval in which the financial goal has to be reached. It is therefore important to understand how the investment time length and the timing influence the choices potential backers make. According to Frydrych et al. (2014), projects with larger funding targets tend to have longer durations. Initiatives with higher funding targets tend to have longer funding durations. Yet, a long duration might expose the initiative's legitimacy and narrative to questioning, leading to loss of support. Without conciseness, funders can easily feel that the narrative of the crowdfunding initiative is disorganized and uncertain. Longer funding durations diminish the sense of urgency, encourage procrastination and tend to lose interest in the eyes of the funders. Crowdfunding initiatives go quickly out of favor with the funding community unless momentum is maintained. The role of early funders is important to the success of the initiative. Word of mouth and herding behavior drive other funders to contribute as well. Funding propensity increases as the total amount funded increases. This is called the "snowball effect". The funding tendency of people distant to the entrepreneur is especially responsive to the snowball effect. This is likely because funders close to the entrepreneur often feel obliged to be early funders. Additionally, these funders have a social connection with the entrepreneur and thus do not rely on the community's social network effect in order gain knowledge of the initiative's attractiveness (Ahlers et al. 2015) In addition to the duration of the campaign, the timing of funding activities is also important to its success. The role of early funders has been found to be very important to the success of crowdfunding projects. This is because word of mouth and herding behavior drive other funders to support the project as well.

Social Media, Videos, and Other Online Marketing Tools

Part of almost every equity crowdfundin campaign's marketing, social media is used to attract investors. The preferred advertisement website is Facebook. Some start-ups also used their corporate website and newsletter to promote their campaigns. Another success factor is the campaign video because it is one of the most important decision criteria for the investors. It is part of the pre-campaign activities because it has to be produced beforehand, and has a high impact on the potential investors' first impression due to its prominent location on the campaign website. Many not-successful start ups fail to spend enough time and effort on the video and complementary social media projects which in hindsight proved to be a major drawback.(Steinberg S. 2012) The investors' funding decision is made in an early stage and is based on this first impression, because as we said, the project backers tend to relate emotionally rather than economically with the project In a second phase, the investors might have a deeper look at the business model details, even though the basic investment decision has by then already been made on an emotional basis thanks to the impact of the promotional video, blogs or social network ties.

Financial Signaling and Information Sharing

It is important for entrepreneurs to provide potential funders with adequate information on which to base decisions on, due to the information asymmetry between entrepreneurs and funders. In order for an initiative to gain financial capital, funders need to view it as an attractive financing opportunity. Entrepreneurs have more relevant information concerning the venture than potential funders, because they are the creators of the project and directly relate to the difficulties of the various phases of it. This means entrepreneurs need to reveal certain information pertaining the project in order to create true funding interest in the crowd (and potentially other investors). Attractive crowdfunding projects have a clear plan and goal. Entrepreneurs need to be transparent and persuasive about the funding goal. This often calls for a business plan to be presented to funders. The actual business model is defined before hand, since it usually is part of the screening process of crowdfunding portals, with entrepreneurs who prepared the funding well ahead of time being generally more successful with their funding. This is especially true for equity-based crowdfunding. Clear plans regarding the project are important to potential investors, since in equity and lending crowdfunding projects the financial return gained from their investment plays an important role. Investment-based crowdfunders pay a lot of attention to the financial and organizational reports provided by entrepreneurs. Consequently, businesses that provide neither financial forecasts nor disclaimers are less likely to attract investors.

In equity crowdfunding, businesses that signal an intention to seek exit through an initial public offering or a trade sale are more prone to attract investors compared to ones planning to use a different form of exit. Not all businesses are prepared to reveal such information to potential funders. According to Gleasure (2015), fear of disclosure is a prominent reason for entrepreneurs to not seek crowdfunding. This applies especially for ventures dealing in business-to-consumer markets, due to the importance of first mover advantage. The fear is that revealing business plans and other key information may invite imitators, and resulting in them losing their competitive advantage. This may be the case, as the funding process may come before the possibility to protect project ideas legally, through copyrights or patents for example. However, not all signaling is done through financial documents. Narrative is an integral part of creating legitimacy for and interest in an initiative. Stories, blogs and other constant updates legitimate entrepreneurs in the eyes of the crowd and competitors, and this legitimization enables capital acquisition.

