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STUDY ON DRIVERS AND FEARS OF SOCIETY FOR  
CROWDFUNDING

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## 1. Origin and key features of crowdfunding

### Searching for a definition

The term crowdfunding has been part of our lexicon for the last 10 years and can be linked to those new working and business methods grouped under the umbrella definition of “Sharing Economy”. Traditionally people enter into possession of goods through market exchanges, redistribution and reciprocity. On the contrary a shared economy creates new business models based on cooperation and sharing activities.

*“Cooperation extends reciprocity dynamics to people we have no or weak connections with or even with strangers. Sharing platforms enlarge such practices to people coming from outside our social environment. The catalyst of such mechanism is reputation. We trust strangers when they get positive reviews by or one of our contacts when he/ she expresses positive feedback on something. Sharing is based on new interest communities generating a sense of belonging and enhancing the management of common goods”.* (Pais et al. 2014, 5-6).

This cooperation and sharing rationale works in disseminating information, knowledge, goods, services, and money through social media and cooperative platforms stemming from the network concept. Furthermore, they give birth to new social and economic actors, and to new paradigm for working organizations. Concrete examples of organizations coming from software production through open source movement can be found in all the economic fields: in education systems through social learning platforms; in mobility (car sharing and carpooling); in workplaces (coworking, makers space); in hospitality (house sharing and coach surfing); and in finance through crowdfunding.

In order to define crowdfunding we can start from what stated by the Framework of European Crowdfunding as follows:

*«Crowdfunding can be defined as a collective effort of many individuals who network and pool their resources to support efforts initiated by other people or organizations. This is usually done via or with the help of the Internet. Individual projects and businesses are financed with small contributions from a large number of individuals, allowing innovators, entrepreneurs and business owners to utilize their social networks to raise capital»* (De Buysere K. et al. 2012, 5).

The definition provided by the Framework for European Crowdfunding allows us to immediately identify the terms and reference of the issue: crowdfunding is not just a way to collect money but a complex anthropologic, social and economic phenomenon that finds its explication in a



series of processes giving us the chance to improve and innovate the way we think about the creative process, production and consumption.

Starting from this basis we can now list the key features of crowdfunding as follows:

- fund raising (small contributions from many individuals)
- crowds (collective effort from many individuals in the network)
- internet which is the catalyst of this new practice

*“Thanks to crowdfunding anyone having an idea such as a new product, service or enterprise can search for funds through small funding from potential investors and give them back offsets depending on the type and object of their involvement. Thus, crowdfunding represents the overthrow of that scheme in which funds come from a sole investor like a bank, an individual, a philanthropic organization, an investment fund”* (Calveri C., Esposito R. 2014, 17).

More specifically as stated by Ivana Pais: crowdfunding can be seen as an instrument to convey complex mechanisms like cooperation among different individuals, sharing activities, open innovation, horizontal engagement into a concrete tool to reach objectives much more simple than mere fund raising: from supporting a creative process to transparent financing of independent ideas and projects; from testing a project feasibility to new products development.

*“Crowdfunding finds its basis and strength on collective smartness, on that invisible energy dragging and uniting in a contamination process”* (Vassallo, 2014, 41)

Crowdfunding directly comes from crowdsourcing. At its very beginning crowdsourcing was based on the job done by volunteers and passionate of a specific issue dedicating their spare time to contents creation and problem solving. In this issue, it is a matter of passion among a group of people cooperating to meet shared common interests.

Today crowdsourcing represents a new business model for businesses and enterprises to rely on non- institutionalized people to design and implement the development of an idea or a project. Such process is helped by those instruments provided by the world wide web. Now you can ask general public to develop new technologies, to design a project’s activities, to define or develop an algorithm, to register or analyze data.

Crowdsourcing was born from the open source software Linux and it is currently used in different fields like marketing, selling, marketing research, administration, and culture. Depending on the application field promoters may be companies, public administrations or NGOs.



The term crowdsourcing appeared for the first time on Wired in 2006 in an article written by Jeff Howe a US journalist specialized in new economy and digital work. In his article Howe highlighted the generation of a new, cooperative, open and web- shared way of working. According to him the power of crowdsourcing resides in two main factors: openness and sharing, both allowing the best world professionals to get together to find innovative solutions.

In September 2010 Henk Van Ess defined crowdsourcing providing us with a less commercial definition of crowd sourcing, and defining it as an instrument to drive experts desire to solve problems and share their solutions for free to the whole world. (Vassallo 2014, 43).

Estelle and Gonzàles gave modern literature in this field a crucial contribution by comparing all current theories and definitions and summing them up into an exhaustive one:

*«Crowdsourcing is a type of participative online activity in which an individual, an institution, a non-profit organization, or company proposes to a group of individuals of varying knowledge, heterogeneity, and number, via a flexible open call, the voluntary undertaking of a task. The undertaking of the task, of variable complexity and modularity, and in which the crowd should participate bringing their work, money, knowledge and/or experience, always entails mutual benefit. The user will receive the satisfaction of a given type of need, be it economic, social recognition, self-esteem, or the development of individual skills, while the crowdsourcer will obtain and utilize to their advantage that what the user has brought to the venture, whose form will depend on the type of activity undertaken»* (Estellés, González 2012, 10).

The power of crowds (meant as collective groups of people) is thus the key factor in the evolution of the current cultural dimension. In this case crowd is not meant as the sum of several individuals but as a source of potential counterparts allowing all of us to find our own reference group and to participate into a certain project as consumers or co- authors. There are infinite applications of crowdsourcing from science to goods production, from technology to the economy.

What stated above is also true for crowdfunding and can be referred to as any process: from helping in humanitarian crisis to supporting art and cultural heritage, from participative journalism to innovative entrepreneurship to scientific research:

“Power to choose, and facilitate the creation of something despite market logics, and despite the limitations stemming from relying on numbers entailing meanings different from those they used to have. Every niche can produce results thanks to the deployment of individuals taking part into the process at different level, depending on their needs. It is the pure idea of



participative democracy: free from compromises or interferences generated by external events.”

If from one side it is clear that Crowdfunding is crucial in participating a campaign even with small contribution on the other side the chance of developing horizontal, democratic valorization of talents, and capacities and is key in this field.

*“Crowdfunding collects and re-launches the creative inputs coming from the philosophy of a wide transversal community that includes: geeks creating innovative softwares, artisans creating, repairing and restyling by themselves any object from everyday life; activists and citizens committed in political protests; creative workers from the cultural sector who suffered most the effect of the reduction in investments from the public sector”*

One of the news is the switch from the DIY (do it yourself) logic to the DIWO (do it with others) one. You can find an explicit reference to this change as follows:

*Thanks to the internet it is now easier to get in touch with other DIY lovers to develop your own projects.*

*This is how the DIWO movement was founded. Crowdfunding is very close to the DIWO spirit. Individuals once confused in a shapeless crowd decide to invest in projects cause of social and emotional factors. Some of them invest to have fun, others contribute to support a cause they believe in. Some of the investors are friends or relatives investing to support their beloved ones. In fact it is the role of this last group to be crucial in determining the success of crowdfunding campaigns”.*

As previously stated crowdfunding represents a direct answer to economic floating circumstances, to new social behaviors and to the impact of comprehensive availability of low cost cooperative technologies. Apart from this, crowdfunding is also supported by a series of models and principles tightly inter- connected and supporting one to another that represent triggering factors of this phenomenon. There are 3 main pillars in crowdfunding: fundraising, crowds, and the internet. Some few others can be added: long tail, low transaction costs, openness, limited term, connective action, digital action and relation, reputation and trust, and transparency.

The premise at the basis of this idea is that most of traditional business models are based on focusing on A section or 20 of 80/20 activities thus concentrating their efforts where greater chances to create value and profits are based.

“What is crucial in crowdfunding is meeting the goals through a crowd of small contributions instead of some few bigger ones. This is also demonstrated by the analysis of crowdfunding



platforms showing that supporters invested small sums in the projects concerned. What is relevant is the huge number of transactions completed. Even if these results seem to be obvious today they were not twenty years ago. What changed our reality is the birth of the internet, of the world wide web and e- commerce that allowed us to enjoy wider range power and visibility”. (Castrataro e Wright 2014, 52).

**Low transaction costs:** for the long tail to be effective the rising cost of each transaction needs to stay low and not to affect the funds raised. In crowdfunding the same effect is guaranteed by the platforms processing and implementing the data architecture and logistics aspects of a certain campaign thus making the rising cost of each transaction (either fund raising or investment) not only possible but also sustainable.

**Openness:** one of the main advantages of web 2,0 is how easy users become active participants to the process. For the long tail mechanism to work effectively it is crucial to engage a large number of individuals. For crowdfunding to take advantage of this mechanism it is necessary that individuals easy find, participate, and share online campaigns. One of the key reasons to expand crowdfunding participation is to ensure the available funds which were not previously available are unblocked, and enter the main funding stream. So not only the main assumption of reduced barriers is key to offer resources in support of crowdfunding but it also has to be applied to the specific projects by the provision of bonuses or investment opportunities low enough to make the transaction simple and less risky. The number of individuals involved determines the amount of money collected, insight diversity, and the degree of expertise offered. Furthermore future consumers enter the productive process since its designing phase and give their own contribution in both financing and contributing to its creation. Following the long tail principle this process helps the production to be taylor- made and fosters niche logics.

*“In general terms, whoever has an idea or project can make it public or participate to collective financing. The only mechanisms to lock the system are those introduced by the platforms themselves acting as further mediators among the parties involved and setting limits deriving from the geographical origin of the project designers, to the project contents or its quality level. For example Kickstarter accepts designer coming from USA, England, Canada, Australia, New Zealand, and the Netherlands only. (pais et al, 2014, 8)*

**Time limit in projects:** platforms allow project designers to define the length of a campaign. According to “all- or nothing” platforms rules only those reaching the goals set at the beginning get the funds while in “keep it all” ones the projects gets what has been raised at the end of the campaign.



**Connective action:** the term “crowd” highlights the collective dimension of financing mechanisms. Nevertheless, it hides one of the main success factors of a project: relations among investors. Actually, investors are not single units sharing a common interest towards a project or a company but bonds of a network connecting all of them and allowing them to exchange resources.

**Digital relation:** crowdfunding finds its shape through online platforms facilitating the transformation of capital into ideas, projects, and new enterprises. As well as social media decrease the limits to access and produce information, crowdfunding decreases access to capital sharing.

**Reputation and trust:** digital connective action is led through reputation and trust. The first individuals investing in a project are generally those standing closer to its promoters who know him/ her at personal level. Social media are an instrument to go beyond friends and relatives, and reach friends of friends or even strangers. When the relation concerned is not based on direct contacts social links are crucial to evaluate the project value. This is why the first investors are also those validating it and attracting further investments by other supporters.

**Transparency:** platforms provide information on the quantity of contributions received, the amount received and (in several platforms) names of the investors. Transparency in crowdfunding is seen as a defence against frauds through auto regulation mechanisms that should theoretically foster engagement and participation.

### *History and diffusion of crowdfunding*

The mechanism leading people to unite to finance a certain project is not new and it has been used several times in history before being analysed and described in literature.

This practice finds its basis on some very ancient funding mechanisms like micro credit and social lending (used also for religious funding since very long time ago). This is why it is not easy to date its exact origin. Nevertheless, some examples of collective financing from a community of individuals uniting for a common cause can be found in history.

One of the first cases of micro credit occurred in Ireland at the end of the XVIII century following suggestions coming from Jonathan Swift. On that occasion, several credit companies started providing small loans to Irish families. Following this practices, in the XIX century, the Irish parliament started encouraging these companies to raise the loans to reduce poverty. This initiative allowed 20% of Irish families to enjoy micro credit activities from dozens of companies then united under the umbrella of Irish Funds (Hollis and Sweetman, 1996).



Similar cases occurred in Germany during the XVIII and XIX centuries: the first in the publishing industry, the second in agriculture. It was in the XVIII century when the Prae-numeration system was created to pre- sell the copies of books printed thus amortizing printing costs. While in the XIX century the German Major Friedrich Wilhelm Raiffeisen created the first cooperative lending banks to support farmers' families all over Germany. This model was re adapted in Pakistan by Akhter Hameed Khan in the 50s to help rural areas out and to grant control over those infrastructures aimed at developing local agriculture.

Some similar practices were developed in the US also even if they differ from the European ones in their contexts and goals. In the XIX century the first crowdfunding "proto- campaign" was launched. After the French government donated the statue of liberty to the Americans they had to face the cost of building a base to support it. Finding the necessary funds for this aim did not show to be an easy task to accomplish so Mr Joseph Pulitzer created a special committee to collect 300.000 US dollars through a campaign promoted on the newspaper "The World" asking American citizens to donate small amounts for completing the work.

The community - based examples above are the basis of modern micro credit activities first launched by Muhammad Yunus and the Grameen Bank active in the 70s to develop poor areas of Bangladesh. The Grameen Bank was founded in 1976 and it is referred to as the first "bank of the poors". Today it counts more than one thousands branches widely and homogenously disseminated over the territory. Despite these examples crowdfunding initiatives as we currently refer to were enhanced in the USA only during the 90s right after the development of the world wide web.

Starting from these assumptions we can date the origin of modern crowdfunding to the end of the 90s when the first internet websites for charity fund raising were developed and launched. Its innovation resides in using the web as an instrument to raise funds in a simple and immediate way through the exploitation of the means offered by the internet.

During the 90s internet was not as social as it is today but the first platforms like SidDegrees.com and AOL instant messenger were already created.

This phenomenon took an important dimension when it was used by Barack Obama to launch a 360-degree fund raising campaign for running the presidential elections ("No small change" campaign).

Such a huge participation showed the strength of the long tail effect in raising important sums and highlighted the idea that taking part into a project does not merely implies financing it. It



did not happen for chance that it was Barack Obama to sign the Jumpstart Out Business Startups Act defining, together with other regulations he implemented, new rules for crowdfunding.

Between 2008 and 2009 two of the main crowdfunding platforms were created: Kickstart and Indiegogo. These two platforms are still effectively working and are currently referred to as a symbol of bottom- top financing via social behaviors as most of the projects gain in visibility through Facebook, Youtube, and Twitter.

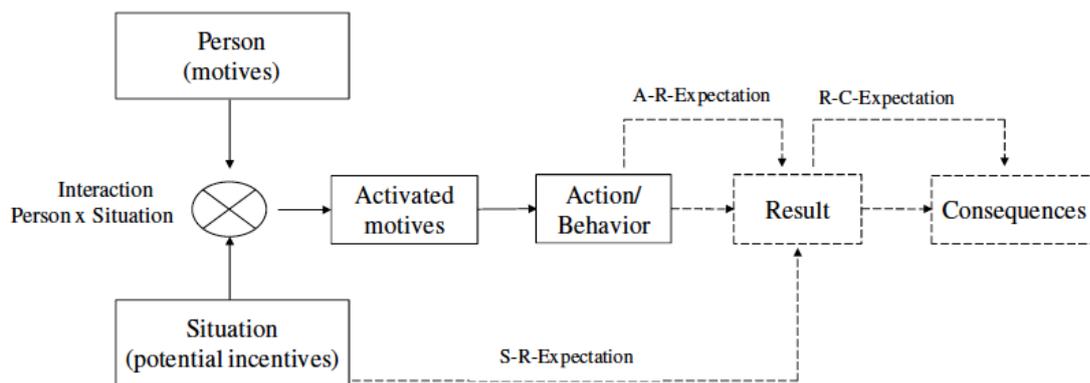
## 2. Research: motivation and method

This research, developed within the project Interreg Central Europe Crowd-Funf-Port and aims at empirically investigating the motivation and fear of the crowd in investing and donating. In particular, it is directed to the stakeholders in the various countries involved in the project (Austria, Croatia, Czech Republic, Hungary, Poland, Slovakia, Slovenia, Part of Germany-Ikosom from Berlin, Part of Italy-University of Bologna, Metropolitan City of Bologna). The objective of the research is to bring out the limits that potential investors are having and what are the elements that can act as facilitators for improving support.

The support of crowdfundees' is essential for a crowdfunding venture. Therefore, it is critical to understand why crowdfundees make an investment because crowd is heterogeneous and evolutionary, modifies its own reasons depending on the context, experience and interest. This is strictly connected with the question of the motives of human behaviour. Motivation psychology differentiates between the notion "motive" and "motivation". A motive is seen as an individually developed and content-specific, psychological disposition (Jost, 2000). This disposition describes how important certain goals for an individual are. Some motives are inborn while a relatively stable set of motives is developed during an individual's socialization process (Rheinberg, 2006; von Rosenstiel, 2007). Motivation describes the process of how an individual's motives become activated. This basic principle of motivation as in motivation psychology is illustrated in Figure 1. An active motive will subsequently cause certain behaviour in a particular situational context. Certain things an individual perceives will serve as incentives that stimulate corresponding motives in such situational contexts. The interaction between motives such as personal factors and incentives such as situational factors results in a current motivation. This motivation in turn causes behaviour. Several motivation concepts are based on this basic model. The self-determination-theory (SDT) according to Deci and Ryan (2000) outlines as one of the most popular motivation concept the distinction between intrinsic



motivation, i.e. from inside or internal factors, and extrinsic motivation, i.e. from outside or external factors. Extrinsic motivation is activated by external incentives such as direct or indirect monetary compensation, or recognition by others. The aim of extrinsically motivated behaviour is to support certain positive and avoid negative consequences. Intrinsic motivation occurs when an individual engages in a behaviour that is initiated without obvious external incentives or separable consequences (Deci and Ryan 1993). Intrinsic motivation can be motivated by curiosity, fun and joy as well as interest in the thing itself (Deci and Ryan 2000). Both intrinsic and extrinsic motivational factors may play a role in an investor's decision to fund.



