

# Italian web-based crowdfunding the determinants of success



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# INTRODUCTION

- Relevant gap in **public resources** for social welfare policies
- A renewed role of the **third sector**
  - increasingly **key** and **innovative** (e.g. social innovation)
  - **new** organization and management **models**
  - attitudes and tools that are typical of the **profit sector**
- Lack of studies about
  - factors of **success of crowdfunding**
  - crowdfunding by **non profit sector**

# AIM

Starting assumptions

The **profit sector** and the **non profit sector** are different

Projects in these sectors are likely to have different

- Motivations (profit vs non profit)
- Priorities (society, environment, culture)
- Tools (operational including financial)

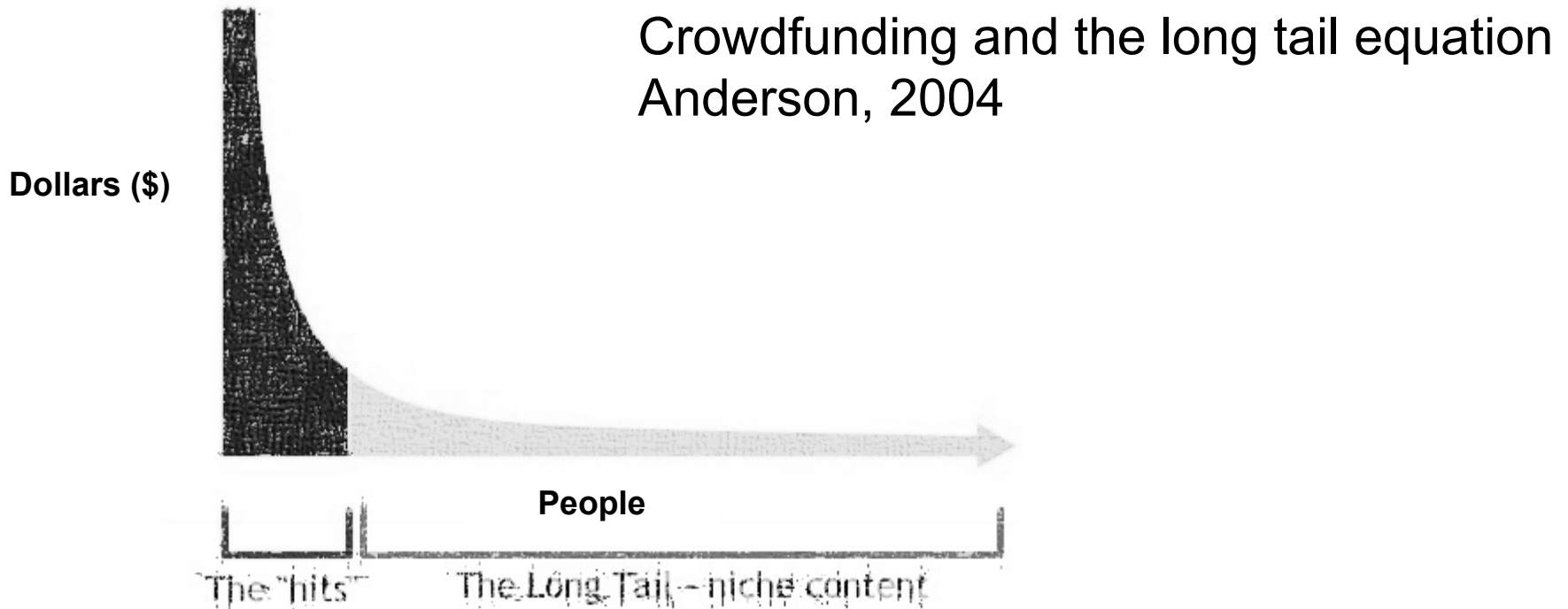
Questions

- Are there **sector specific determinants** for the success of crowdfunding?
- Focussing on non profit campaigns, which **factors** do influence their **success**?

# THEORETICAL INSIGHTS

“Crowdfunding is the practices of funding by raising a lot of small quantities of money from a huge number of people”

