Equity Crowdfunding: a Review of Current Trends and Insights from the Italian Market

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Crowdfunding is the process of collecting from a large audience the money required to launch a new venture or entrepreneurial project. It is mostly based on the use of Internet to drive capital while leveraging the "wisdom of crowds" as a tool to pre-validate the most promising projects and business ideas. In particular, equity crowdfunding allows broad groups of investors to fund start-up companies and small ventures in return for ownership of a small piece of the business. Although equity crowdfunding promises to be a revolution in the funding of innovative start-ups, its development may be hindered from factors such as complexity of relationships with investors, information asymmetries, and project reliability. To face these issues, a sound regulatory system should be introduced to mitigate the risks and guarantee security and trust for investors. This paper aims at delineating the current status of equity crowdfunding and presenting the experience of the Italian market as a pioneering case in the regulation of the sector. A sample of projects submitted to all the Italian equity crowdfunding platforms is used to derive entrepreneurs' insights and existing issues, thus providing useful suggestions for policy makers, potential entrepreneurs, and private investors and financial operators as well.

Keywords: case study; crowdfunding; crowdsourcing; equity; Italy; review; start-up; technology entrepreneurship.

1. Introduction

New firms face difficulties in attracting external funds (both loans and equity) during their initial stage (Berger and Udell, 1995; Cosh, Cumming and Johan, 2009) and this is particularly true for innovative startups (Ma and Lin, 2011; Mitchell, 2008) and technology-based firms at their start-up and early growth stages (Mason and Harrison, 2004). Most early stage startups are not able to attract immediately the interest of business angels and venture capitalists, because the level of risks is significantly higher than the funds required. Thus, a sort of *funding gap* arises (World Bank, 2013) that hinders the emergence and development of innovative startups. On the top of that, the global recession started in 2008 has generated a *credit crunch* (Krebsz, 2011), with the consequent incapacity of companies to obtain funds to start a new venture or support normal business operations as well.

In such a scenario, crowdfunding is a relevant opportunity. It consists in the collection from a large audience of the financial resources required to launch an entrepreneurial project, by using a website or other online tool to solicit funds (Giudici, Nava, Rossi-Lamastra and Verecondo, 2012). It can thus represent an alternative to traditional financial channels like venture capitalists, business angels, or banks (Giudici, Guerini, and Rossi Lamastra, 2013a).

Crowdfunding can be a valuable support to sustain innovative ideas and projects mainly at the early-stage, thus strongly contributing to the diffusion of the entrepreneurial culture worldwide (Lambert and Schwienbacher, 2010; Schwienbacher and Larralde, 2012). Specifically, it plays a crucial role in two different phases of the entrepreneurial idea development process (Collins and Pierrakis, 2012): a) the idea launch and prototype realization; and b) the prototype enhancement and development. In the first phase, the 3Fs-based money (i.e. founders, family and friends) can be limited and, at the same time, business angels are not interested for the low financial request

(Agrawal, Catalini and Goldfarb, 2015). In the second phase, although real experimentation of the prototype demonstrates innovativeness, technical feasibility and market sustainability, neither business angels nor venture capitalists are (generally) interested. In fact, money request can be too much high for the former and too much limited for the latter.

Equity crowdfunding has a big potential in that it offers to investors the opportunity to participate actively to the development of an entrepreneurial project. A recent study (Lerro, 2013; Lerro, 2014) has focused on equity crowdfunding to highlight three main issues that may hinder its development, i.e. the relationships with investors, the information asymmetries, and the project reliability. To face these issues, a sound regulatory system should be introduced with the goal to define a trustful and risk-free venture setting for investors.

In such endeavor, this paper is aimed to describe the current status of equity crowdfunding and presenting the experience of the Italian market as a pioneering case in the regulation of the sector. A sample of projects submitted to all the Italian equity crowdfunding platforms is used to derive entrepreneurs' insights and existing issues, thus providing useful suggestions for policy makers, potential entrepreneurs, and private investors and financial operators.

The article is structured as follows: section 2 illustrates the theoretical background of the study; section 3 reports the research methodology; section 4 presents the main results achieved which are discussed in section 5; section 6 concludes the article with implications, limitations and avenues for future research.