*Basic motivation model; adapted from (Jost 2000; Rheinberg 2006; Heckhausen and Heckhausen 2010)*

The incentive of the result, the expectation that there will be a certain result, and the evaluation of the consequences of an action, i.e. the result, are relevant for the motivational process (Nerdinger 2006). Incentives can be justified by an action activity itself, by an action outcome or action consequences results and encourage a person to strive certain expected aims (Heckhausen and Heckhausen, 2010).

According to Rheinberg (2006) the action tendency of a person is stronger, the more likely the action result has an impact with high incentive value terms (RC-Expectation), the more likely this result depends from their own actions (A-R-Expectation) and not already by its own yields (S-R-Expectation).

Our research is an adaptation of the motivational model illustrated in Figure 1.



All the ipotes we considered for the construction of the survey came from Bretschneider et al. (2014) that we can considered as main areas within which the choice parameters are developed.

According to Bretschneider et al.(2014) the intrinsic and extrinsic motivations that lead a person to access to a crowdfunding platform to fund a project fall within several categories:

- 1) **“Fun to make investments”**. Fun and enjoyment of an activity as well as interest and curiosity are mentioned in the self-determination-theory as probable causes of intrinsic motivation (Deci and Ryan 1993). A distinction can be made between specific and diverse curiosity motivated behaviour (Edelmann 2000). The general effect of curiosity motivation on the willingness to act has already been demonstrated as essential in the study of Fuller (2006).
- 2) **“Curiosity about crowdfunding”**. Ordanini, Miceli et al. (2011) have developed a hypothesis as well that a fundamental interest in how crowdfunding works represents a reason for participation in crowdfunding.
- 3) **“Altruism”**. Altruism is another motive that has been studied in the contexts of open source communities and business angel research. Altruism can be defined “as doing something for another at some cost to oneself” and can be interpreted as the direct opposite to selfishness (Ozinga, 1999). The idea of altruism is comparable to donation-based crowdfunding, where crowdfundees want to help with their funds but do not expect returns for it. Thus, in the first instance, crowdfundees motivated by altruism seek to increase welfare without expecting any rewards. Therefore, we assume that altruism can also be a driver that motivates the crowd to invest.
- 4) **“Reciprocity”**. Reciprocity describes that people tend to be or feel obliged to create a balance and reciprocate because they have received something themselves (Cialdini, 2010). Reciprocity can be explained by project initiators who successfully funded their projects through crowdfunding support and thus will more likely provide capital for other projects in returns (Hemer, Schneider et al. 2011). Considering that crowdfundees can, at the same time, also be entrepreneurs, it is quite conceivable that they feel obliged to help other entrepreneurs or start-ups.
- 5) **“Direct identification”**. Agrawal, Catalini et al. (2011) found that family and friends are an important group for funding reward-based crowdfunding projects. Crowdfundees tend to support projects to which they have an emotional relationship and familiar or



friendship identification with the project initiators. This type of relationship between investors and entrepreneurs will be referred to as "direct identification".

- 6) **“Indirect identification”**. The first impression and a certain personal chemistry to the entrepreneurs is the first step to a potential investment of business angels (Feeney, Haines et al., 1999; Brettel, 2003; Mason and Stark, 2004). Therefore, crowdfundees may invest in a start-up because a certain emotional relation exists based on sympathy or emotional affection for the start-up team. It is called indirect identification.
- 7) **“Regional identification”**. Regional identification is another intrinsic motive based on the proximity between the start-up and a crowdfundee (Agrawal, Catalini et al., 2011; Mollick 2013). The geographical distance as well as the location of a venture have none or little relevance for an investment. In contrast, Lin and Viswanathan (2013) have found a home bias in the award of a loan. Their results indicate that geographic effects in different ways can play an important role in the success of crowdfunding projects (Mollick, 2013).
- 8) **“Recognition”**. Recognition is found to be a basic human need as it gives people a sense of self-esteem (Nerdinger, 2006). Crowdfundees may invest in a start-up to increase visibility and receive recognition for their investment from other people, the community as well as the society.
- 9) **“Personal need”**. In the context of equity-based crowdfunding, a crowdfundee might support the start-up so that the product or service of this start-up will be adapted or developed according to the crowdfundees’ needs. This is an attractive opportunity as the start-up typically presents their main product or services to the crowd. In contrast to open source and crowdsourcing, crowdfunding is not about the adaptation or new development of a solution but the financial support of a problem solution or a business idea. However, the basic goal remains the same - a crowdfundee desires the product or service under development. Therefore, we assume that crowdfundees may also invest because they desire the product or service that is under development by the start-ups.
- 10) **“Return”**. A plausible explanation of why crowdfundees invest in a start-up is the obvious goal to obtain a profit and/or capital gains on the invested capital.
- 11) **“Team characteristics”**. Behaviour is not only determined by motives but also by providing incentives and expectations of a person. The assumption is that certain



situational factors influence the formation of expectations and accordingly they can affect certain investment motives and finally the investment behaviour. Also, Ahlers, Cumming et al. (2012) and Mollick (2013) found that the idea and the team are crucial positive signals for the investment decision and a successful funding of start-ups in crowdfunding. Thus, "income-related team characteristics", e.g. skills and qualifications of the entrepreneurs, as well as "income-related idea characteristics", e.g. market potential and competitiveness of the idea, have an influential effect on the investment motive "return".

- 12) **"Idea characteristics"**. The rational herding behaviour has been suggested as another contextual factor. Banerjee (1992) describes herding behaviour as "everyone doing what everyone else is doing".

Alongside these motives accompanied by fears that crowdfunding, like crowdsourcing, may create only loose connections between funders and project leaders, weakening or replacing the stronger ties between creators and more traditional funders that provided fuller and more stable financial and professional support. Moreover, while crowdfunding may ultimately make funding more mobile, it may also make creation, labour, and funding more disconnected from important forms of stability and support (Bannermann, 2013).

Starting from the rapidly grown literature on risky investment mostly linked to the distance compared to traditional forms of funding and related fears. These are related to lack of trust, poorly transmitted information, the spread of fraud and the poor legal protection of the investor. Despite crowdfunding differs from more traditional funding options, initiators of crowdfunding projects also face similar problems while convincing capital-givers to commit financial resources (Ahlers et al., 2012). This problem can be attributed to the contracting problem of adverse selection within the principal-agent theory (Eisenhardt, K.M., 1989). The influence of adverse selection can be reduced by signalling qualitative project features towards the capital-giver as described by the signalling theory (Spence, M., 2002).

Crowdfunding often deals with early-stage projects, which are subject to high levels of uncertainty as to future performance. There is a risk of projects being low-quality or fraudulent (Mollick, 2014).

Since investors are likely to be less informed than entrepreneurs or borrowers about the quality of the project, asymmetric information is likely to play a significant role in crowdfunding.



It is difficult to assess the risks and opportunities of a business model and the competence of a project team, so often people do not have enough skills to understand the details expressed in a business model.

Information may be difficult to obtain. Owing to anonymity, investors may be reliant on platforms for information, while platforms may not check the accuracy and completeness of the information they receive (Chaffee and Rapp , 2012; and Meschkowski and Wilhelmi; 2013). Individual investors' due diligence may be low on account of free-rider effects (Agrawal et al., 2013; Hagedorn and Pinkwart, 2013). Investors make use of quality signals (Guenther et al., 2014) and platform screening and past performance data can inform investors about rates of return, but it should further be noted that past performance is not necessarily a good indicator of future performance (Hagedorn and Pinkwart; 2013 and IOSCO, 2014).

The risk of 'adverse selection' of low-quality projects going to crowdfunding platforms (Agrawal et al., 2013; Ahlers et al., 2012; and Meschkowski and Wilhelmi, 2013).

Further risk faced by investors is that, once they have committed to an investment, the other party does not use the funds for the intended purposes. Crowdfunding differs from many other online commercial activities by its lack of repeated interaction with the recipient of the money (Agrawal et al., 2013).

Liquidity risk relates to the difficulty investors face when trying to exit an investment prior to its maturity. Secondary markets in crowdfunded borrowings are rare and tend to be lightly traded (Brown, 2014; Gabison, 2015).

Risks related to the perception of the role of the platforms are connected to the fact that a platform is likely to be more attractive to investors if there are more projects to invest in, and more attractive to borrowers if there are more investors and hence a bigger chance of being successful at obtaining funding. This risk is exacerbated by high fixed costs giving rise to economies of scale and low profitability and if there is investor preference for smaller platforms and if platforms are horizontally differentiated (Belleflamme and Lambert, 2014).

The existing literature has allowed us to express the various fears in synthetic form, covering the following aspects:

- Project risk, in particular, the risk of default or failure for the project.
- Asymmetric information related to investors lacking information about the risks and/or expected returns of their investments.
- Adverse selection resulting from ex ante asymmetric information and giving rise to a risk of systematically low-quality investments.
- Moral hazard resulting from ex post asymmetric information and giving rise to a risk of funding being used for purposes other than those intended by investors.



- Liquidity risk, in particular, the difficulty of exiting investments faced by investors due to illiquid secondary markets.
- Risk associated with platform failure.

Taking the Bretschneider et al.(2014) as reference areas for motivations analysis, and the synthetic results for fears we have developed a questionnaire, made up of two areas: the first containing the demographic information of the respondents (6 questions); the second containing semi-open questions about the reasons for investment stakeholders (7) and fears (3) in it.

The questionnaires (100) were submitted to the partners between February and March 2017 and the answers from the different countries were: 13 from Italy, 10 from Croatia, 11 from Poland, 14 from Austria, 9 from Czech Republic, 9 from Slovakia, 14 from Slovenia, 8 from Hungary, 12 from Germany.

### 3. The results

This research, developed within the project Interreg Central Europe Crowd-Funf-Port and aims at empirically investigate the crowd's motivation and fear in investing and donating. In particular, it is directed to the various countries involved stakeholders (Austria, Croatia, Czech Republic, Hungary, Poland, Slovakia, Slovenia, Part of Germany-Ikosom from Berlin, Part of Italy-University of Bologna, Metropolitan City of Bologna).

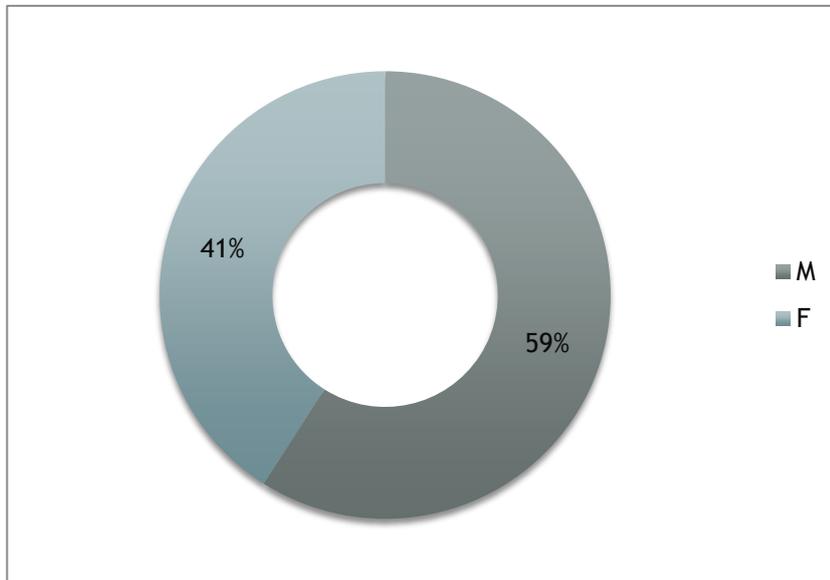
A questionnaire was set by the countries participating in the project to some stakeholders with the aim of obtaining qualitative information. The questionnaire was made up of two areas: the first containing the demographic information of the respondents (6 questions); the second containing semi-open-ended questions about the reasons for investment stakeholders (7) and fears (3) in it.

The questionnaires (108) were submitted to the partners between February and March 2017 and the answers from the different countries were: 13 from Italy, 10 from Croatia, 11 from Poland, 14 from Austria, 9 from Czech Republic, 9 from Slovakia, 14 from Slovenia, 8 from Hungary, 20 from Germany.

From the demographic point of view the sample is composed of 59% by men and 41% by women.

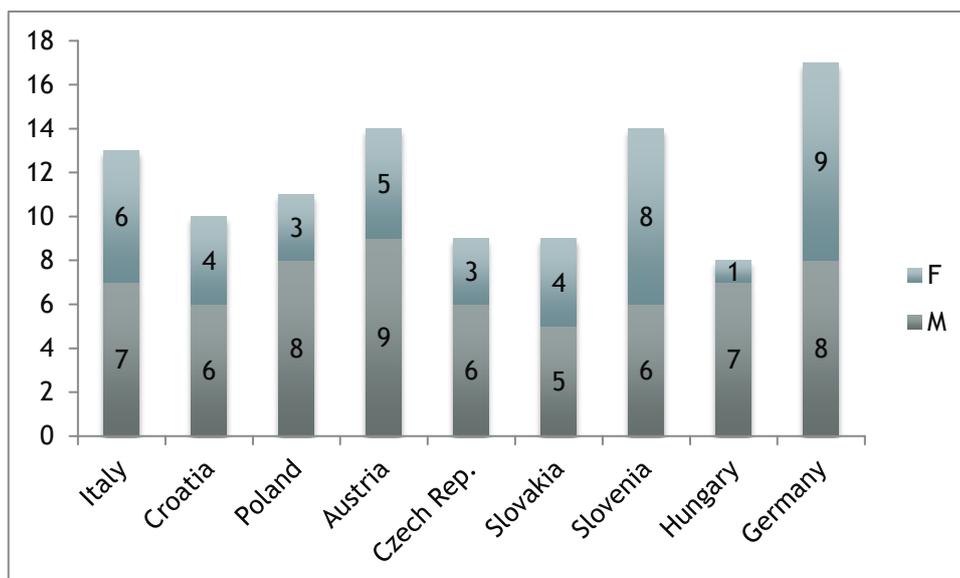


Figure 1



Specifically, analysing every single country in Figure 2, it can be seen that only Slovenia has interviewed a larger number of women, although in general it can be said that the sample is homogeneous from the gender's point of view.

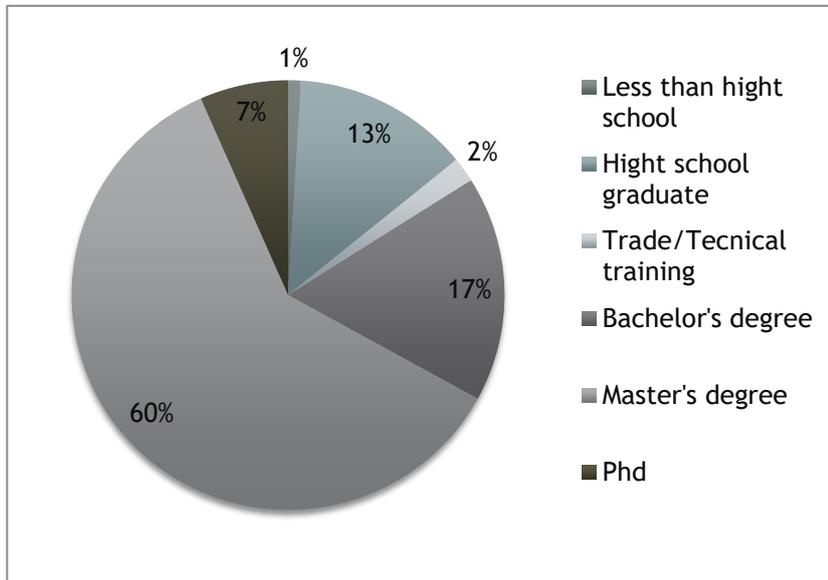
Figure 2



As for the level of education, the sample shows a high level for respondents: 60% have a master's degree, 17% have a degree, 13% have a secondary school degree, 7% have a PhD, 2% have a technical education and only 1% have not finished secondary school.