Since funders are contributing capital for the project, entrepreneurs are to be transparent and persuasive about the project goal. This is often achieved by providing a business plan to the funders. Providing clear plans for the future of the project is especially important for investment-based crowdfunders. This is because they expect monetary rewards for their contribution and are thus more interested in the profitability of the business.

Geography

Crowdfunding is made possible by the evolution of the web and its possibilities. Since all a potential investor needs is an internet connection the regionality of funding processes are less influential than in the past. As a consequence of the establishment of online platforms and communications tools, geographical effects on business are therefore diminished. Location no longer acts as a barrier for crowdfunding, nor does crowdfunding depend on location.

Through globalization our world and networks have become increasingly international and independent of geographical location. Dedicated platforms give Entrepreneurs the possibility to find funding globally and funders are able to find funding opportunities from all over the world.

Also, Giudici et al. (2013) state that the geographic area itself does not have an effect, as other more traditional funding methods, on crowdfunding decisions – meaning initiatives in a particular area do not benefit from potential goodwill associated with the region. Despite this, geography seems to be linked to the nature and the success rate of crowdfunding initiative. This is due to social relationships and cultural differences that are not eliminated by online tools. Crowdfunding platforms eradicate many geography related challenges, but do not remove certain frictions associated with information shared by socially connected people. These social relationships independent of online tools continue to affect crowdfunding patterns. Additionally, the perception of trust connected individuals share cannot be easily overcome. Attitudes towards risk-taking are likely not globalized through crowdfunding. Local and distant funders display different funding patterns, but this difference is mostly explained by the typically local nature of social relationships. Local funders, such as family and friends, often act as early funders. More distant funders then rely of the information revealed by early funders to make their funding decisions. These pattern differences are more associated with social networks, but have a geographical effect. We will try to understand how the phenomenon of regionality in funding decisions persists even on online platforms by analyzing the home bias effect.

Other Crowdfunding Projects

The success of crowdfunding initiatives can also be affected by the success or failure of other crowdfunding ventures. This is because funders are influenced by the performance of similar initiatives in the past. A consideration to make about the internet based funding methods is that success and failure are more easily traceable than in the past. This means that if other related projects have succeeded in their crowdfunding in the past, potential investors can find out, and funders are more confident of the potential success of the initiative at hand if success was related to the same subject or entrepreneur in the past. Alternatively, if other similar projects have failed, funders are not as convinced of the initiative's success. Success and failure of related projects also affect the creators of the current initiative. According to Gleasure (2015), entrepreneurs that have observed crowdfunding failures first-hand are most fearful of public failure. So entrepreneurs with higher exposure to crowdfunding and failures within it are more worried about their own crowdfunding. This might be because people exposed to crowdfunding are more aware of all the implications crowdfunding can have for an entrepreneur.

Legal Regulation

The legal regulation on crowdfunding is still evolving. Currently, there is no uniform policy for equity crowdfunding in Europe. Every country have evolved an autonomous legal system to regulate and control the processes related to crowdfunding. The regulations are continuously changing as the market is relatively new. We analyzed in past chapters how laws may influence on a larger scale the outcome of an emerging market such as the crowdfunding market. More stringent regulation may defend entrepreneurs and investors from fraud or the drawbacks that high risk investments involve, but slow down the economic expansion and the use of a financial tool that has proven to be very effective especially in an economically relevant reality like SMEs. A European regulation is a probable consequence of a mature market, but until then the regulations will be fragmented and cause different type of diffusion and expansion among users.