2. Theory background

Crowdfunding is as an Internet-enabled open call for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes (Schwienbacher and Larralde, 2012). In an entrepreneurial context, crowdfunding refers to the efforts by individuals and groups (cultural, social, and for-profit) to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries (Mollick, 2014).

Crowdfunding is thus a financial instrument that leverages a large number of small-size amounts of money to sustain and support visions and initiatives of private individuals, companies and organizations (Kleman, Gunter and Kerstin, 2008). It opens the possibility of relying on social capital to raise funds, but also to collect feedbacks and suggestions that can improve the project as a whole (Giudici, Guerini, and Rossi Lamastra, 2013b).

Crowdfunding involves three main typologies of actors (Hagiu and Wright, 2011): the project initiators (individuals or startups searching funds), the crowdfunders (people keen on providing money to finance projects), and the crowdfunding platforms (organizations that enable direct interactions between project initiators and providers).

Each actor has a specific motivation to participate in the crowdfunding process. Project initiators engage in crowdfunding for fundraising, arising public attention around the project, receiving legitimacy, establishing relationships, receiving feedback about the product/service offered to improve it, expanding awareness of work through social media (Belleflamme, Lambert and Schwienbacher, 2014; Gerber, Hui and Kuo, 2012). Crowdfunders are motivated by rewards, supporting creators and causes, engaging and contributing to a trusting and creative community (Gerber, Hui and Kuo, 2012). Crowdfunding platforms are motivated by monetary rewards in the form of a percentage of the funded amount and a registration fee to publish the campaign on-line and to access to a range of activities and services (e.g. advices, relationships and team up with partners, etc.).

Crowdfunding is an application of crowdsourcing, a participative online activity in which an individual or organization proposes to a group of heterogeneous individuals (the "crowd") the voluntary undertaking of a task (Estellés-Arolas and González-Ladrón-de-Guevara, 2012). The economic principle at the basis of crowdfunding is the concept of "long tail" (Anderson, 2004). This means that, compared to traditional forms of financing (business angels, venture capitalists, banks and other financial institutions) in which few actors mobilize great deals of money per capita, crowdfunding involves a higher number of individuals that generally contribute with a small amount of money.

Crowdfunding leverages on three main characteristics of the web 2.0: collaboration, openness, and participation (Lee, DeWester and Park, 2008). It can be considered as an application of collective intelligence grounded on the *wisdom of the crowd* (Surowiecki, 2004) to identify, select and fund promising entrepreneurial projects. In addition, it can be seen as a collective effort of “working consumers” (Kleman, Gunter and Kerstin, 2008) who network and pool their money together, usually via the internet, in order to invest in and support efforts initiated by other people or organizations (Ordanini, Miceli, Pizzetti and Parasuraman, 2011).

Crowdfunding can be classified along different dimensions. Based on the *time* when financial support happens (Kappel, 2009), it is possible to distinguish “ex-post crowdfunding” and “ex-ante crowdfunding”. Based on the *nature of the reward* for crowdfunders (Lambert and Schwienbacher, 2010), it is possible to distinguish “donations”, “active investments”, and “passive investments”.

Another classification differentiates four models of crowdfunding (Castrataro, Wright, Bähr and Frinolli, 2013). In *“donation-based”* crowdfunding, financial contributions are given “for free”. In *“reward-based”* models, crowdfunders receive tangible or intangible rewards in return for their contributions (reward-based models can be “all-or-nothing” if the project is considered failed if the target amount is not achieved, or “take-it-all”, in which all contributions are delivered to the proponent regardless the target amount and the actual realization of the project). In “lending-based” models, contributions are small loans to be reimbursed with a convenient interest rate. Finally, “equity-based” crowdfunding is a model where contributions are in the form of equity investments (participation to the share capital).

Some studies (Frydrych, Bock, Kinder and Koeck, 2014) have shown, especially in the reward model, which elements can affect the outcome of the crowdfunding campaign. These elements include funding target and final funding, funding period, reward-level structure, visual pitch, founding team composition.