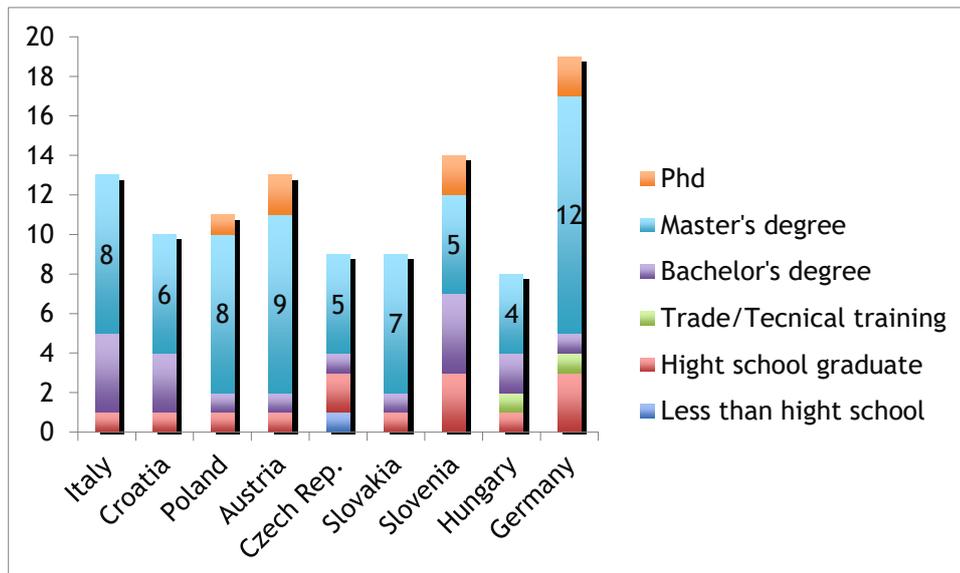


Figure 3



As can be seen from Figure 4, the number of respondents who pursued a master is homogeneous in all countries.

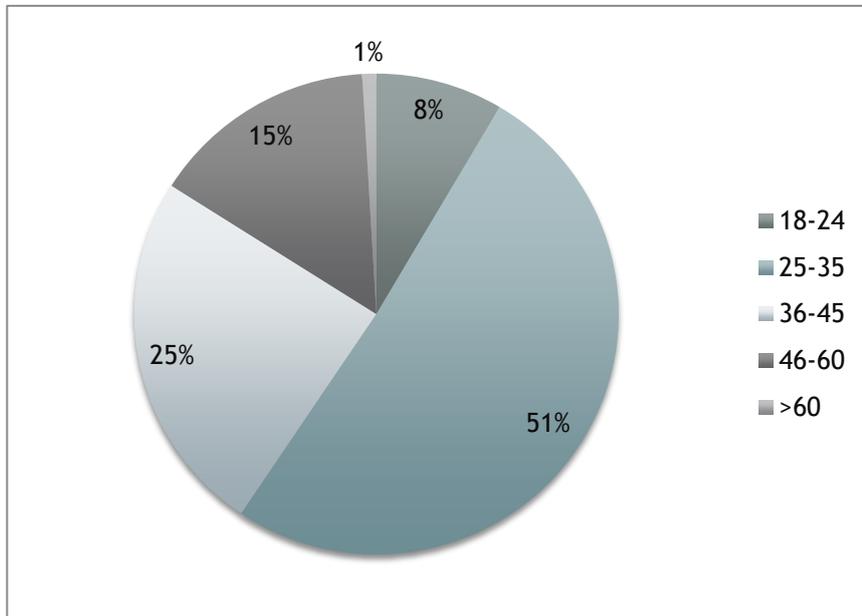
Figure 4



The prevalent age range (76%) is between 25-45 years with a large proportion (51%) between 25-25 years. The prevalence of young people is due to the innovative nature of the project's content and the fact that the theme of crowdfunding is in full growth as it is a young sector.

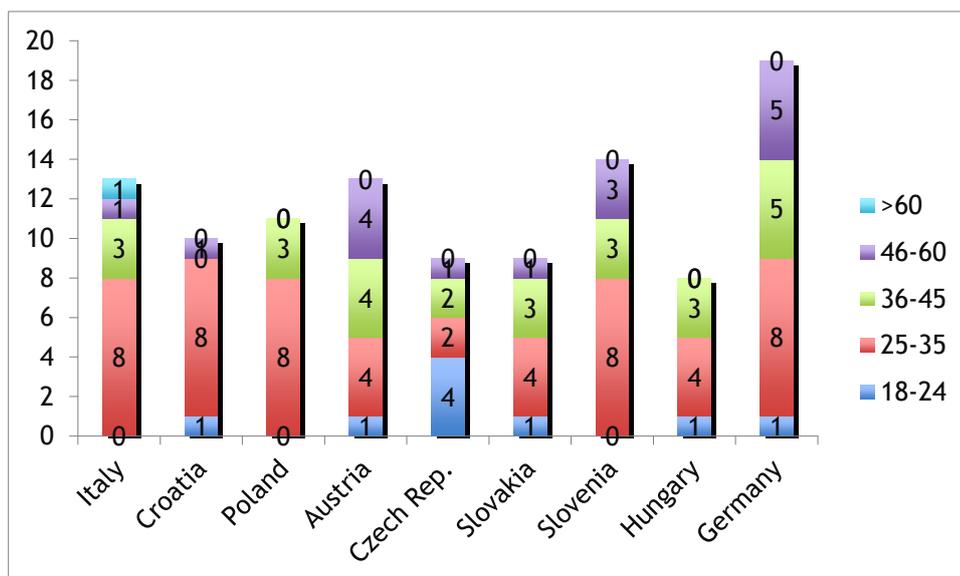


Figure 5



With the exception of the Czech Republic, which shows the highest number of respondents in the 18-24 range, all the countries involved more young people and no more than 60 (with the exception of Italy).

Figure 6



Respondents are confident with the crowdfunding tool: 81% are interested in donating (Figure 7), 68% has previously donated (Figure 8) with strong percentage in every country (Figure 9).



Figure 7

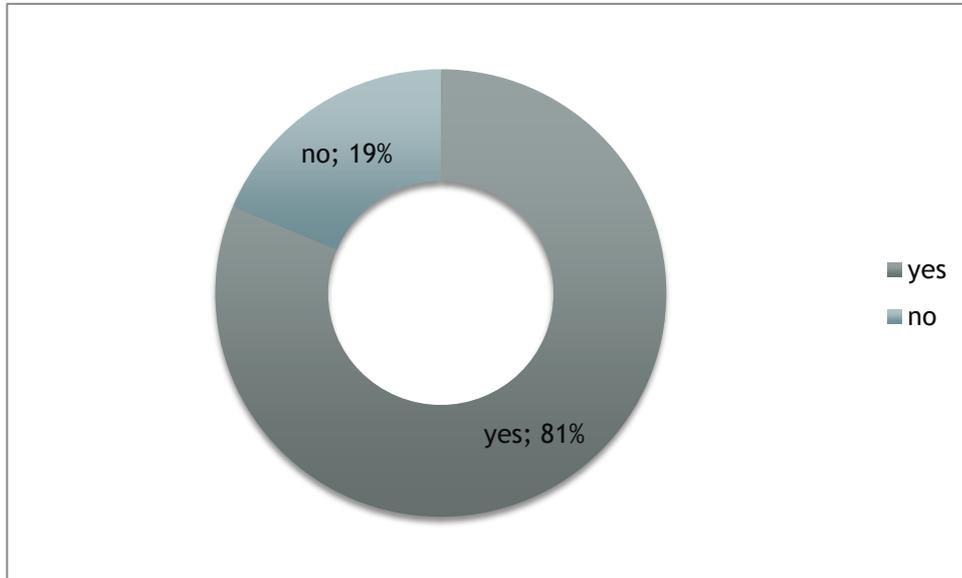


Figure 8

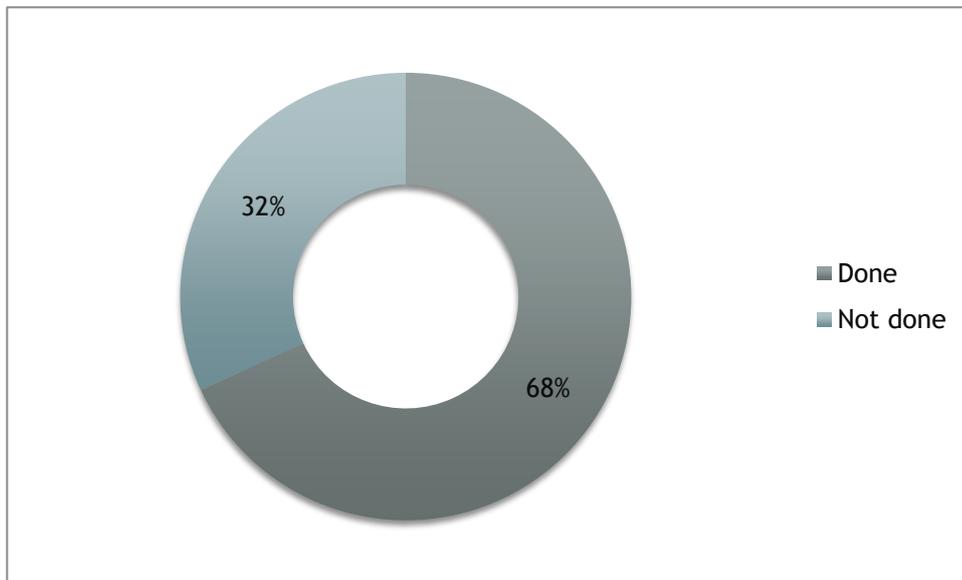




Figure 9

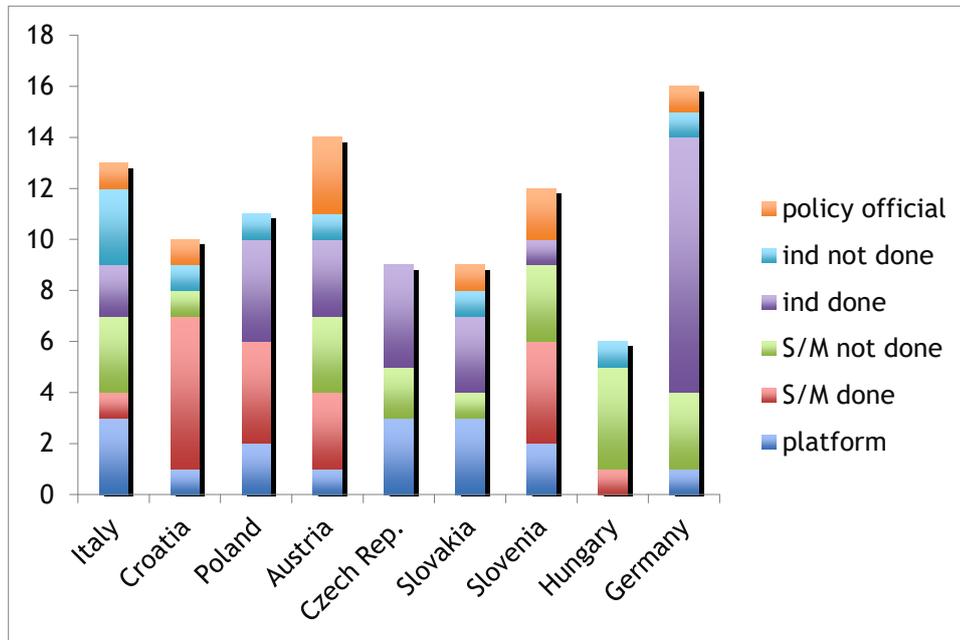
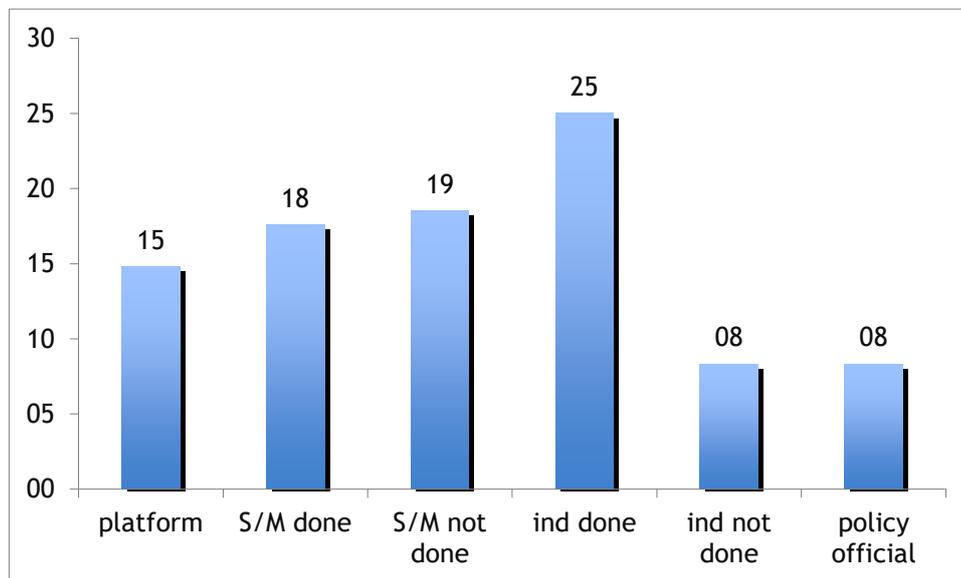


Figure 10



As we can see in Figure 11, the image of the crowdfunding tool is still tied to tradition. 79% believe that it can be a leverage for small and medium-sized businesses as a marketing tool. 57% can usefully replace traditional banking tools when starting new businesses. Interestingly, the 70% consider it an alternative tool for public support for entrepreneurship. Convinced that the public sector is responsible for launching new activities (especially in Germany, Slovenia and Poland). . Interestingly, 55 % considers it a community-building tool, with less confidence



in this entry from new entrants to the EU. This item can also be explained by the lower general trust rate of these countries and their slightly lower propensity to individual entrepreneurship.

Figure 11

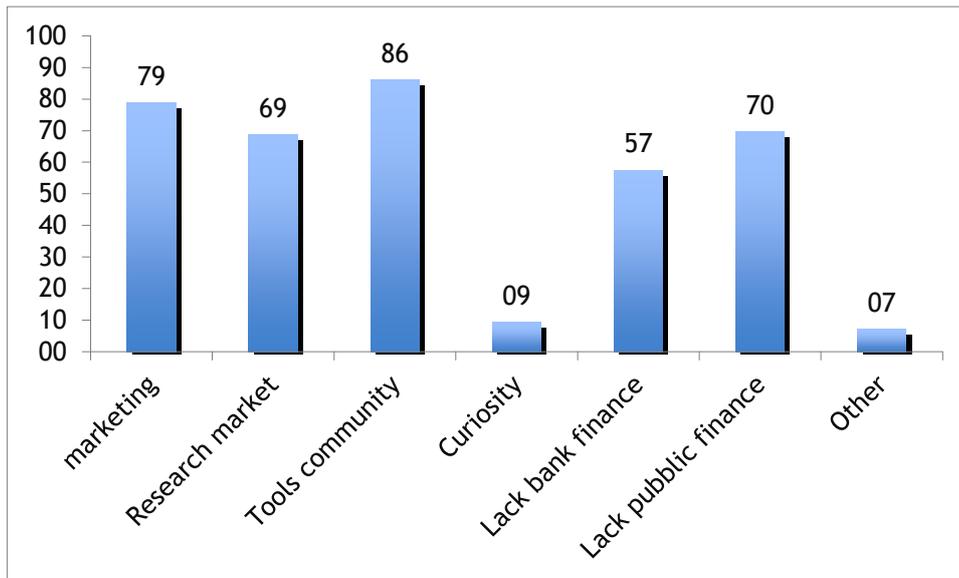
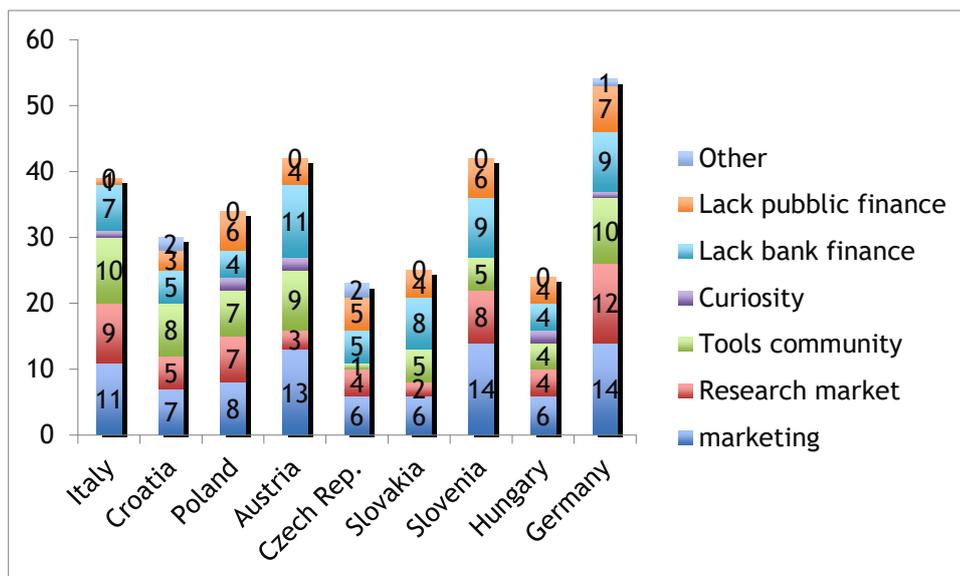


Figure 12

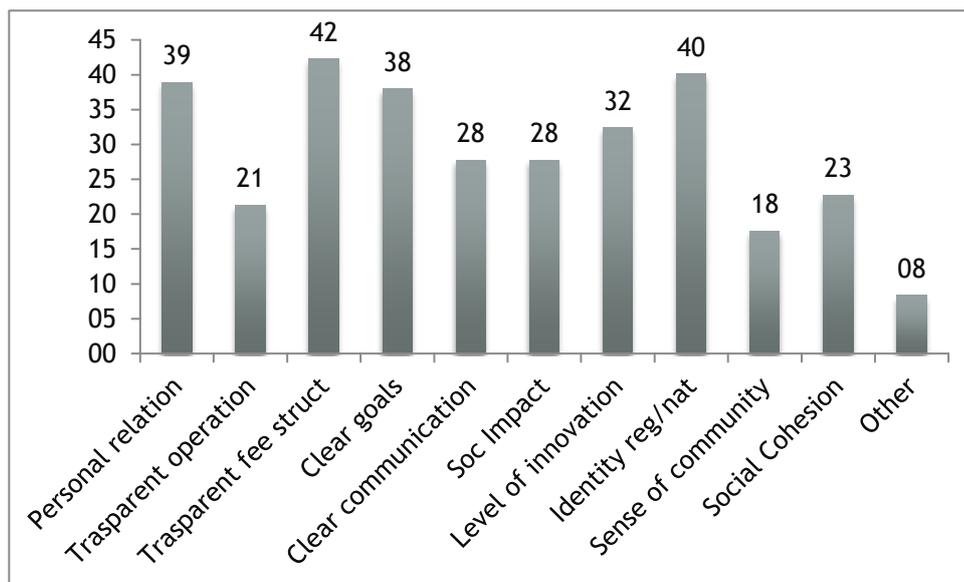


From the point of view of the supporters, the aspect of personal relationship, or rather, of direct knowledge with project organizers is considered by 39% of respondents as a very



important aspect to solicit support activity. Transparency in fee structure (42%) confirms the need of truth (and trust), but the clear definition of the project's objectives (38%) and its innovation content (32%) are also considered to be of great importance (Figure 13).