4.3.1 A comparison between Usa and China

Let us analyze how a crowdfundig project might be modelled by considering external factors such like the social network in which the project is launched. We will consider the entrepeneur's social network and the sponsors' to evaluate its impact on the success rate of the crowdfunded project. This analysis will be based on the social capital theory and based on data collected between China and the U.S.
2.0 web technologies have created a new way of managing projects by outsourcing tasks to individuals with know-how, technical skills and monetary support.
The comparative study has been done considering the theory of multidimensional social capital. This theory tries to explain how the social context of a individual and the exchange of knowledge and resources can be facilitated by considering three dimensions:
the structural dimension (network relations and configuration);
the relational dimension (emotional connections between individuals such as trust, obligations and expectations);
cognitive dimension (a share narrative, environment and schema).
The term social capital considers the individual's social structure, as opposed to other types such as the physical capital.
Coleman defines social structure in terms of its functions: "it is not a single entity, but a variety of different entities, with two elements in common: they all consist of some aspect of a social structure, and they facilitate certain actions – whether persons or corporate actors within the structure'.
The commonly used definition is "the sum of actual and potential resources embedded within, available through, and derived from the network of relationships possessed by individuals or social unit''.
These dimensions help understand an individuals behaviour and his functional relation to the social structure in which he acts. The following picture represents how a relational representation of this theory with the crowdfunding approach.

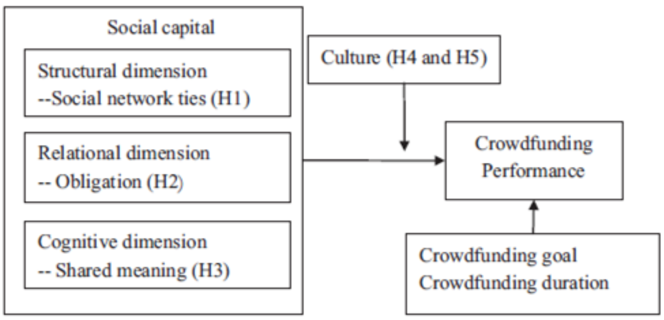

Fig 4.1 Multidimensional social capital in crowdfunding
Source: Zheng et al. 2013

Studies, such as the Schwienbacher and Larralde study, have shown when entrepeneurs tend towards a crowdfunded project as opposed to other funding options. Crowdfunded project have a general tendency to be more appealing and understandable to the final consumer/customer. The crowdfunding part of the project might have different objectives

such as attracting the public, raising the needed capital and obtaining feedback from the customer.
It is interesting to underline that crowdfunding projects based on non-profit goals seem to have a higher chance of success than non-profit ones, showing that the service or product doesn't have to be directly of use for the end customer but can have a different purpose, therefore underlining the initial hypothesis of being appealing to the customer's interest at the expense of being directly useable.
The entrepeneur's social environmente seems to be another common factor in both China and the U.S. A more extended social network considerably impacts the performance and market response for the project. The network a entrepeneur may establish is subdivided in two main groups: the first is the number of connections he has with other entities or individuals on a personal level; the second is the number of connections made through the use of dedicated third-party social platforms. Since the project is heavily dependent on a relationship with the end customer, platforms such as Twitter and Facebook are particularly indicated for a effective market penetration and to reach customers willing to participate on a financial and professional level.
Crowdfunding may, considering these variables, have different impact depending on the cultural context. Therefore a website such as Kickstarter that is highly used in the U.S. might perform differently in the chinese market where other websites, such as Demohour, are more widely used. Other factors such as the cultural tendency of an individual are important since sharing beliefs, attitudes and behaviours might have a positive impact.

We will be focusing on a reward-based crowdfunding for the analysis that has previously been defined as "crodfunding involing an open call, essentially through the Internet, for the provision of financial resources either in the form of a donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes"
as opposed to other models, such as lending-based and equity-based crowdfunding.

Considering the structural dimension we can assume that, according to Mollick's analysis of the crowdfunding reality, the range of a entrepeneur's social network (considered as the sum of its direct network and the one created through dedicated platforms) influences positively the crowdfunding performance, defined as the number of potential customers reached.