Crowdfunding can provide funds as well as enterprise legitimacy through early societal interaction and participation. This legitimacy can be understood as a strong positive signal for further investors. Governmental tax-reliefs and guarantees from venture-philanthropic funds provide additional incentives for investment and endorse future scaling by leveraging additional debt-finance from specialized social banks (Lehner and Nicholls, 2014).

Equity crowdfunding allows crowdfunders to be shareholders of the company, providing them with the opportunity to participate actively to project evaluation and development, and creating social links with other funders (Ahlers, Cumming, Gunter and Schweizer, 2015; Freedman and Nutting, 2015; Agrawal, Catalini and Goldfarb, 2013; Dawson and Bynghall, 2011).

According to the website www.massolution.com, as of mid-2013, equity crowdfunding was still relatively rare worldwide, making up less than 5% of all crowdfunding investment. Most of them enable entrepreneurs to offer equity or equity-like shares to a large pool of small investors through open Internet calls for funding. Popular platforms are SeedUps, ASSOB, Grow VC, Buzz Entrepreneur, Crowdcube, Innovestment, and Seedmatch. Some others offer revenue-sharing models for investments in specific industries such as music (e.g. My Major Company), films (e.g. Slated), arts (e.g. Sokap), or mobile applications (AppsFunder).

Differently from traditional capital raising forms, equity crowdfunding allows a group of small and distributed funders to express an interest in the form of equity or equity-like arrangements (e.g. profit-sharing) in the ventures they fund (Frutkin, 2103; Bradford, 2012). Investors decide based on the information they possess, and they normally give smaller amounts of money compared to what venture capital or angel investments do. During this process, the crowdfunding platform facilitates the transaction by providing a standardized investment contract and settling the payments modalities (Ahlers, Cumming, Gunter and Schweizer, 2015). Startups can thus overcome the traditional financial constraints that are necessary to get credit, thus obtaining the required resources for growth (Miglietta, Parisi, Pessione and Servato, 2013).

The successful closure of an equity crowdfunding campaign can significantly increase the visibility and credibility of the company. Success can be measured in terms of complete funding of the project, total amount of collected money, number of investors attracted, or speed of investment (Ahlers, Cumming, Gunter and Schweizer, 2015). In any case, a successful project builds strong and durable relationships with the crowd, thus contributing to realize a product or service that reflects the consumers' needs and expectations. While company is funded, the number of customers increases (Agrawal, Catalini and Goldfarb, 2013). Moreover, the success of an equity crowdfunding campaign can attract the interest of other investors, like business angels or venture capitalists, who can contribute to the company growth with other rounds of investment. In such a way, equity crowdfunding acts at the same time both as an alternative and as a complementary financial source for the startup of new ventures (Miglietta, Parisi, Pessione and Servato, 2013).

Some studies have shown that successful equity crowdfunding initiatives rely on credible signals, quality of the start-up, and reliable information disclosure to the crowd (Belleflamme, Lambert and Schwienbacher, 2014). Moreover, retaining equity and providing more detailed information about risks and level of uncertainty can be interpreted as effective signals and can therefore strongly influence the probability of funding success; on the contrary, social capital and intellectual capital have little or no impact on funding success (Ahlers, Cumming, Gunter and Schweizer, 2015).

However, some obstacles hinder the complete development of the equity crowdfunding (Lerro, 2013). First, managing the relationships with hundreds of shareholders can be a time consuming and costly activity. Second, information asymmetries between crowdfunders and the company can slow down the collection of funds since crowdfunders need a continued update about the overall investment return, as well as about the economic and financial situation of the company. Third, crowdfunders are not always financial experts and they can experience some difficulties to interpret correctly the company's information. Finally, the risk of Internet frauds can be a threat for the project reliability.

To face these issues, a wide set of norms and laws has been recently introduced in many countries to mitigate the risks and guarantee security and trust. This makes equity crowdfunding a highly regulated market (Heminway and Hoffman, 2010), strongly influenced by the legislative framework of the country.