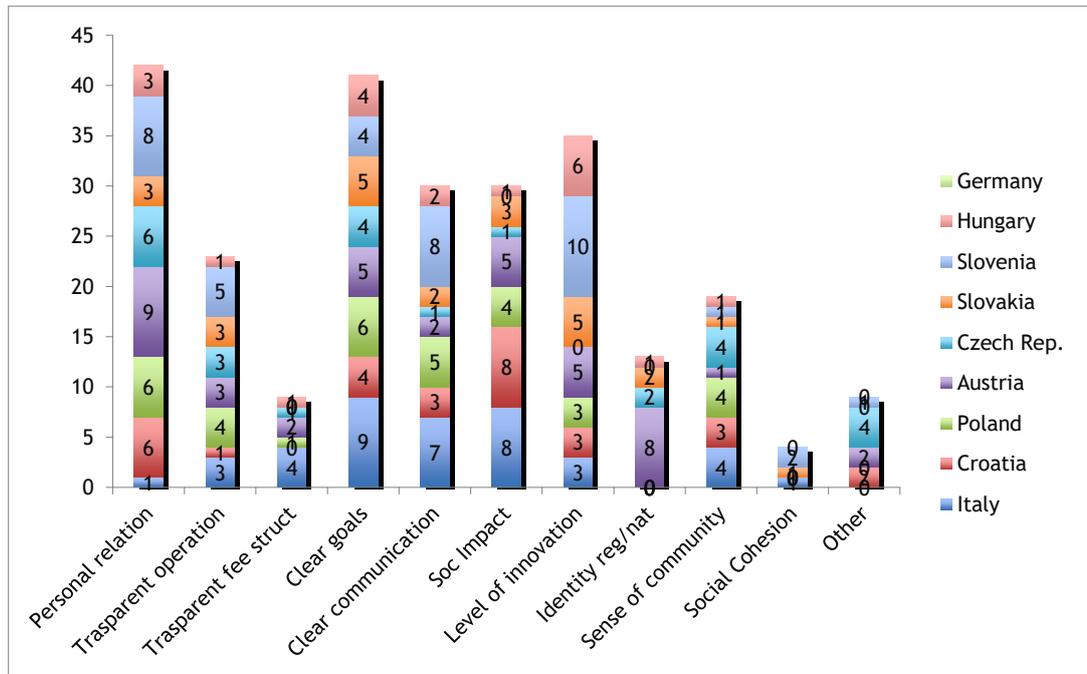
Figure 13



The relevant dimension of this information is that, in line with the literature analysed in the introductory part of the study, the knowledge and clarity of the project are local dimensions that are particularly present in countries with a higher degree of localization (Germany, Austria, Italy) and less in countries that make greater use of international platforms. The aspect of developing a sense of identity that can trigger (but also be a motor) from linking with projects developed in the territory is particularly felt in Austria, while in Italy there is a need for transparency at all stages (and with all the subjects Characterize the project) (Figure 14).



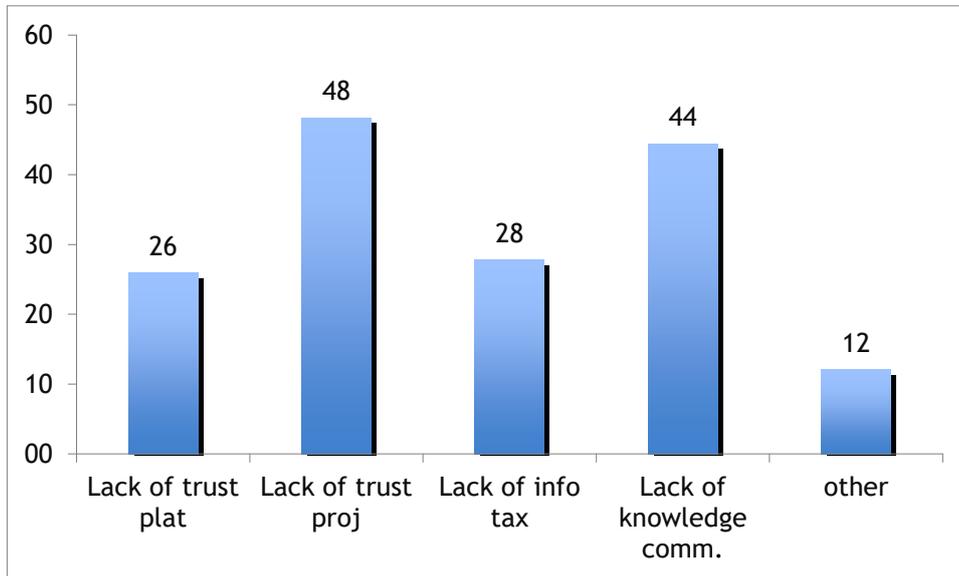
Figure 14



Turning to the limitations and aspects that can curb people from supporting projects through this tool, two interesting aspects are emerging: on the one hand, lack of confidence in the projects (48%) and fear of being hurt, on the other (44%) the lack of knowledge about the potential of the instrument, but the difficulty of reading the contents of the project itself (Figure 15).

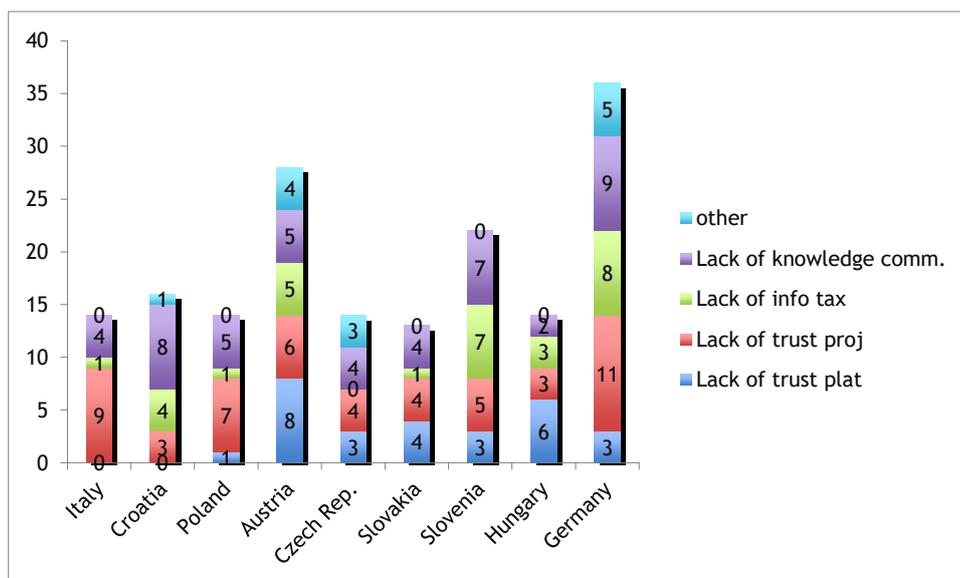


Figure 15



This duality is interesting because it shows two aspects of the same medal: often the lack of trust comes from lack of knowledge. As can be seen in Figure 16, lack of confidence is strong in countries like Austria, Germany and Italy, the lack of knowledge in countries such as Croatia and Slovenia. The lack of confidence, however, with the platform in Hungary and Austria.

Figure 16

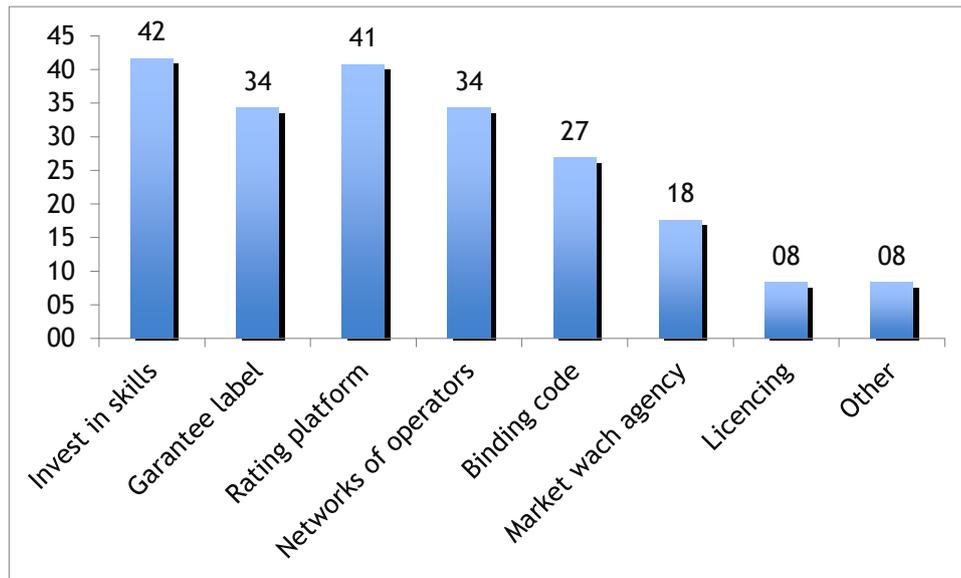


The aspects that could increase the confidence level, according to respondents, and more protect the supporter from the risk of fraud, are linked to the creation of a rating for platforms (41%) in terms of quality, success, and return on investment; in investing in the skills of the



fieldworkers (42%); in the creation of a European guarantee label (34%) for platforms and a network of industry operators (34%) at European level (Figure 17).

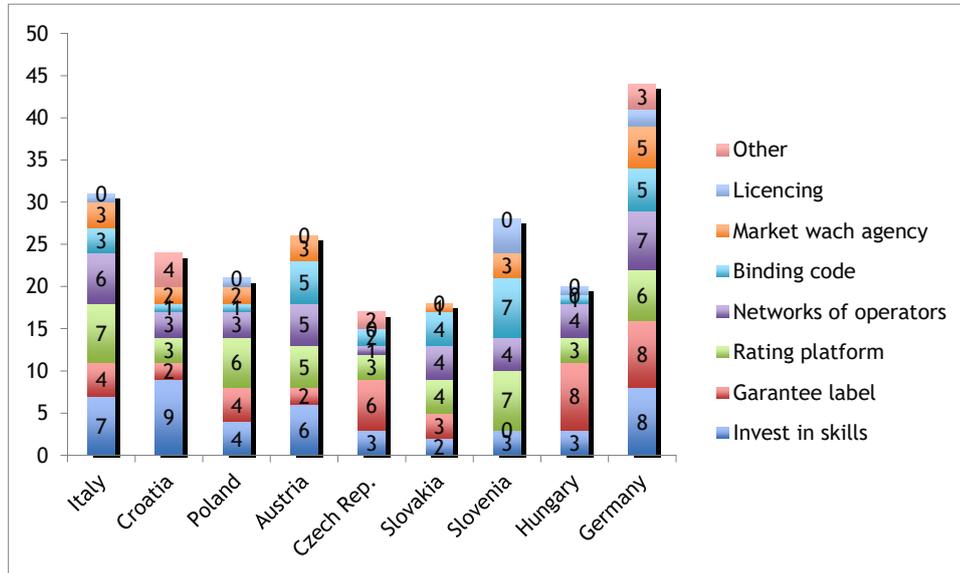
Figure 17



The need for greater quality in the preparation of the operators of the sector, hence of a minor dilettantism, is particularly felt in countries such as Italy, Croatia and Austria; The creation of a guarantee mark from Hungary; The creation of a rating mechanism from Italy, Poland and Slovenia, a network from Italy and Austria; creating a code from Austria, Slovakia and Slovenia (Figure 18).



Figure 18



84% of respondents state that the main tool with which they find information about crowdfunding are social networks and in any case online tools. This shows the instrument's novelty, but also its limits: it is difficult to reach from the point of view information people who do not regularly use the Internet and this is particularly evident in countries with a high digital device. As can be seen from Figure 19, 44% of respondents also consider the word passage, that is, the role of friends and acquaintances. This answer is consistent with what has been seen above, meaning that it is important to personally know who "launches" the project to be encouraged to support it (in this way to co-create or co-produce it).



Figure 19

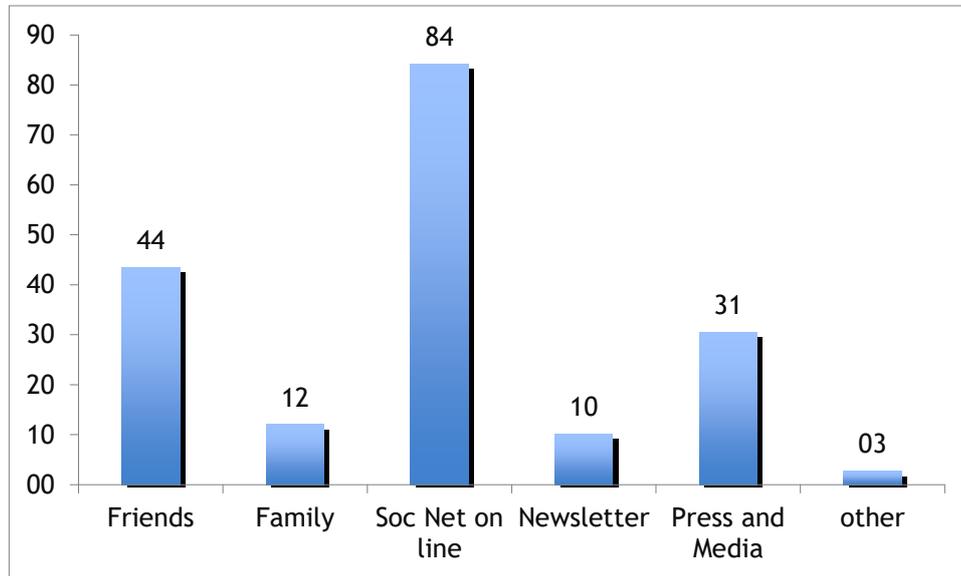
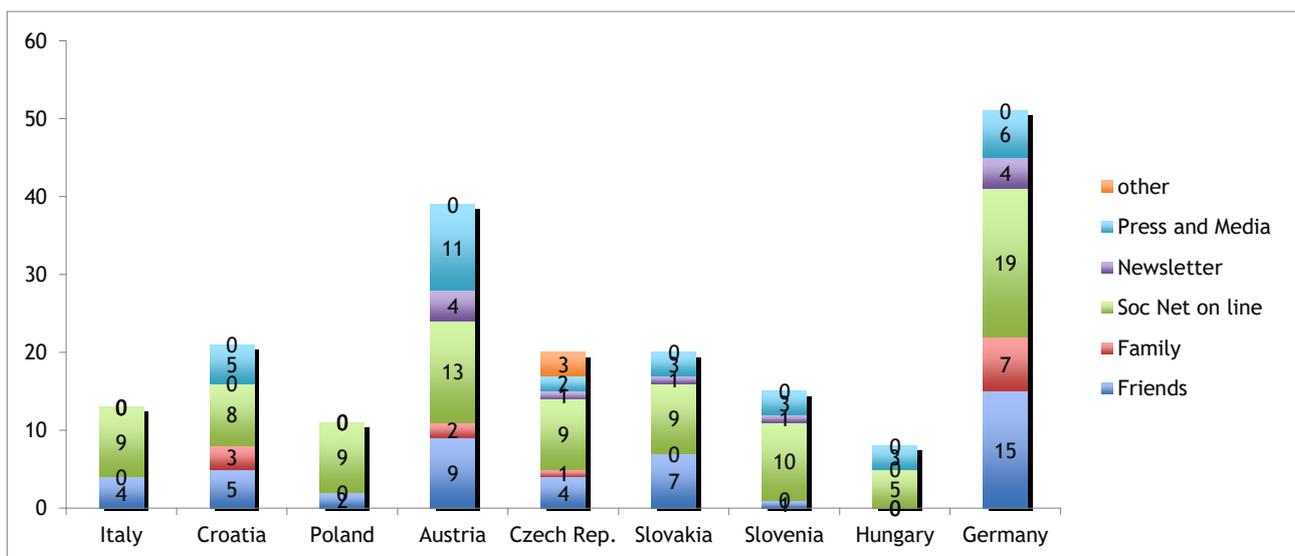


Figure 20



In some ways, increased advertising coverage and targeted marketing campaigns, including on other traditional media, would help increase funding and the number of people involved in



producing a project. 75% of respondents state it, as shown in Figures 21 and 22, with homogeneous results in all countries.