The relational dimension on the other hand defines the likeliness of a customer to participate as an investor.
This is because this dimension represents the quality and strength of connection established between the entrepeneur and the customer, evaluated on the basis of the trustworthiness, common norms and social obligations. We define obligations as the social commitment perceived by an indivual to act out as response to another individual's actions.
The concept of obligation is applied also to the entrepeneur, as the feel of obligation that may derive from a sponsorship agreement. He may feel compelled to invest in other sponsor's projects as a sense of duty. This can have a positive effect as it is increasing the entrepeneur's tie's quality and his trustworthiness. Therefore we can say that this sense of obligation positively impacts crowdfunding's performance.

The cognitive dimension defines the shared meaning and context of indidual in social context. To establish a meaningful connection we may some social ties like sharing a context, sharing a common language and vocabulary and cultural background. This is directly related to one of the entrepeneur's network possibilities such as the social platforms (e.g. online blogs, Facebook, Twitter, crowdfunding platforms..), in which a common social and contextual background helps establishing a qualitatively high relationship between individuals.

The differences

Cultural aspects can define the effectiveness of certain approach in the establishment of relationships between individuals. Social norms may differ between different cultural environments and in certain contexts there may be a stronger collective culture (like the chinese culture) that directly affects the feel of duty and obligation of an individual to get involved in crowdfunded projects. This is opposed to individualistic cultures (like western cultures), in which the sharing of material and non-material benefits is less impacted by the feel of a common cultural objective.

Chinese culture defines Guanxi as "drawing on connections in order to secure favors in personal relations".

These kind of connections are divided into two groups: the first ist giving unsolicited help and favors to incite favorable relationships and the second is seeking favors for a specific purpose. This process is widely used in China to obtain access to the desired postive externalities.

Descriptive statistics.

Variables	U.S.		China	
	Mean	Std. dev.	Mean	Std. dev.
Crowdfunding duration (days)	31.15	9.95	40.93	14.18
Crowdfunding goal	9977.89($)	14215.38($)	11629.67(¥)	16555.37(¥)
Pledge	9316.90($)	15822.96($)	7330.11(¥)	14875.29(¥)
Ratio of pledge over goal	1.05	0.76	0.96	1.06
Social network ties	835.51	905.78	2904.10	5654.84
Obligations	2.19	4.34	0.80	2.14
Shared meaning	4820.26	3259.49	1748.88	856.56

Fig. Data comparison between U.S. and China crowdfunding projects
Source: Source: Zheng et al. 2013

In the table above we can see data collected from http://www.kickstarter.com/ in the U.S. and http://www.demohour.com/ in China.

The ratio of pledge over the goal is here considered to be representative of the crowdfunding perfomance and has been used in various studies.

As defined before the structural dimension may be measured as the number of a entrepeneur's social connections.

For the U.S. the number of Facebook connections was used to define this dimension, while for the chinese component data has been extracted from Weibo.

The sense of obligation has been measured by considering the number of investments the entrepeneur has made to others' projects before the expiration date of his own project.
The shared meaning has been calculated considering the lentgh of the project's description and its debth (if e.g. the description was accompanied by videos or other media).
It appears that the behaviour of the different markets, explained from a social capital theory point of view, may indicate that the higher variance of crowdfunding perfomance in China with respect to the U.S. is caused and moderated by national culture.
In a collective culture, such as the chinese one, the sense of duty or obligation emerges in a more evident way when talking about being involved and contributing on a social level.
The concept of Guanxi also explains a part of the relation between entrepeneur and sponsor since the former is often considered a familiar person or friend. [47,56].
From further analysis it seems like the statistical significance is justified when talking about the structural dimension (US: $b = 0.05$, $p < 0.001$; China: $b = 0.07$, $p < 0.001$), the effect of obligation (U.S.: $b = 0.06$, $p < 0.01$; China: $b = 0.18$, $p < 0.001$) and the shared meaning (which was again positively correlated with U.S.: $b = 0.08$, $p < 0.001$; China: $b = 0.10$, $p < 0.01$).