In Italy, at the end of 2012 the government has published the law 221/2012 (initially named "Decreto Sviluppo Bis") with the goal to simplify and offer new funding alternatives to innovative startups based on obtaining equity capital through on-line crowdfunding portals. With such operation, Italy became the first country in the world to define a specific law for regulating the equity crowdfunding system (Forbes, 2013).

According to this law, there are different equirements for companies willing to launch an equity crowdfunding campaign: i) the company must have less than 48 months; ii) headquarter in Italy; iii) revenues less than 5 million of euros; iv) investments in R&D greater than 15% of revenues, or 1/3 of employees with a research experience, or ownership of a patent in high-tech industries; v) no any distribution of net profits; vi) company's core business focused on design, production and commercialization of innovative hi-tech products or services.

From the platform side, the norms admit only banks, financial institutions or investment companies, which have been purposefully authorized by the CONSOB (*Commissione Nazionale per le Società e la Borsa*), which is the Italian financial market authority (the equivalent of the US Securities and Exchange Commission). Law 221/2012 is thought to protect "retail investors" who are not expert in evaluating investments in high-risk and technology-intensive companies. Thus, in order to provide them with sense of trust and guarantees, professional investors (banks, financial institutions, authorized investment companies, or incubators) must subscribe 5% of the capital. However, when crowdfunders proceed to buy company shares, they should normally have a dedicated bank account to issue a bank transfer directed to banks or investment operators associated to the equity crowdfunding platform.

3. Method and Case Introduction

This article adopts an inductive research process (Swanson and Holton, 2005; Merriam, 2009) which has included three main steps. First, a web-content analysis (McMillan, 2000) was conducted of project campaigns closed over all the 14 Italian equity crowdfunding platforms recognized by the CONSOB at the time of the study (February 2015). This activity has allowed to identify all the equity crowdfunding campaigns existing on the Italian platforms and to extract for each one data such as project description, project initiator, target funding, current funding, campaign duration, number of effective crowdfunders, number of crowdfunders in waiting list, minimum and maximum share bought, average amount of money collected, presence of institutional investors, and existence of intellectual property assets (e.g. patents, brands).

In the second step, an online questionnaire (Couper, 2008) composed by 20 open-ended questions was designed and submitted to all the entrepreneurs of campaigns in order to investigate seven crucial dimensions (Schwienbacher and Larralde, 2012): 1) pre-existing resources; 2) risk, moral hazard and information asymmetry; 3) organizational form; 4) control preferences; 5) amounts required by entrepreneurs; 6) legal issues regarding equity issuance and multiple investors; and 7) the "wisdom of the crowd" argument. The questionnaire is reported in Appendix 1.

In the third step, a semi-structured interview (Denzin, 1989) was conducted with the entrepreneurs of each project proposal who filled in the questionnaire and accepted to participate to the further study (6 entrepreneurs out of 8). This activity, conducted in March and April 2015, allowed overcoming some poor responses of the questionnaire and ensured that all questions were answered by each respondent (Bailey 1987). The choice of semi-structured interviews allows maintaining the meaning of the questions even if the words and vocabulary should change; this ensures validity and reliability of the research that leverage upon conveying equivalence of the meaning (Denzin, 1989).

Table 1 shows the list of the 14 Italian equity crowdfunding platforms operating over a total of 54 crowdfunding platforms (41 active and 13 just started) that have collected a total amount of 30 million of euros during the years 2013 and 2014 (reward-based and donation-based platforms cover the 80% of the entire industry).

Table 1. Equity crowdfunding platforms operating in Italy

N	Name of the platform	Website
1	Assiteca Crowd	www.assitecacrowd.com
2	Baldi & Partners	www.investi-re.it
3	Crowdfundme	www.crowdfundme.it
4	Ecomill	www.ecomill.it
5	Equinvest	www.equinvest.it
6	Fundera	www.fundera.it
7	Muum Lab	www.muumlab.com
8	Next Equity Crowdfunding Marche	www.nextequity.it
9	Siamosoci	www.mamacrowd.com
10	Smarthub	www.smarthub.eu
11	Stars Up	www.starsup.it
12	Startzai	www.startzai.com
13	The Ing Project	www.equity.tip.ventures
14	Wearestarting	www.wearestarting.it

Table 2 lists the eight equity crowdfunding campaigns analyzed. All the related entrepreneurs were contacted either directly (through e-mails, Skype, Facebook, or telephone) or through the crowdfunding platforms and six of them accepted to participate to a phone interview (campaigns from 1 to 6 in the table). A short description of each case is reported hereafter.