Figure 21

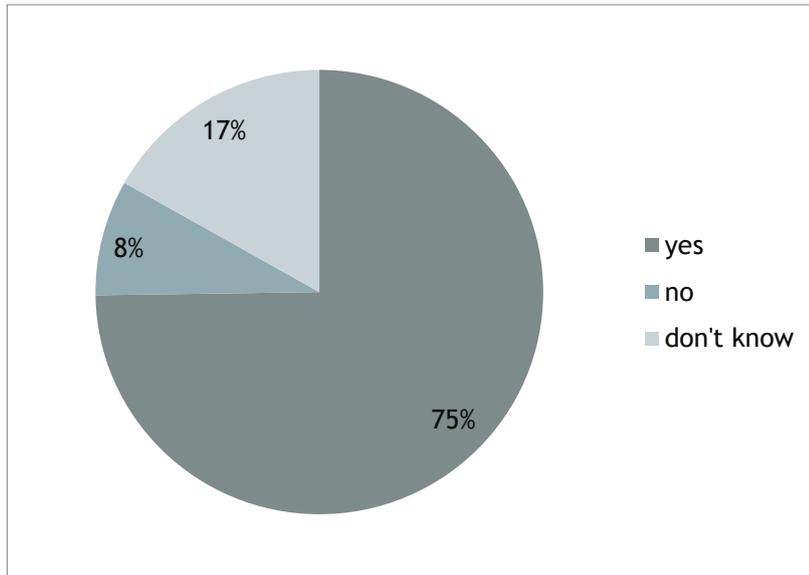
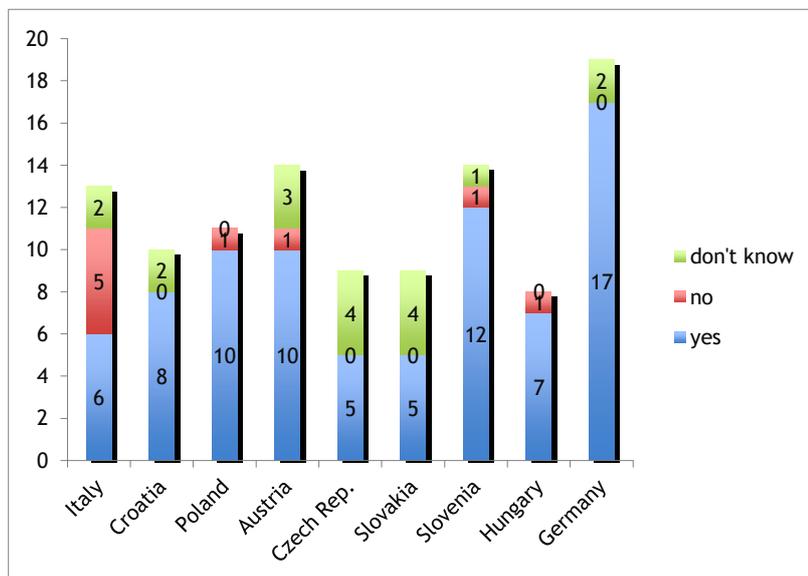


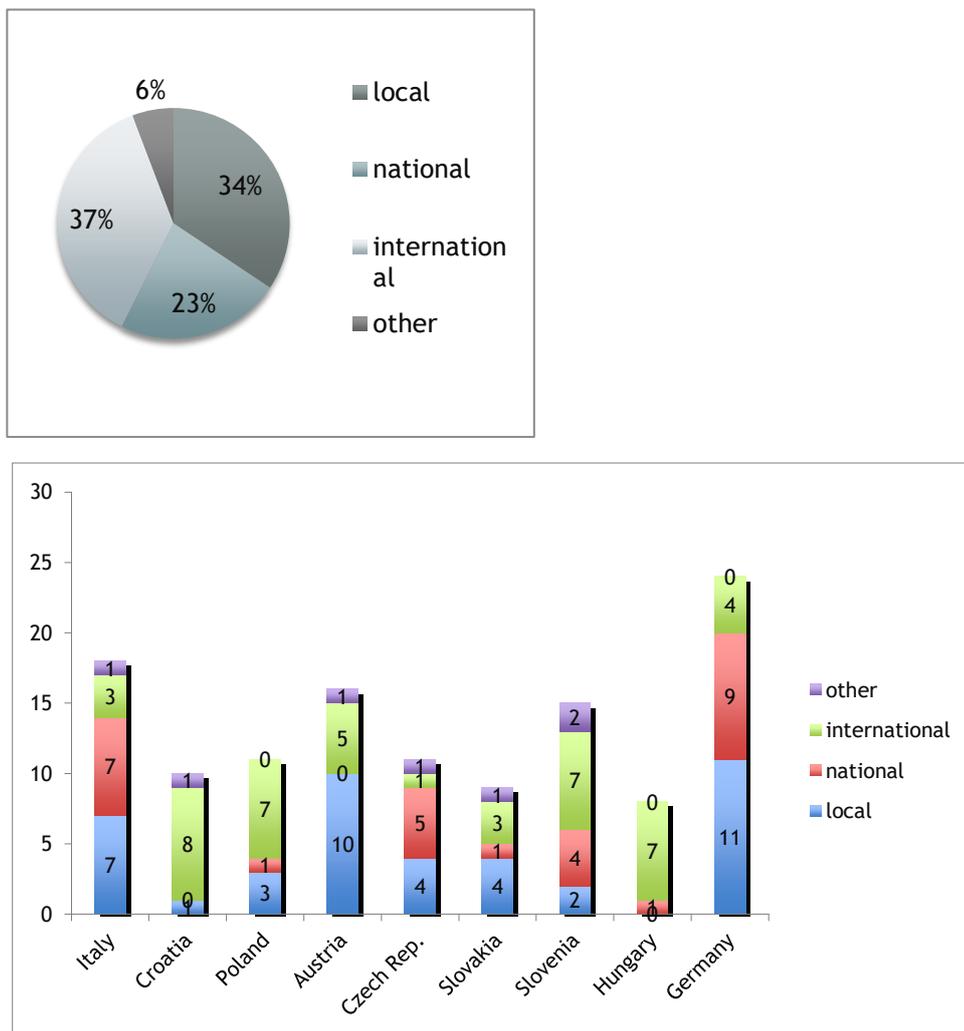
Figure 22





As for the instruments, and the platform in particular, 37% believe that international ones are safer, followed by local ones (34%). This opinion is particularly strong, as can be seen in Figure 23, in countries such as Hungary, Poland and Croatia, which still have a number of national and local platforms low compared to other countries. In fact, Italy and Germany, which are countries with a high number of platforms, show the same level of confidence for both local and national platforms, showing more independence than others to international ones.

Figure 23 (a/b)



As far as motivation is concerned: 70% think that they are funding a project for the sense of identification that comes from it. The result is consistent with what is expressed in terms of confidence in local platforms, but also in terms of the choice of funding based on personal relationships and knowledge of who proposes the project. The general interest (44%), the Philanthropy (36%) and economic return (36%) follow with a certain distance from the first preference. This shows how the instrument is not yet considered financial. The economic



return, then, is particularly poorly considered in Germany, Croatia, Hungary as Figure 24 shows.

Figure 24

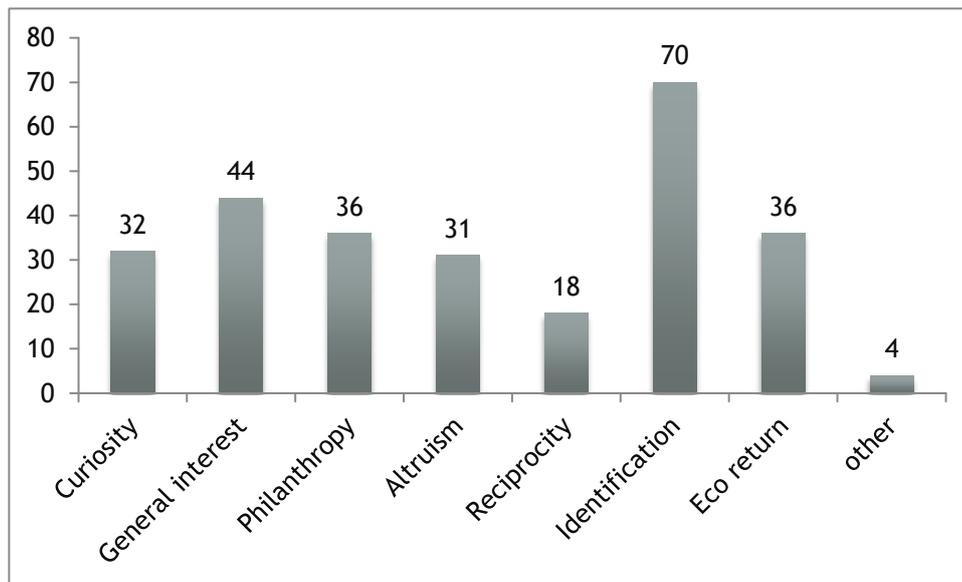
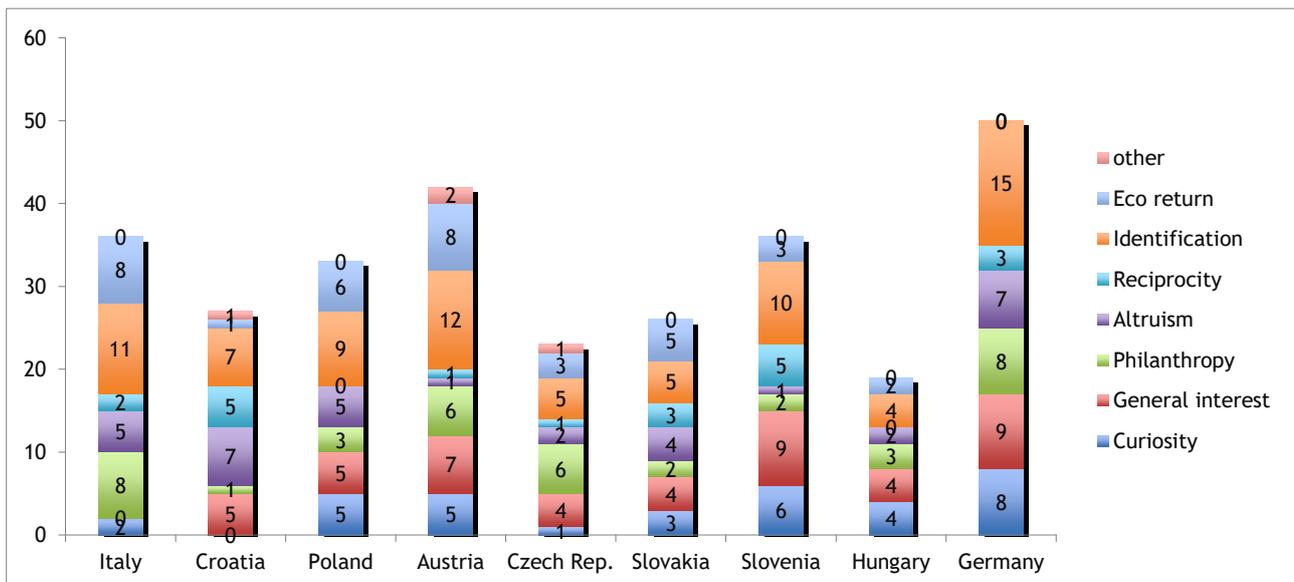


Figure 25

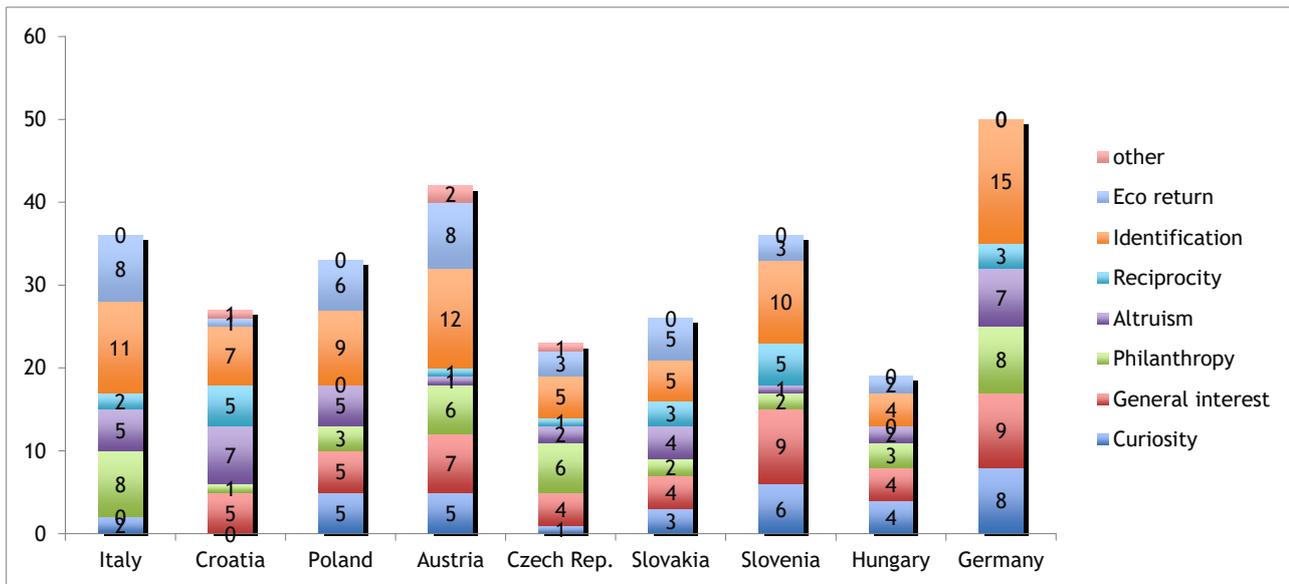


Contact with the local economy, the strength of the project emerges as dominant elements even in the face of the reasons that push a person to donate. In fact, 72% of respondents state



that it is the spring that pushes to donate (Figure 26). This role is recognized in all countries (Figure 27).

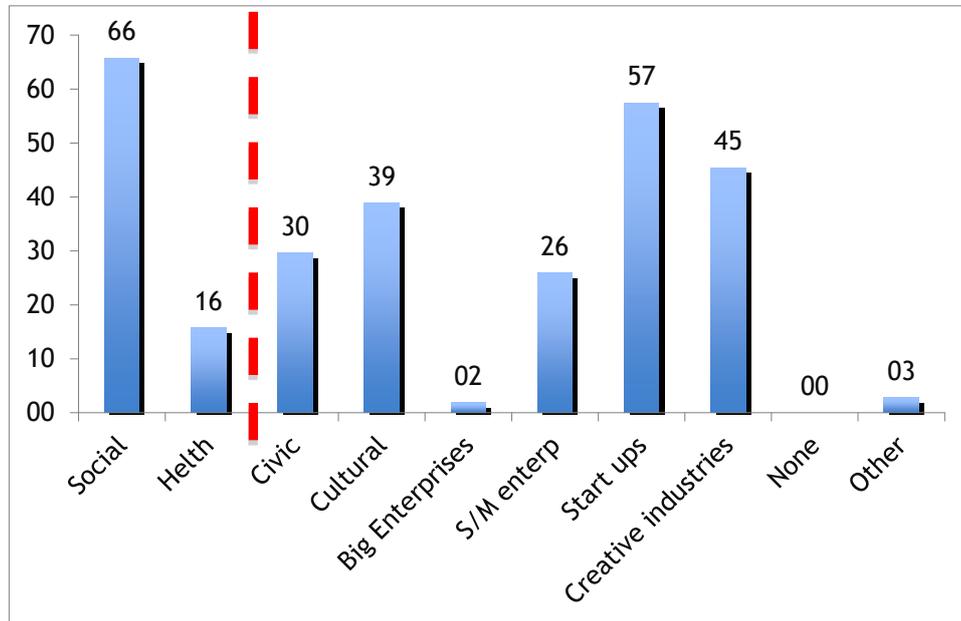
Figure 26



Orientation to the gift is confirmed by the results shown in Figure 27, where the types of project, by mission and organizational structure, are considered more suitable to be financed through this type of instrument. The left part of the chart shows how 66% of that interviewed think that social projects are still the ones to which the largest number of funding is allocated, but also the most suitable ones.