4.3.2 Home bias

An extensive literature in economics and finance has documented "home bias" as the tendency that transactions are more likely to occur between parties located geographically closer (same state or country).
This concept can also be applied on a regional level. Various studies suggest in a state transaction and commercial relations are more likely to instantiate between parties in the same region.
Home bias is especially influential when analyzing the initial phase on an entrepeneur's projects. To justify this theory both financial and comportamental reasons have been proposed.
When talking about crowdfunding we are talking about a process stricktly tied with the use of the web. It, therefore is of interest to understand if the concept of home bias can also be applied when talking about online projects and transations.
Hortascu, Martinez-Jerez and Douglas (2009) show that even on electronic market places such as eBay.com, financial agreements are still more likely to occur between parties located in the same area.
Considering that many restrictions of a conventional trade agreement (such as a higher complexity in case of legal dispute in the event of default between parties situated further away from each other) do not apply when talking about the online market, the concept of home bias in this context is generally regarded to be driven more by emotional reasons than by rational (economic reasons) and attributed to psychological factors such as homophily. For the analysis an american website for unsecured personal loans (Prosper.com) has been used. All loans are a personal liability and an investor can browse listings and decide whom to invest in.

When analysing the bids on a intra-day period or during a certain time span it clearly emerged that also on this website home bias is a factor that positively influences geographical closleness.
In the following table some states have been chosen to represent a general tendency towards investing in closer activities.
In conclusion, it may be beneficial both for lendors and borrowers two understand home bias phenomenon.
Borrowers may decide to use or hide regional details if the state in which their project will be defined is respectively small or larger and as has high percentage of investors.
It seems that displaying regional details may not be beneficial if, as shown above, the consequence is a general bias an maybe a decrese in the potential customer numbers.
For entrepeneurs understanding this concept may mean solving sub-optimal decision making processes and focusing on the "real" success factors.

Conclusion

The possibilities that follow an increasingly holistic informatization of our personal lifes, of the information we can access through the web 2.0 and the magnitude and ease with which we can connect to people around the world have given birth to some very innovative funding procedures.

Never before has such a powerful financial tool been at the disposal of the private individual and facilitated in the same way transactions and funding. People are free to create and invest in ideas that are relevant to them, often free from financial purpose. The stories of successful campaigns tell us that in the modern market there is still the need and room for emotional involvement in projects and campaigns. The relationship created between investors and entrepreneurs evolved into a community, where the lines between funders and investors have never been as blurry. The potential upsides for this market have yet to be understood, but are already showing that this funding process has a possibly relevant future in the economic landscape. The subject is new, exactly like the regulatory measures taken in the single countries, and is moving and growing at impressive rates.

The regulatory approaches have started by applying stringent rules to observe the evolution of this new phenomenon, but have progressively relaxed to give more freedom to this unconventional funding method (see Title II and Title III and regulatory amendments in Italy).

The literature is evolving and becoming more and more specific, as laws define a more complex structure for the regulation of equity crowdfunding (Gallano (2018), Binacchi A. & Gallani A.(2015)), starting from a literary stream that was more interested in the definition and future prospects (Ahler et al. (2012), Howe J. (2006)). But nevertheless the recent nature of the subject causes literary approaches to change in parallel to the jurisdiction and regulation of the process.

The equity crowdfunding phenomenon has many parallels to conventional funding methods, however it doesn’t represent a hybrid solution, but a new approach that not only may be able to fund previously undundable SMEs (according to strict mathematical metrics as applied by venture capitalists), but tap into a resource that was previously not used in this form (Belleflamme et al. 2012)and that often relies on emotional ties rather than financial benefit (Agrawal et al. 2015).

The private individual and the network that have evolved during the last years are the main actors of a funding methodology that has definitely shown its potential, but has yet to reach its final nature and form.

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