Table 2. Equity crowdfunding campaigns analyzed (projects submitted by February 2015)

N	Campaign	Platform	Target (K€)	Funds raised (%)	N. of crowdfunders	Initial presence of profess. investors
1	Crowdbooks	Assiteca crowd	99	0.1%	2	No
2	Face4Job	Stars up	250	4.3%	19	No
3	Hyro Srl	Stars up	200	7%	5	No
4	Liberos - Isterre	Smarthub	200	23%	79	No
5	Nova Somor Srl	Stars up	250	100%	3	Yes
6	PharmaGO	Stars up	300	12.3%	13	Yes
7	Cantiere Savona	Stars up	380	100%	44	Yes
8	Paulownia Social Project	Assiteca crowd	520	100%	12	Yes

Crowdbooks is a platform providing services related to the funding, design, production and distribution of art and photographic books. *Face4Job* is aimed to digitalize processes related to job search and recruitment. *HYRO Srl* has patented a geo-localization system addressed to improve safety of people, pets and livestock as well as valuable goods such as automobiles, motorcycles, bags and other. *Lìberos - Isterre* is a project for diffusing reading, books and culture as a mean to prevent or fight school dispersion, and promote cooperation and social innovation. *Nova Somor Srl* is a company whose goal is to conceive, design and build innovative tools for energy efficiency. *PharmaGO* is a R&D company focused on cancer prevention and production of new medicines. *Cantiere Savona* focuses on the conception, design, production and diffusion of an innovative concept of yacht that combines traditional features and edge technology. Finally, *Paulownia Social Project* aims at planting high-speed growth trees (also well known as Short Rotation Forestry activity) in order to produce wood for national and international markets. Next section describes the results of the analysis of questionnaires and the interviews carried out.

4. Findings

Despite the limited number of cases analyzed, three general considerations can be done based on the results of the analysis. First, there is no evidence about the existence of a direct relationship between the crowd “density” (number of crowdfunders) and the achievement of the project success (100% of funds raised). Second, the presence of a professional investor at the beginning of the campaign is an important success factor. Third, the greater is the target amount requested the greater is the probability to succeed. A general weakness found is related to the campaign planning process. Actually, interviewees (and the platforms as well) have underestimated the importance of public diffusion of project information and the use of communication tools and viral marketing (both on-line and off-line) to reach potential funders. More in detail, the main evidences deriving from the interviews are reported here below using the same structure of the questionnaire.

4.1 Pre-existing resources

The first important element of analysis is the level of resources (both money and skills) possessed by the entrepreneur to run the project. The manager’s competencies might also influence his need for additional managerial support in sales, marketing, accounting, distribution or any other field. This can be provided mainly by equity investors (e.g., VC funds, business angels and strategic investors) who already have the experience in running a company as well as previous knowledge about the industry. Innovative companies, which benefit from external support from VC funds perform better than the average and have higher growth rates. In addition, collateral is often required for obtaining debt finance and entrepreneurs with little collateral would be more likely to obtain financing from

VC funds than from banks. In all cases analyzed, the expertise of entrepreneurs is high, with a deep knowledge about the industry and the market. The team composition is thus defined at the outset in terms of ready-to-use competencies and skills. Financial resources requested to the crowd range from 20% to 30% of the total project cost and the remaining capital is funded by promoters (only in one case, an investor specialized in academic spin-offs has provided a seed capital before the launch of the campaign).