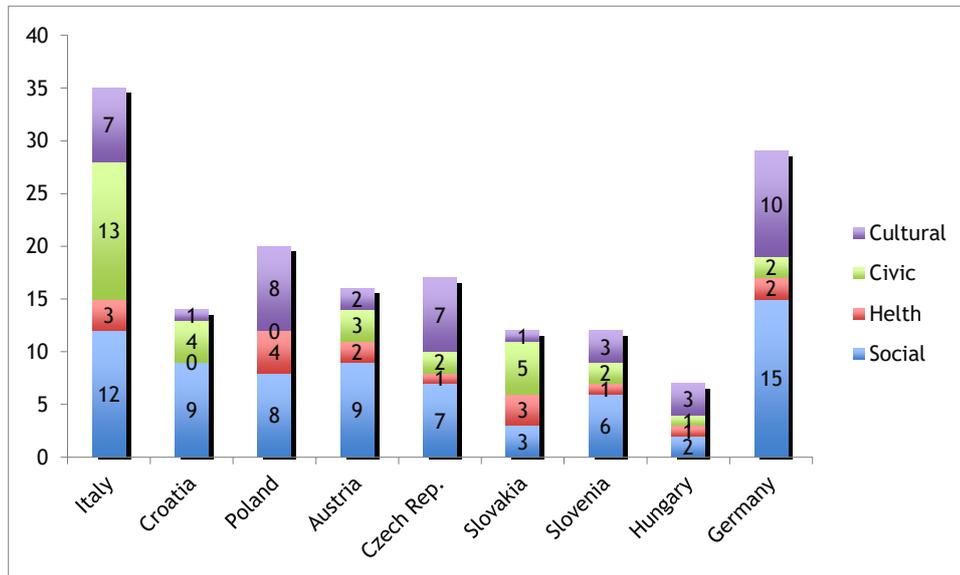
Figure 27



Following are cultural (39%) and civic (30%). The right side of the chart shows organizational structures: 57% argues that the crowdfunding tool is eligible to fund start-ups and creative industries (45%). The result is coherent with what we will see later: the instrument, which is valid for replacing the lack of private/banking funding, is primarily to support the most innovative entrepreneurship, which is also less able to provide guarantees to private lenders, “riskier”, but at the same time closer to the new needs of people. The social vocation is particularly felt by Italy and Germany, while the cultural one from Germany and Poland and the civic one mainly from Italy.



Figure 28



Although respondents have shown strong belief in the social and cultural vocation of projects to be financed, the crowdfunding tool can be effective both for philanthropic missions and for investment, as shown in Figure 29. Only Poland sees philanthropy as an ideal mission for this tool, while Slovenia is inclined to invest, as shown in Figure 30.

Figure 29

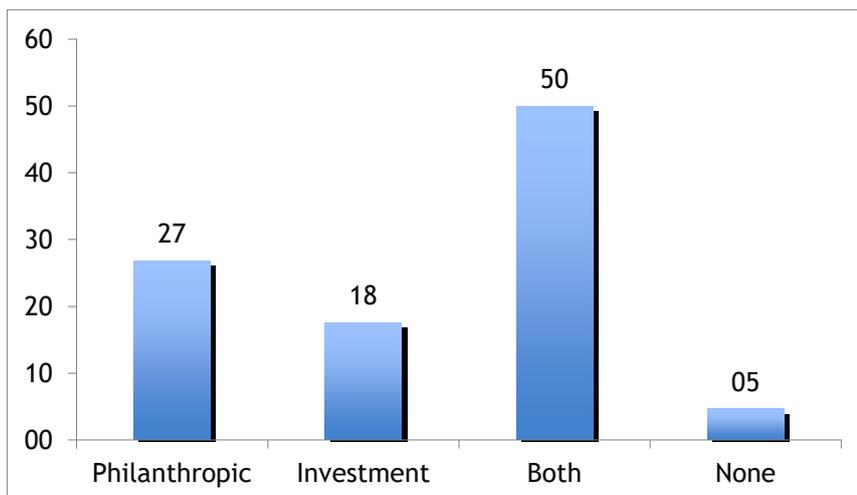
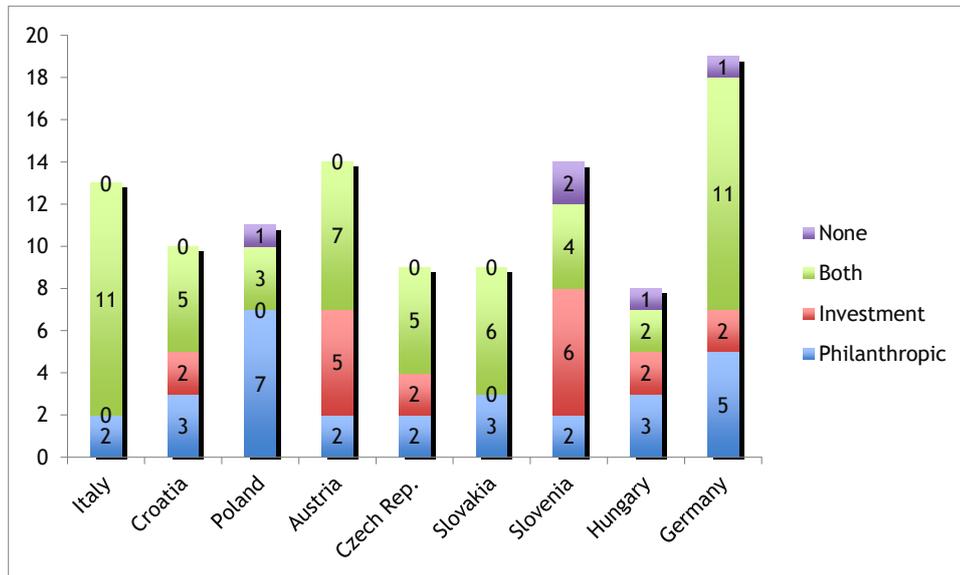




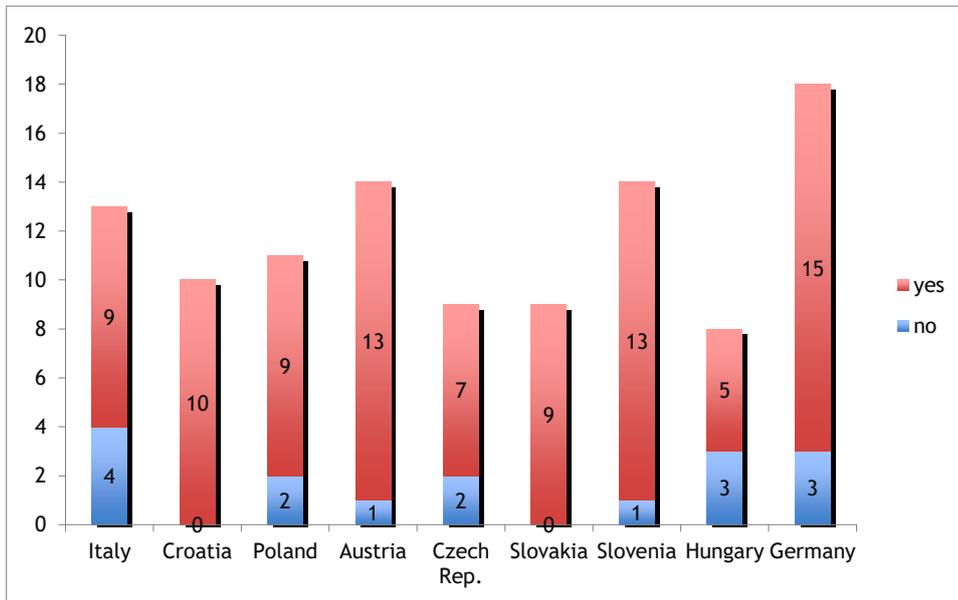
Figure 30



Recalling the results of the right part of Figure 27, regarding the organizational form that respondents feel most sustainable for this tool, the novelty of the project is confirmed, so that 57% of respondents believe that creative industries are the subjects More suitable for this type of finishing, followed by 49% from start-ups.

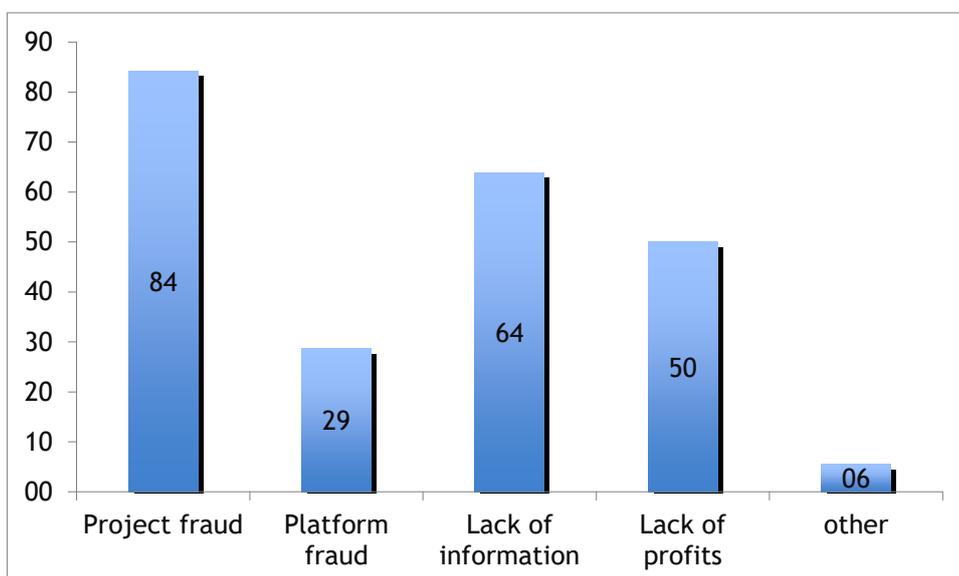


Figure 31



Fears are related to fraud (84%) and lack of project information (64%). The results are consistent with what is shown in Figure 13 regarding the limits of the instruments. Here the features of the project, which may not be well described, but also the distance created through the on-line tool, between operators and lenders could be relevant; on the other hand, the lack of information of users, therefore, the need to increase the burden of knowledge and competence, but also of tools aimed at reaching more people.

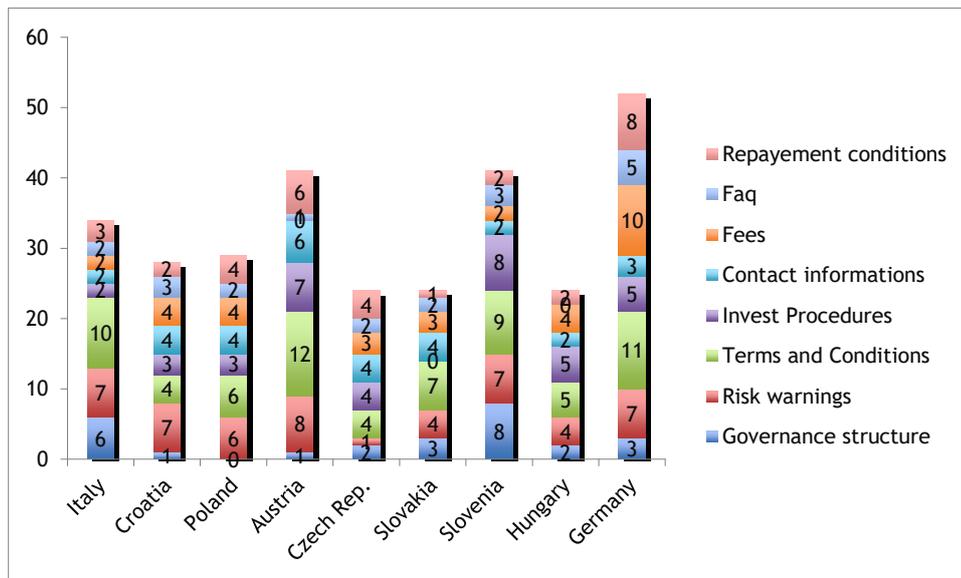
Figure 32





Lack of information and fear of fraud are felt homogeneously in all countries (Figure 33).

Figure 33



In line with what has been seen above, or that the organizational form considered to be the favorite of start-ups and creative industries, 85% of respondents believe that crowdfunding is an effective tool for starting a new business, as Figure 34. This is common opinion across the study area (Figure 35).

Figure 34

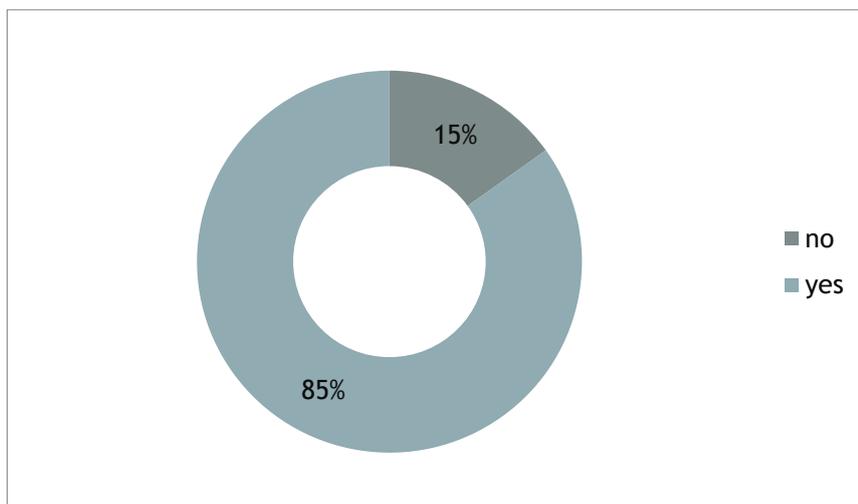
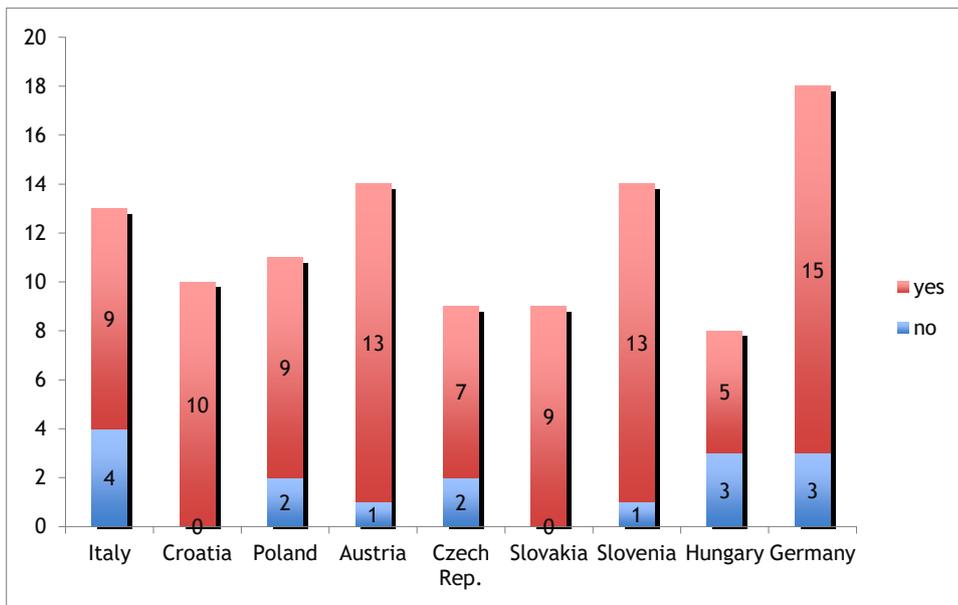




Figure 35



Focusing on the transparency requirements of the platforms, the fear of fraud, previously emerged, confirms the type of information the interviewee deems necessary to access the crowdfunding platforms in security. The most important information items are the access conditions (63%), a risk information related to the type of investment (47%) to the procedures (34%). Answers are homogeneous in all countries (Figure 36-37).

