

# The role of Entrepreneurial Quality in Equity Crowdfunding success: An explorative analysis of Italian platforms

**Keywords:** Equity Crowdfunding, Entrepreneurship, Platforms, Social Innovation.

## Introduction and objectives

The current era is characterized by the advent of the so-called ‘Industry 4.0’ (Lasi et al., 2014) and the spread of new technologies. Blockchain, ICOs and crowdfunding are well-known examples of these new technologies. They represent the ‘Fintech’ (Gomber et al., 2018) and – as noticed by some scholars (Block et al., 2018) – they are useful tools especially for young innovative companies. In particular, crowdfunding has shown a large and rapid growth worldwide since it creates certain benefits like the network support and the “crowd test” (Zetzsche & Preiner, 2018). Recent studies consider crowdfunding as social innovation practice (De Falco et al., 2015; Mariani et al., 2017): within dedicated platforms, founders develop social connections with the network/community of crowdfunders (Colombo et al., 2015; Kim et al., 2018).

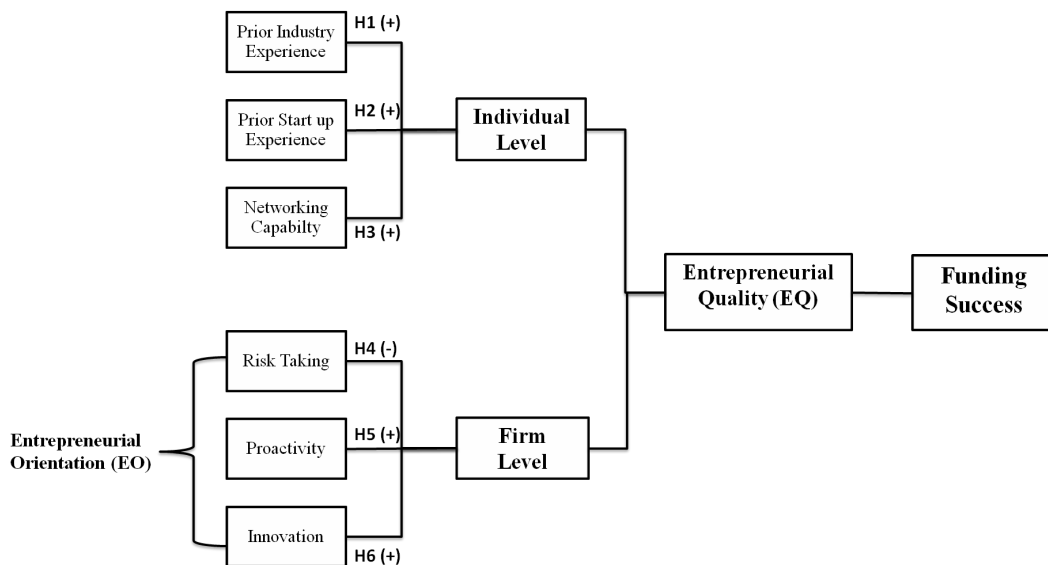
The present study focuses on the Equity Crowdfunding (ECF) – i.e. “*a method of financing, whereby an entrepreneur sells a specific amount of equity or bond-like shares in a company to a group of (small) investors through an open call for funding on Internet-based platforms*” (Ahlers et al., 2015, p. 958) – and considers the Italian context, where ECF is highly developed and where most businesses are MSMEs. According to MiSE (2018), these ventures show an increasing level of digitalization and pay great attention to innovation.

The current literature on the ECF includes contributions investigating success drivers of campaigns (e.g. Ahlers et al., 2015; Vismara, 2016), most of them leverage the framework of signaling theory (Spence, 1973). However, to the knowledge of the authors, only few studies analyze aspects related to entrepreneurship. According to this, the present study analyzes the

role of the ‘entrepreneurial quality’ (EQ), both at individual and at firm level, in the ECF context.