4.2 Risk, moral hazard and information asymmetry

What risk an entrepreneur can support is a condition to choose a funding. Equity finance is a way to spread risk over different people whereas debt finance makes the entrepreneur to bear the risk alone. Therefore, the financial structure of a company is influenced by the original riskiness of the project along with the risk-taking personality of the entrepreneur. Moreover, information asymmetry is another issue in financing entrepreneurial initiatives, as different parties engaged in a deal do not have access to the same level of information. In the case of equity crowdfunding, this issue may be even more pronounced. Indeed, investors are not specialists and thus have access to less information about the industry, past performance of the entrepreneur and many other pieces of value - relevant information. Moreover, the entrepreneur might be even more reluctant to disclose information to this type of investors, due to their number and lack of professionalism. However, not all investors require the same level of information disclosure from borrowers. Most of the time, investors acquiring equity ask for more information than debt financers do since they bear more risk. Entrepreneurs who go to VCs are more likely to have secured their ideas via intellectual property rights, which also implies that the entrepreneur's legal environment has a direct influence on his choice. Through the equity crowdfunding campaign, the entrepreneurs try to transform into a new company their studies, researches, professional experiences and other previous results in related industries or initiatives. During the description of the campaigns on the crowdfunding platforms, several milestones have been specified to document the projects' progresses in case of successful closing; no one of them have been realized and communicated during the period of fundraising because of limited duration of the campaign (60-90 days) and the high percentage of failure of interviewees (5 out of 6). The information communicated through the platforms was rich and deep, highlighting both the generic investment risk of any startups and the specific risks related to each project (e.g. technological obsolescence, overcoming of the idea, failure of the research at the basis, etc.).

4.3 Organization form

The organizational form may be an important driver of the success of equity crowdfunding initiatives. Not-for-profit organizations tend to be more successful in achieving their fundraising targets as compared to profit organizations. In fact, not-for- profit organizations may be more prone to commit to high quality products or services. In contrast, for-profit organizations will set their quantity-quality mix that only maximizes corporate profits. In Italy, only innovative startups can access to equity crowdfunding. This was not a limitation for the interviewees who decided indeed to create an innovative venture. Moreover, the interviewees do not consider the profit-based nature of the company as an obstacle to the usage of equity crowdfunding; on the contrary, they stressed the importance of profit making as fundamental reason of the future business. However, more efforts dedicated to better communicate socio-cultural aspects, ethical issues, the environmental impact, and the job effects of the crowdfunding campaigns is an element to be improved according to both project initiators and the platforms.

4.4 Control preferences

Owners want to focus on profit maximization in order to maximize dividends, while managers might have more value creation/prestige-related goals like being innovative. One question is whether crowdfunders should be able to have their say on the management of the company. This issue deals with the legitimacy of such investors to control a company. Indeed, they might be quite numerous and each has brought only a small amount of money into the firm. How much power would they get then? In addition, how could they exercise it? The Web 2.0 could at times be an alternative to high coordination cost where the number of investors is particularly large; in this case, voting power can be given to crowdfunders for very specific decisions about the product design or other corporate strategies. However, it is unlikely to be manageable for any kind of managerial decision, such as voting right given the common shareholders in true equity issuance. In the campaigns analyzed, ownership and management of the company have the same goal of business sustainability. Only in few cases, a large number of crowdfunders have been involved; this result was mainly due to the effort made by the project initiator, through personal networking and communication initiatives, with a low support of the platform. However, the issues related to how involving crowdfunders in the decision making processes of the company have not been sufficiently deepened when the campaign has been launched, and also during the interviewees it was not a highly considered topic.

4.5 Amounts required by entrepreneurs

All the respondents have highlighted that macro-economic conditions were adverse towards the equity crowdfunding campaigns. Specifically, the following factors have been cited as critical issues: skepticism towards high-risk startups, passive role of traditional media (radio and television) in sensitizing large audience to invest in startups, the cultural resistance to change of people, and the legislative constraints in terms of nationality and min/max thresholds of investment by individuals and companies. At this proposal, most respondents have declared that launching the crowdfunding campaign in countries like USA, United Arab Emirates, and south-east of Asia would have delivered more success. Finally, financial intermediaries were not so proactive in supporting the projects since they are not so skilled in evaluating highly innovative and risky business ideas. Only two projects received investment from the bank system, after that the project initiators provided sufficient and personal guarantees.