Figure 36

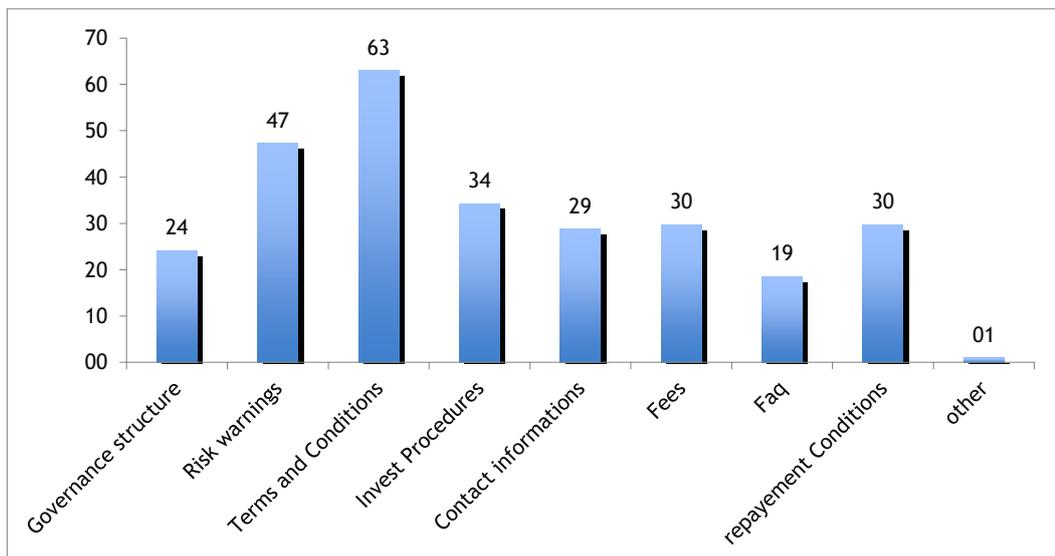
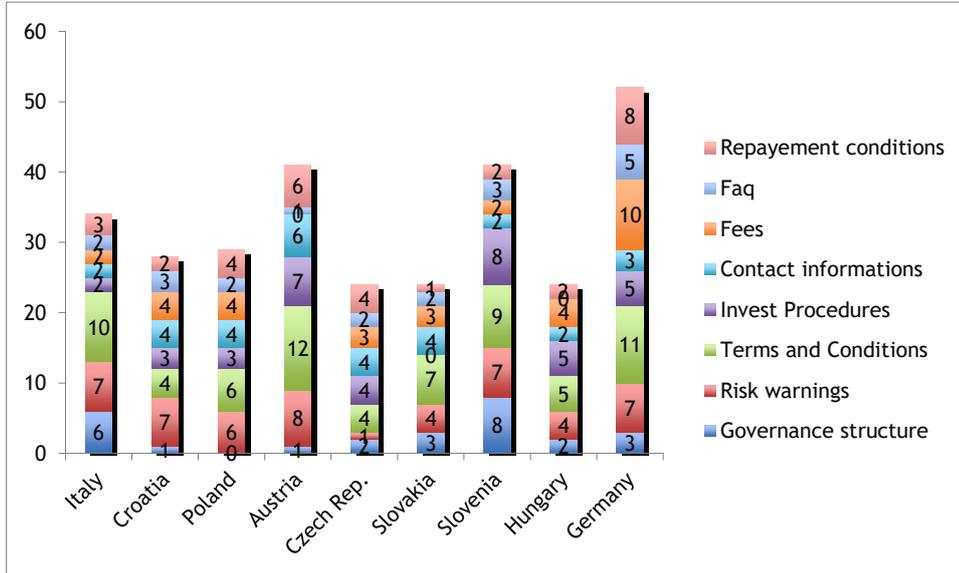




Figure 37



Finally, as regards the type of information that can help to increase the trust of the supporter towards a Crowdfunding project, 56% of respondents believe that a clear definition of project goals can be of assistance, such as the knowledge of team members who Organizes the project (51%) - in line with business-confidence-building and knowledge aspects (39%). The responses are consistent between the different countries and with what has been shown above.

Figure 38

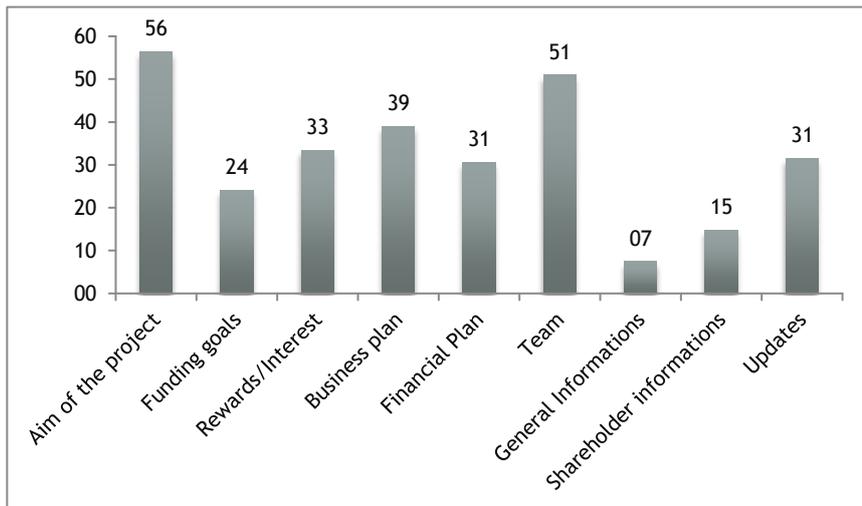
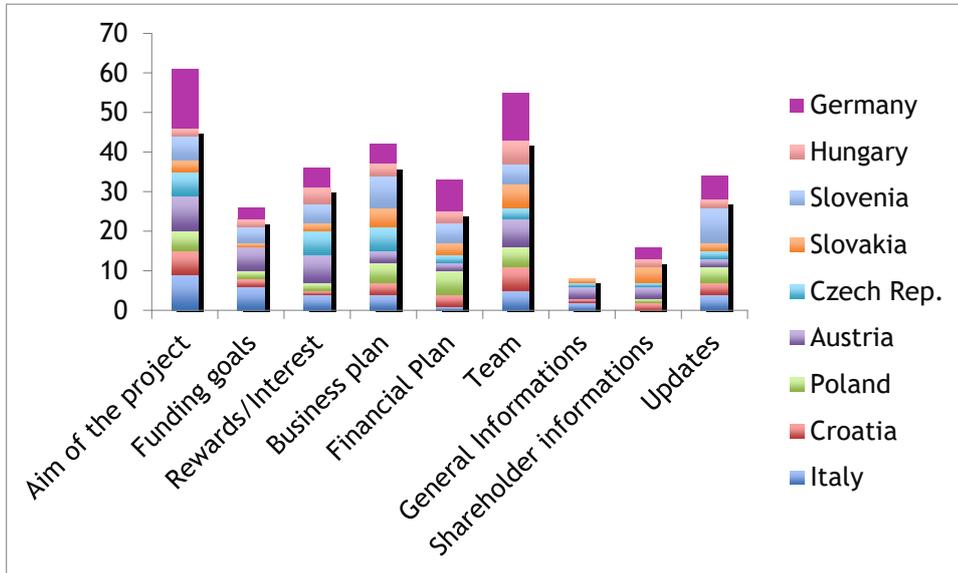




Figure 39



62% show confidence and attention to the proposals of other countries, saying it would be willing to fund non-national projects, but proposed within the EU area. Only Italy shows a (slight) lower level of confidence.

Figure 40

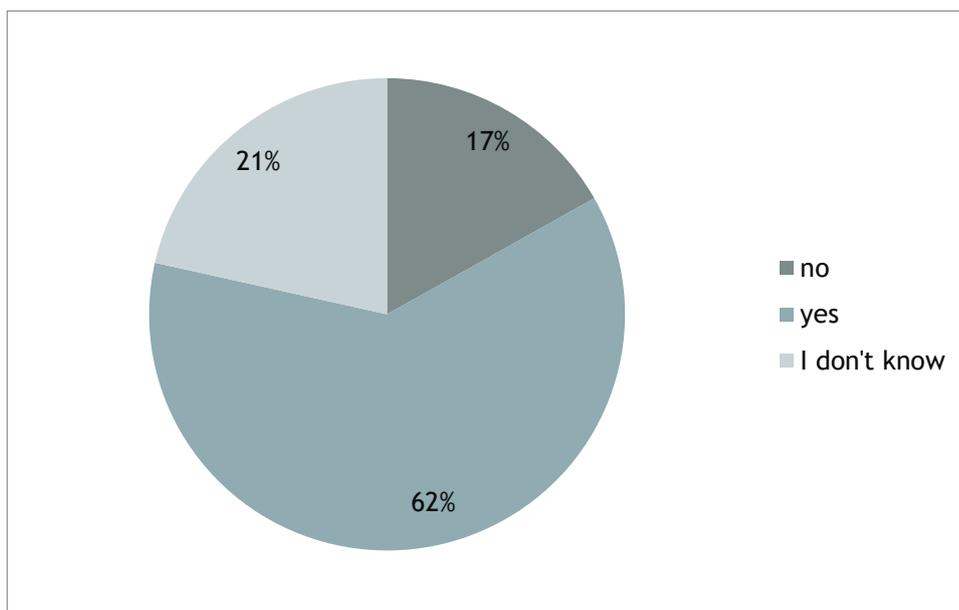
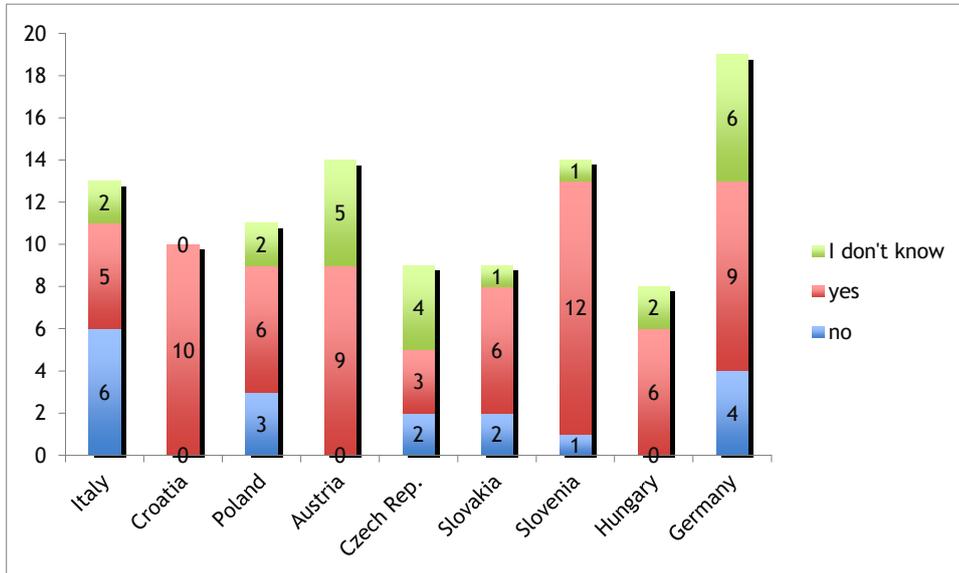




Figure 41





## 4. Analysis from some singular countries

### 4.1. Italy

The sample analysed has a certain balance between women and men. Consistent with the results of other countries and with the network featuring project partners, respondents have a high level of education. 8 out of 13 have a master. The age range is also consistent with that of respondents: 11 out of 13 are between the ages of 25 and 45 with 8 between 25 and 35.

Concerning the results, in line with Austria, Germany and Slovenia, Italy also believes that crowdfunding is an effective marketing tool not only for businesses, but also for non-profit (11/13) and a tool for Increase the sense of community: this second result is not surprising because in Italy the best results in terms of performance have been achieved with civic crowdfunding. Very few believe that it is a tool to replace private funding by banks and no one believes it can be an alternative to public funding. These results can be interpreted in two ways: on the one hand, the amount of funding for the enterprise requires such burdens to be difficult to reach through the crowd; On the other hand, public intervention is totally absent in the private sector, while widely disseminated in non-profit and cultural sectors (in any case off-market) where the economic effort of institutions is also impressive here (think of lyrical organizations) .

With regard to the elements that can stimulate people to this form of gift / investment, the answers are clear: clear objectives of the budget, social impact of the initiatives, clear communication by the organizer of the campaign. It is good to note that there is no interest in people who organize campaigns: personal relationships in this case are not considered relevant.

Even the idea of what the gift / investment limits are is clear: 9/13 believes that the fear of being spoiled is a brake, therefore, the lack of confidence in the project. The result is consistent with that of Poland, Austria and Germany and above all with the literature on information asymmetry and moral hazard.

The problem of lack of trust, which may arise from a common feeling of generalized lack of trust, but also from the real presence of informal asymmetries and the lack of familiarity of the Italian population with online tools, according to the respondents, can be Overtaken by



investing in expertise and setting up a platform rating system, which acts as a guarantor for the public.

With regard to the tools through which respondents have come to know about crowdfunding projects, the answer is clear: social networks or online tools. The answer is not surprising given the young age of the respondents, but by an interesting policy suggestion: perhaps through the extension of traditional media communication it would be possible to reach wider bands than potential lenders.

The good results in terms of performance, the reputation in Italy, have a good level of confidence in local and national platforms. Although the interviewees show us that they are open to investing in European Union projects, this result demonstrates how the tool, consistent with the previous responses, still requires a local community of reference and a sense of identification with the project which passes through the geographical proximity.

Indeed, the sense of identification (11/12) is considered the leverage that involves the lender, followed by philanthropy and a possible economic return. Few rely on this form of funding and this is explained by the country's lag in the development of equity crowdfunding forms.

Regarding the mission of the projects that can be funded, the orientation is clear here (12/13) are favourable for finishing projects of social value and all projects with civic value: the result is comforting and shows rooting in the territory and the social vocation of the respondents, but at the same time the traditional approach to this tool, still seen as capable of supporting a non-profit rather than a profit. In fact, when analysing the organizational structure that respondents find most suitable for this kind of funding, it appears to be a little informative because most respondents did not respond.

Consistent with the rest of the countries, lack of information (6) and fear of fraud by designers (12) confirms the biggest limit.

Focusing on the transparency requirements of the platforms, the fear of fraud, previously emerged, confirms the type of information the interviewee deems necessary to access the crowdfunding platforms in security. Term and Conditions and Risk Warning are the information that should not be missing from a project on a platform.

Finally, as regards the type of information that can help to increase the trust of the supporter towards a Crowdfunding project, a clear definition of project goals can be of assistance, such as the knowledge of team members who Organizes the project. The responses are consistent between the different countries and with what has been shown.



If asked if the interviewee would be willing to support projects in the rest of Europe, only Italy responded by no 51%.

#### 4.2. Germany

The results obtained from the interviews proposed by the German partner show consistency with what was achieved within the project. Here too, high-level interviewers are confirmed: this is the result of the network partner's design features. Young people with a master who have previously donated or invested in crowdfunding consider this a good marketing tool but also community building. Even if not predominant, the crowdfunding ability to replace the blanket of leave left by the private and public sector in young and innovative sectors and especially of service to the person. The level of knowledge about who is organizing the project, the level of innovation and clearly defined goals are the main reasons that push people to donate / invest. At the same time, the lack of knowledge and the fear of fraud associated with the lack of realization of the project, even before the failure to achieve the goals, seem to be the main elements that curb the donor subject. The need to hear a voice that is more public and collective emerges when it comes to asking how greater media coverage could improve the approach to crowdfunding: cover all means, not just online ones, adopt control systems that improve confidence levels and "bottom" rating systems are considered incentives. The instrument is considered valid for both philanthropic and investment purposes and the form of start-up is considered the most suitable for obtaining this type of support. In all this, the codes of conduct and the definition of rules of purchase, also confirmed by contracts, are considered useful to increase the confidence and efficiency of the sector.

#### 4.3. Poland

This report is a result of a questionnaire conducted in the first quarter of 2017 by Incubator Starter. In the report are used answers given by 11 respondents from Poland of which 8 were male and 3 females.

The main source of information about crowdfunding campaigns for polish respondents are online Social Networks (9 responds), two respondents indicated friends. No respondent indicated press and media as a source of knowledge about crowdfunding. It is not surprising considering the fact that crowdfunding is rather interesting tool for younger people (8 responders were aged 25-35) who use the Internet more often than traditional media.



As shown by the collected data the Polish respondents see crowdfunding mainly as a philanthropic tool (7 responds). Only 3 respondents indicated crowdfunding as a philanthropic and investment tool and none of the respondents indicated crowdfunding as an investment tool. Thanks to this data it can be seen that in Poland there is a low awareness of the investment opportunities that crowdfunding gives. As the most suitable project types for crowdfunding respondents indicated cultural (8 responds) and social (8 responds) ones. Respondents are mostly willing to support projects campaign with which they identify (9 responds) or which give them economic return (6 responds). Most relevant drivers for supporters to support crowdfunding campaigns are the personal relations to the project owner (6 responds), clear project goals (6 responds) and clear communication (5 responds).

The vast majority of respondents (9 responds) for the question if crowdfunding is an effective tool to start a new business responded “yes”. The most important driver for Small or medium-sized enterprises to use crowdfunding is projects marketing (8 responds). Crowdfunding campaign gives also good opportunity to carry out market research (7 responds). Thanks to responses given in the questionnaire we can see that to make crowdfunding an alternative financing tool that is used more often, really important is to create the rating of the platforms investment experience (6 responds), to guarantee label by public institutions (4 responds) and also to invest in skills and competences of the operators (4 responds).