At the individual level we consider prior industry experience, prior start up experience and networking capabilities (meant as third parties endorsement), while at the firm level we consider the well-known concept of ‘entrepreneurial orientation’ (EO). We use the three traditional dimensions of EO construct that are: innovativity, risk taking propensity, and proactivity (Miller, 1983; Lumpkin & Dess, 1996; Covin & Slevin, 1991). Considering the EO literature and the specific ECF context, we use three parameters to express each dimension: equity offered as expression of taking risks; planning as expression of proactiveness; product innovation as expression of innovativeness. The importance of the EO concept in the current research stream on entrepreneurship is highlighted in the new theory of ‘HumEnt’ – Humane Entrepreneurship (Parente et al., 2018). The analytical framework is depicted in Figure 1.

**Figure 1:** Framework for investigating the role of EQ in the funding success of ECF campaigns.



This work investigates the impact of EQ in the success of ECF campaigns by comparing projects launched on platforms of different size. In our view, it is important to investigate the impact of the main features (such as on-line sections or advanced services) of ECF platforms.

## Methodology and Explorative Findings

We hand-collected a dataset of 110 projects launched on seven Italian portals (200crowd, CrowdFundMe, Equinvest, Mamacrowd, Muumlab, Nextequity, StarsUp): three big and four small platforms. We consider a platform as big if it has launched more than 20 projects.

At this stage of the research, we just performed a univariate analysis. The funding success (the dependent variable) is measured through the funding collected (in %) at the end of the campaign and the number of final crowdfunders involved. We conducted a univariate test in order to explore whether big platforms differ from small platforms in terms of successful initiatives and the described attributes of EQ (see Table 1).

**Table 1.** Mean Differences Between Big Platforms and Small Platforms

	Big Platforms (mean)	Small Platforms (mean)	Difference test (in means)
<i>Dependent variables</i>			
Funding Collected (%)	161.33	106.35	54.98 *
No. Crowdfunders	61.98	20.55	41.43 ***
<i>Explanatory variables</i>			
<i>Individual Level</i>			
Prior Industry Experience	12.32	10.66	1.66
Prior Start up Experience (%)	44.90	43.62	1.28
Third-party Endorsement	0.70	0.51	0.19 *
<i>Firm Level</i>			
Equity Offered (%)	10.25	12.40	-2.15
Planning	0.66	0.41	0.25 **
Product Innovation	0.46	0.41	0.05
<i>Control variables</i>			
Target Capital (in €)	149,036	204,036	-55,000 *
Founders	2.64	2.75	-0.11
Team size	6.08	5.65	0.43
Years	2.30	3.34	-1.04
Service Industry	0.71	0.75	-0.04
Big City	0.51	0.65	-0.14
Start up Size	0.90	0.89	0.01

*Notes:* This table presents the difference in means big platforms and small platforms.

Significance level at 1 % (\*\*\*), 5 % (\*\*), and 10 % (\*)

Table 1 presents the difference in means between big platforms and small platforms. Projects launched on big platforms have an average number of crowdfunders of 62 and the percentage of funding collected is about 163%, while projects on small platforms presents only 20 crowdfunders on average and 106% of capital raised. This means that big platforms favor the overfunding of the projects. Projects on big platforms are more likely to have prior industry and start up experiences and to have third parties endorsement. Initiatives launched on big

platforms have also higher probabilities to present new products or services and plans. Higher equity offering is associated with initiatives launched on small platforms, while founders of projects on big platforms retain more equity. These early evidences highlight that big platforms present different results in comparison with small platforms.

Results deriving from univariate analysis drive to carry out further analyses. In particular, we intend to carry out two regression analyses: the first one considering collected funding as dependent variable and the second one assuming the number of crowdfunders as dependent variable.

Hopefully, results of regression analyses might reveal new insights about ECF in Italy and have major implications for policy makers, platform managers and founders who – in turn – can implement specific actions to support the development of digitalization in MSMEs.

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