4.6 Legal issues regarding equity issuance and multiple investors

A shared opinion of interviewees is that the regulatory system has slowed down rather accelerated the equity crowdfunding sector. Respondents have referred to a *"bank & crowd funding"* system to stress the bank-centered nature of the new financial instrument. In fact, startup funding is only possible through bank transfer (credit cards, pre-paid cards or online payment systems are not allowed) and the limits of the transferred amount are restrictive and can be partially overcome with heavy bureaucracy (e.g. questionnaire to evaluate the risk attitude of investor, use of a dedicated bank account for transferring money). Besides, the low awareness of the crowd about the crowdfunding system brought the entrepreneurs to focus not only on the startup of the new company, but also on sensitizing potential funders to invest their money in the new venture. Respondents highlight the importance to replicate more effective platforms, which are operating in foreign countries.

4.7 The "wisdom of the crowd" argument

The study has showed the absence of a real community of investors built around the project campaign. The hosting platforms are mainly focused on bureaucratic procedures required to collect the money rather than to sensitize potential investors to shape the future by nurturing a community of crowdfunders. Essentially, the main stages of an equity crowdfunding process (i.e. application to the platform, virtual pitching, funding, and post investment) (Lasrado and Lugmayr, 2014) are carried out by the entrepreneurs without any important support provided by the platform and the crowd itself. Only in one case, an experienced entrepreneur has been involved as investor thanks to promotion of the crowdfunding campaign.

5. Discussion

Although Italy has been the first country in the world to define a specific law for regulating the equity crowdfunding system (Forbes, 2013), and the number of platforms has increased, the most of socio-economic benefits coming from the diffusion of such funding strategy is not yet evident. The number of campaigns and financial resources gathered is still limited. Equity crowdfunding in Italy seems to be “immature”. Few successful cases depends on the presence of few investors (individuals or companies) who funds the campaign relying on the chances of high-level profitability of their investment in terms of market growth.

The main problem observed relies on the bureaucracy of procedures and the complexity of legal norms. Actually, the legal requirements can make it easily possible, as what happens in Australia for example (Ahlers, Cumming, Gunter and Schweizer, 2015) or in Finland (Lasrado and Lugmayr, 2014). The Italian equity crowdfunding legislation is restrictive, with many intermediaries. According to it, the number of companies can use equity crowdfunding is around 3,800 that is the number of innovative startups (http://startup.registroimprese.it), i.e. less than 0.5% of all the Italian corporations. In such a way, the other companies that need financial capital cannot consider equity crowdfunding as an alternative source of capital.

The essence of crowdfunding is the immediacy of the funding activity. Thus, a more simple way to perform transactions, the removal of constraints, direct relationships without any intermediaries and the use of on line payment systems could inject new energies to revitalize the equity crowdfunding in Italy (Castrataro, Wright, Bähr and Frinolli, 2013).

Moreover, filling in the information gap between project initiator and the crowdfunders can contribute to increase trust and provide important inputs for early-stage investors. Specifically, communicating the main attributes of venture quality (i.e. the human capital skills and capabilities for entrepreneurship, the social capital and business linkages to access to complementary resources, and the protection forms of intellectual capital) contribute to reduce the information asymmetries (Baum and Silverman, 2004). However, the execution of those activities that ensure transparency of information such as data collection, monitoring progress and communication are increasingly expensive (Cuming and Johan, 2009).

Finally, emphasizing the social impact of the project’s results of crowdfunding campaigns (improvement of the quality of life, positive effect on the environment, etc.), in addition to the economic one (new jobs, wealth creation, etc.) could contribute to sensitize the public and increase the number of potential crowdfunders (Agrawal, Catalini and Goldfarb, 2015).

Ultimately, cultural aspects play an important role for the diffusion of equity crowdfunding. It is fundamental to have a crowd opened to investment because there is no crowdfunding without the “crowd”. In this perspective, communication events, conferences, social networks, viral marketing and media support can create a basic layer to support the diffusion and widespread of crowdfunding in general, and equity crowdfunding more specifically. This contribute for sure to develop the entrepreneur’s social network ties and to create a shared meaning of the crowdfunding project that make more performing the entire crowdfunding process (Zheng, Li, Wu and Xu 2014).