The three main fears that supporters associate with crowdfunding are: the project fraud (11 responds), the lack of profits (11 responds) and the lack of information (10 responds). In the opinion of respondents, the lack of trust to the project (7 responds) is a main reason which prevents people from using crowdfunding tool. To increase trust of the supporters, the project should have well prepared financial plan (6 responds), good description of the team (5 responds), reliable business plan (5 responds) and clear aim (5 responds).

In Poland, respondents have a high trust in the platform. From the point of view of supporters international platforms (7 responds) are more trustworthy than the local ones (3 responds). Only one respondent is afraid of the platform fraud. Reliable platform should provide the list of warnings (6 responds) and terms and conditions (6 responds). The majority of respondents are open to invest into projects from another EU member states (6 responds), if such projects were offered by the platform(s) they use. It can be assumed that this is due to a sense of security provided by platforms.



#### 4.4. Slovenia

Slovenia has currently only two existing crowdfunding platforms: Adrifund platform (reward based), CONDA Slovenija (equity and lending based) which are operating since the beginning of 2016, only one year. Considering the mentioned fact, stakeholders' experienced presented in the survey, are mostly connected with participation in crowdfunding campaigns on international platforms (kick-starter and Indiegogo), as backers or project owners.

Summary of Slovenian results:

13 participants (62% of women and 38% of men), majority highly educated (Bachelor or Masters' degree), in the age group 25-35, SMEs). Stakeholders see crowdfunding campaign as marketing tool and research market tool for SMEs. Stakeholders answered that main CF drivers are: level of innovation, clear communication & personal involvement. Among main obstacles: lack of relevant information and communication knowledge were identified. To contribute to CF industry, stakeholders believe CF platform rating system would be necessary and a binding coding system. Stakeholders are more likely to support campaigns, if it has positive media coverage, if it is available on international platform, if they have personal interest and can identify themselves with campaign. As biggest fears, stakeholders identified: fraud and lack of relevant information. Stakeholders percept crowdfunding as an investment tool, effective to start-up a business. Relevant information related to crowdfunding platform operating are: terms & conditions, investment procedures and risk warnings. Important information that can increase trust of supporters, related to specific CF campaign are: regular updates of projects, team presentation, good business plan.

#### 4.5. Slovakia

Slovakia has currently 11 existing crowdfunding platforms, from which 4 are donation-based, 2 equity-based, 2 reward-based, and 1 lending-based and 2 peer to peer platform. Most platforms have been operating since 2014 and thus, the survey participants' experiences are reflecting their experience with crowdfunding campaigns on international platforms, such as Kick-starter and Indiegogo. With regard to the characteristics of the respondents: 9 participants (5 men and 4 women), majority highly. Half of the participants are between the ages of 25-45 and have a high level of education (master). Most participants were from SMEs, two were platform operators, one a non-profit running a donation-based platform, and one was the Slovak Business Agency, a government organization. Most stakeholders think the main drivers



for SMEs to use crowdfunding are the lack of financing from banks and using it as a market research tool and a tool for building customer community.

Stakeholders answered that main drivers for investors to invest in CF campaigns are: level of innovation, clear project goals & return on investment. Among main obstacles: lack of trust related to platforms and lack of knowledge about cf in general were identified. To contribute to crowdfunding industry, stakeholders believe in a platform rating system, (Tripadvisor-style) as well as a binding code of conduct and a network of operators would be helpful. Some mentioned also public education efforts by platforms to build trust and transparent legislative rules for crowdfunding. Stakeholders are more likely to support campaigns that have positive media coverage and that they learned about via their friends or social network. In general, respondents find international platforms more trustworthy, but believe that local platforms are valuable for locally oriented projects, which generally require "vested" interests from the local public. With local platforms, a track record is important. What motivates people to support crowdfunding campaigns is identification with the campaign, general interest, and economic return. As biggest fears, all stakeholders identified: fraud and lack of profit. Stakeholders perceive crowdfunding both as an investment tool and philanthropic tool, appropriate to start a business or project in the civic, technology, and creative areas. Regarding the relevant information that crowdfunding platforms should provide are: terms & conditions, governance structure and risk warnings. Important information that can increase trust of supporters, related to specific CF campaign are: good business plan, good team, and shareholder information.

#### 4.6. Austria

The average respondent is young, with a high level of education, inclined to risk and low income, but previously donated. With a coherent approach to that of the other, crowdfunding is considered a marketing tool and its need is especially felt to cover vacancies left by the private (and public) sector in terms of economic support for new entrepreneurship. The incentive to donate (investing primarily comes from the sense of local identity that a project can express, followed by personal knowledge with the project manager and the level of innovation. As for fears of fraud, unlike Italy and Germany, there is a growing concern about the platforms rather than the project. There are fears and uncertainties because of the pioneer status. General Austrian result is another big thing the lack of information on the tax system. With regard to the implementation: 50% invest in skills and competences of operators, 40% said create a rating agency, 30 % create networks of operators. So we are within the Austrian group. Trust levels could be enhanced through greater coverage through traditional media: the



exclusive use of on-line tools (and payments) is also a barrier for younger generations. Local platforms are considered safer, or large international (American) platforms seem more efficient in the collection process. Intrinsic motivation is more important than economic profit, but in the specific case, respondents could be more attracted to this form of investment because of a greater economic return. Starting up is the most suitable organizational form to receive this form of financing. It is in fact the most elastic that can represent both philanthropic and social vocations and entrepreneurs for profit. 90% believe that crowdfunding is an effective tool to start a new business. It must be used beyond pure funding to achieve sustainable effects for company growth. Therefore, it can be implicitly concluded that a crowd is an essential prerequisite for successful crowdfunding and business. Regarding the information that a platform should contain to increase the sense of belonging and trust of the user, respondents believe that information should be: for 80% terms & conditions, for 50% investment procedures, for 40% risk warnings. There is an openness compared to other countries in Europe (70% is in favor) provided the project objectives are clear (70%), return, including economic (50%) and the work team (40%).

#### 4.7. Hungary

The survey participants filled out the Questionnaire online, as well during the HVCA (Hungarian Private Equity and Venture Capital Association) events, plus the local operating platforms such as Rocketside.me and Adjukossze.hu (NIOK). The experiences are reflecting their experience with crowdfunding campaigns on international platforms, such as Kick-starter and Indiegogo.

Summary of the Hungarian results, including all the answers: 10 participants (9 men and 1 woman), most of them highly educated (6 Masters' degree, 2 BA), 9 participants were between 25-45, most of them were geographically from Budapest, Hungary (7) and the one female participant was from Switzerland.

Most participants were from SMEs who have not done crowdfunding before, one from an insurance company and one individual who has done crowdfunding before. Most stakeholders think the main drivers for SMEs to use crowdfunding are to use it as a marketing tool, as a market research, the lack of financing from banks and using it as a tool for building customer community. Stakeholders answered that main drivers for investors to invest in CF campaigns are: clear project goals and clear project communication (six of the ten participants). Three of the participants wrote that the personal relation to the project owners is also one of the main drivers.



Lack of trust related to platforms, projects prevent nine of the participants of using CF tool, and three of the ten participants identified the lack of knowledge about CF in general.

Nine stakeholders out of ten believe that creating guarantee label by public institutions would be helpful for CF to be as an alternative financing tool. Also more mentioned investment in skills and competences of the operators, as well creating a network of operators would be suggested; six of ten stakeholders are more likely to support campaigns that have social network online, three would support with positive media coverage and one of them thought that newsletter would likely support, “Mostly newsletter and for really successful projects - press, media, and social networks”.

Nine of the participants think that positive media coverage would increase trust in CF projects.

In general, respondents find international platforms more trustworthy, nine of the agreed on this. Only one of ten respondents said national platform. What motivates people to support crowdfunding campaigns is a general interest and curiosity, plus identification with the campaign and economic return. As biggest fears, all stakeholders identified: fraud and lack of profit. Stakeholders perceive crowdfunding both as an investment tool and philanthropic tool, technology, and creative areas.

Regarding the relevant information that crowdfunding platforms should provide are: terms and conditions, governance structure, risk warnings, fees and contact information. One respondent thought that FAQ would be relevant as well.

The most important information that increase trust of supporters, related to specific CF campaign are: business plan, financial plan, competitive team, rewards / interests and shareholder information.

## 5. Conclusion

Crowdfunding is a well-established practice, closely linked to the digital economy. The idea from which it is born is not new and derives from the flow through which people share their resources to achieve a common goal, sharing responsibilities and risks. It is a practice that is born within a globalized context where diversification is central and promoting stability,



equality, co-creation through direct involvement of people in co-production of projects with strong identification and high Level of innovation (technological and social). It is a tool through which civil society can express itself. It is no coincidence that this practice spreads into a particularly turbulent global economic crisis where traditional social and financial brownies have shown weakness: the tool shows, in its growth, the need for disinsectification, participation and empowerment of society civil.

This research, developed within the project Interreg Central Europe Crowd-Funf-Port and aims at empirically investigating the motivation and fear of the crowd in investing and donating. In particular, it is directed to the stakeholders in the various countries involved in the project (Austria, Croatia, Czech Republic, Hungary, Poland, Slovakia, Slovenia, Part of Germany-Ikosom from Berlin, Part of Italy-University of Bologna, Metropolitan City of Bologna). The objective of the research is to bring out the limits that potential investors are having and what are the elements that can act as facilitators for improving support.

The study of the motivations and fears of this form of gift / investment show clear lines, consistent with existing literature. Indeed, studies find that the investment decision is influenced by social networks (Lin, Prabhala, & Viswanathan, 2013; Zvilichovsky, Inbar, & Barzilay, 2013), herding (Burtch, 2011) and free-riding behaviour (Burtch, Ghose, & Wattal, 2013). The involvement expected an emotional relationship, projects with which people are familiar, or projects that are initiated by somebody they have a friendship identification with. This is discussed as the direct identification-motive. Another motive theoretically discussed in the crowdfunding literature is regional identification. This motive is based on the geographical proximity between Involved (Agrawal et al., 2011; Lin & Viswanathan, 2013).

The return-motive is primarily discussed in the context of equity-based crowdfunding and it is not prevalent in the present study. Bretschneider et al. (2014) discuss this motive in view of a backers' goal of obtaining profit and/or capital gains on the invested capital. Further, there is the recognition-motive. In general, recognition is found to be a basic human need, as it gives people a sense of self-esteem (Nerdinger, 2006).

The motivations for crowdfunders to contribute may, in some cases, be similar. For some crowdfunders personal profit may or may not be their primary goal, someone else could invest out for genuine benevolence, or for other types of rewards. The return on investment for many



crowdfunders may be social capital in the form of community, status, involvement and visible symbols thereof, insider knowledge, and other rewards.

Although crowdfunding is seen as an alternative to traditional sources of funding and investment for productions, the idea of crowdfunding can also be viewed as essentially conservative and oriented to donation to social, civic and cultural initiatives. This form of investment is predominantly seen as social, motivated in many cases by social concern and collective involvement (Gerber *et al.*, 2012).

Crowdfunding can also be seen as a way to jumpstart creative projects *without* drawing on public funding and without the levels of government oversight and bureaucracy associated with traditional government funding (Reid, 2012).

Crowdfunding also provides new possibilities for distributing, democratizing, or altering the gatekeeping functions of traditional selection processes. Traditional funders, such as governments or other granting agencies, can consider the popularity of a project on a crowdfunding platform in their own decision-making process (Braet & Spek, 2010, p. 227).

Apart from the positive aspects, fears that slow people are of a different nature:

- Project risk—in particular, the risk of default or failure: crowdfunding often deals with early-stage projects, which are subject to high levels of uncertainty as to future performance. There is a risk of projects being low-quality or fraudulent. In addition to project failure, project delays have been frequented in the past, prompting platforms to increase their screening efforts.
- Asymmetric information—in particular as it relates to investors lacking information about the risks and/or expected returns of their investments: since investors are likely to be less informed than entrepreneurs or borrowers about the quality of the project, asymmetric information is likely to play a significant role in crowdfunding.

Information may be difficult to obtain. Owing to anonymity, investors may be reliant on platforms for information, while platforms may not check the accuracy and completeness of the information they receive. To keep costs down, platforms may carry out only basic due diligence. Individual investors' due diligence may be low on account of free-rider effects. Investors may choose to copy each other rather than conduct their own analysis. This is supported by cases where the funding target was reached in less time than might be considered necessary to carry out due diligence. See Deutsche Bank Research (2014a). See Agrawal *et al.* (2013) and Hagedorn and Pinkwart (2013). Factors that serve to mitigate the asymmetry of information in the crowdfunding context could i investors make use of quality signals and a platform screening where past performance data can inform investors about rates of return.



- Adverse selection resulting from ex ante (i.e. pre-investment) asymmetric information and giving rise to a risk of systematically low-quality investments. This may lead to a risk of ‘adverse selection’ of low-quality projects going to crowdfunding platforms. Nesta (2014) found that 20% of fundraisers had previously received funding from angel investors.

This suggests that adverse selection is not a critical factor for at least a significant proportion of borrowers, in particular for P2P consumer lending.

- Moral hazard resulting from ex post (i.e. post-investment) asymmetric information and giving rise to a risk of funding being used for purposes other than those intended by investors. The other party does not use the funds for the intended purposes. Crowdfunding differs from many other online commercial activities by its lack of repeated interaction with the recipient of the money. In principle, moral hazard could be mitigated by breaking large projects down into sub-projects, with funding of the later sub-projects conditional on the successful completion of earlier sub-projects or milestones (Oxera, 2015).

- Liquidity risk—in particular, the difficulty of exiting investments faced by investors due to illiquid secondary markets. Liquidity risk relates to the difficulty investors face when trying to exit an investment prior to its maturity. Secondary markets in crowd-funded borrowings are rare and tend to be lightly traded—particularly in equity crowdfunding. Liquidity risk might be of little concern provided that investors have experience with low-liquidity investments (Oxera, 2015).

- Risk associated with platform failure. A platform is likely to be more attractive to investors if there are more projects to invest in, and more attractive to borrowers if there are more investors and hence a bigger chance of being successful at obtaining funding. This risk is exacerbated by high fixed costs giving rise to economies of scale and low profitability.

- Investor experience and risk awareness. This suggests that there is a degree of risk awareness among lenders as well as among the general population.

There is a concern that more inexperienced investors will be attracted to crowdfunding as it gains credibility—e.g. one of the effects of regulation may be that it validates crowdfunding as a form of investment (IOSCO (2014)). There is a concern that investors may be overoptimistic, or ‘make decisions based on personal biases and persuasive narrative, rather than on financial experience. serve as quality signals and can trigger subsequent investments by other investors [Agrawal et al. (2013) and Belleflamme and Lambert (2014)]. This, in turn, can give rise to a positive information externality and freeriding effects, as well as marketing effects (Agrawal et al., 2013). This suggests that expert investors may play a particularly important role and that their expertise may benefit less-experienced investors.

To maximise profits, a platform will seek to maximise the number of successfully funded projects, accounting for reputational effects. As platform has an incentive to maximise the number of



investors and investment opportunities it lists. Wardrop et al. (2015) consider that the alternative finance industry itself recognises that the market will not develop if the platforms are not perceived as trusted intermediaries by investors and beneficiaries alike. They noted, also, that equity crowdfunding increasingly allows funds to be raised from angel groups and venture capital firms. This may create positive information externalities, allowing smaller investors to freeride on due diligence efforts of other investors.

Screening projects will serve to attract mainly high-quality projects and reduce fraud, as well as providing a certain amount of due diligence for investors. This will further serve to improve platform performance (by lowering rates of default and raising rates of return) and reassure investors.

The lack of knowledge about crowdfunding but also the continuing fear of fraud show how informational asymmetry, network practices and financial intermediaries are still very strong. Removing this kind of barriers would allow for new initiatives to attract funding from different European countries, as it shows the high propensity to invest in Europe (lack of intellectual property, there is no evidence that respondents invest, Indeed, in other countries) for particularly fragile subjects such as innovative and creative businesses. This confirms the irrelevance of geographical distances towards platforms (which reduce the barriers that arise in online transactions and market clutches associated with geographical distances- Goldfarb and Tucker, 2011), and in the face of the validity of the project, but the great importance Which is still reserved for acquaintances, friends and family in this area. Even though the "family and friends" mechanism is geographically localized and interest in the activities that are carried out in their territory remains prevalent.

What emerges with greater clarity is that a common European regulation could be helpful in filling the gaps of trust that affect the industry not only in national / European investment / gift forms. The story, albeit brief, of crowdfunding shows how the strength of a project can attract investment from around the world but the need for greater professionalism emerging from the study is that it is necessary to educate entrepreneurs (of all sizes) to a responsible entrepreneurship and to equip them with tools (marketing, but also pervasiveness in society) that enable them to best defeat the crowdfunding tool. At the same time, it is necessary to increase the level of capacity of the funders. in order to make them more relaxed and able to fully utilize the potential that crowdfunding can develop.



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