Crowdfunding can have implications that go beyond the financial aspect and involve the flow of information between the organization and its customers. Thus, it can become a promotion device, a means to support mass customization, a strategy to implement user-centered innovation, and a way for the producer to gain a better knowledge of the preferences of its consumer (Belleflamme, Lambert and Schwienbacher, 2014).

6. Conclusions

Equity crowdfunding is a big opportunity to fund innovative start-ups and boost regional and national economies. However, the regulatory framework can be contradicting and difficult to reconciliation with banks and the financial system overall.

This article has presented a synthetic view of equity crowdfunding and introduced a national case as a possible example. The results of this study provide useful insights for policy makers that are in charge to manage the Italian regulation on crowdfunding, as well as to sensitize potential entrepreneurs who intend to use crowdfunding to finance their startups. Besides, the paper is also useful for managers who might consider crowdfunding as a new strategy and tool to support the funding innovation and entrepreneurship within their companies, but also for crowdfunders (private investors, companies and financial operators) who intend to enter this emerging business industry. Finally, some insights for the crowdfunding platforms can be also derived. Indeed, the offering of value added services can increase the number and the quality of the projects submitted. Some example of these services concern mentoring by experts to highlight the innovative elements of the projects or to improve the dynamic and the components of the business model. Similarly, promoting collaboration among companies and enriching the communication of each project will contribute for sure to make more dynamic the crowdfunding industry in Italy.

The study opens the boundaries for further researches. In particular, a larger analysis of equity crowdfunding projects can bring to identify the main success factors for a campaign and the correlation with project duration, amount, and number of friends in the social networks. These considerations can suggest further studies focused on exploring strategies and mechanisms to create and sustain communities of equity crowdfunders, as well as to investigate innovative ways to strengthen the relationship between potential entrepreneurs and potential investors.

Another interesting issue can be investigated concerns the collaboration among crowdfunding platforms. This aspect could activate a network effect among the community of crowdfunders that could bring to an overall development of the entire industry.

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Appendix 1 – Questionnaire to investigate the main dimensions of an equity crowdfunding campaign

Section 1: Pre-Existing Resources
- What does the entrepreneur possess to secure the investment of the fund providers?
- Does the entrepreneur have the required skills to run the project and make it successful?
- Was the team completed with all the required professionals?

Section 2: Risk, Moral Hazard and Information Asymmetry
- How much the risk propensity of the entrepreneur is? Is a serial entrepreneur with successful stories?
- Are the crowdfunders quite literate about the risks from the investment in the equity of a company?
- Has the investment plan been detailed and communicated, with specific and intermediate milestones?
- Have the technological obsolescence-related risks been highlighted to crowdfunders?
- How much details on project results and working procedures have been communicated to crowdfunders to motivate them in investing in the campaign?

Section 3: Control Preferences
- How can the project initiator of the equity crowdfunding campaign tame conflicts of interest with the crowdfunders?
- Are there some forms of communication and interaction that crowdfunders can use to influence or provide insights for the management of the company?

Section 4: Amounts Required by Entrepreneurs
- What is the minimum investment made by the promoter of the campaign?
- Have other sources of funding been contacted (e.g. VC, BA) before the design and launch of the campaign?
- Do you think that the macro-economic conditions and the level of territorial and social digitalization have influenced the result of the project campaign?

Section 5: Organizational Form
- Do you think that the company typology can influence crowdfunders to invest in the project?
- Have other qualitative results such as social impact and quality of life (beyond economical and financial ones) been communicated in the campaign?

Section 6: Legal Issues on Equity Issuance and Investors
- National legislation related to the equity crowdfunding is appropriate to the context?
- Which elements (e.g. number of investors, limits in buying the shares, modalities of payment, etc.) could be improved to increase the number and level of success of the campaigns?

Section 7: Wisdom of Crowds Argument
- Have crowdfunders spread-out the campaign in their networks of relations?
- Have crowdfunders contributed to suggest and improve the entire project?
- Have crowdfunders expressed the will to become also customers?