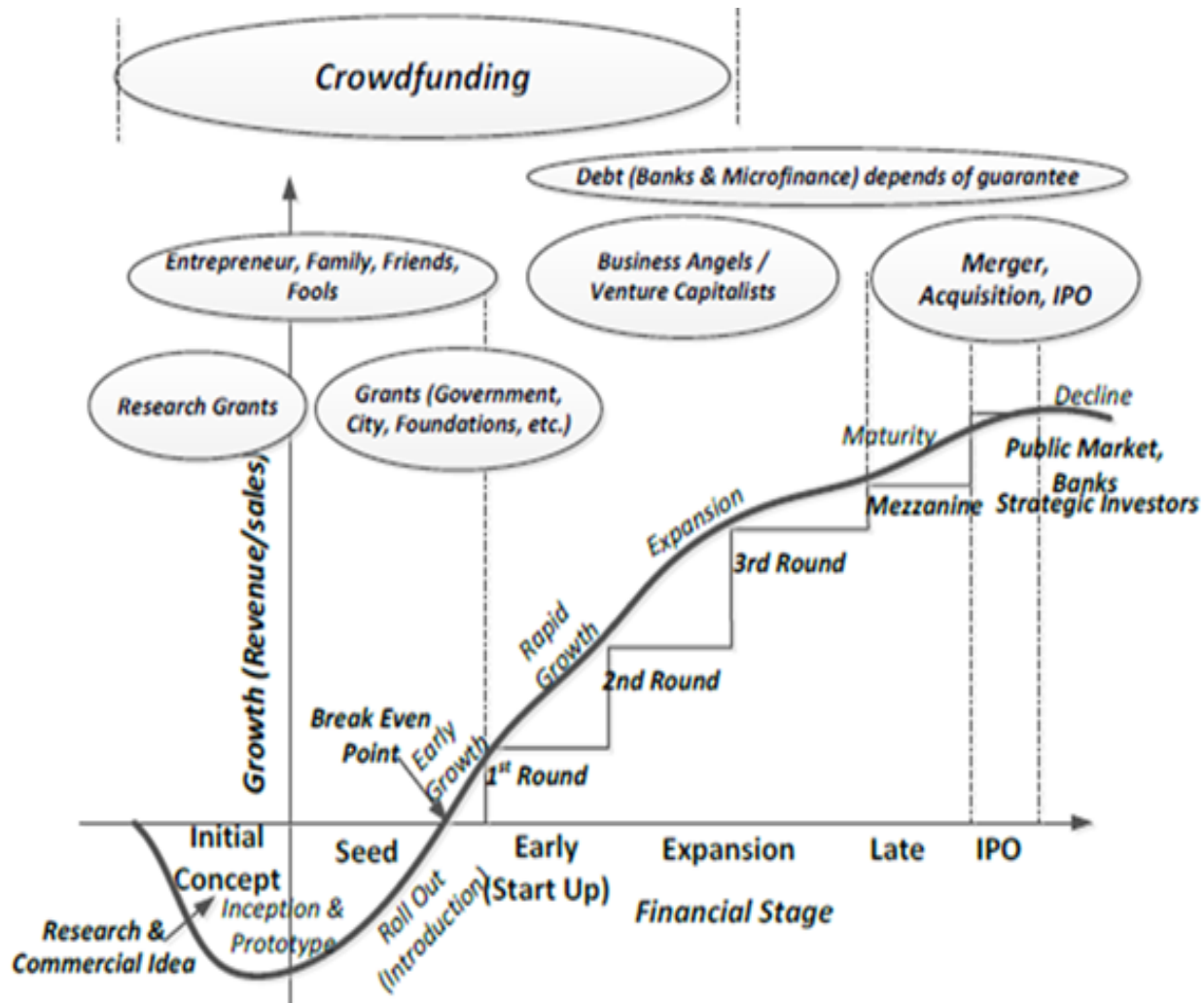
Rossi, 2014



# THEORETICAL INSIGHTS

“Crowdfunding can be adopted to support all the early stages of the creation of a new business, from the original concepts to the expansion”

Rossi, 2014



# MAIN FEATURES OF (WEB) CF

- **Decentralized** and **diffused** funding from private **small** investors (Boudreau and Lakhani, 2013)
- Not just cash (De Buysere et al., 2012)
- **Non economic** incentives: motivation, passion, interest, curiosity, reputation (Cavalieri and Esposito, 2013)
- **Social media** phenomenon (Rossi, 2013) → most of today's CF campaigns are **web-based**
- Yet, the analysis of CF platforms presents some **limits**:
  - **No clear evidence of determinants**
  - **No distinction Profit – Non profit**
  - **Focus on just one platform, mainly reward-based**

# MAIN DETERMINANTS FROM THE LITERATURE

**Mollick, 2013**  
**QUALITY OF THE PROJECT**  
**GEOGRAPHY**  
**SOCIAL NETWORKS**

**Giudici et al., 2013**  
**PROPONENT'S SOCIAL CAPITAL**

**Kuppuswamy and Bayus, 2013**  
**SOCIAL INFORMATION**  
**IMPACT ON SOCIAL INFORMATION**

**Burtch et al., 2013**  
**MARKETING EFFORT**



**Non Profit / Profit**



# PROFIT / NON PROFIT

**Pitschner and Pitschner-Finn 2014**

PROFIT CF	NON-PROFIT CF
Larger contributions (per funder)	More funding providers
More likely to reach the target amount	Greater total amount

**Lewis, 2013; De Buysere et al., 2012**

! Sector specific dynamics and rationales (e.g. non profit models are namely donation or lending)

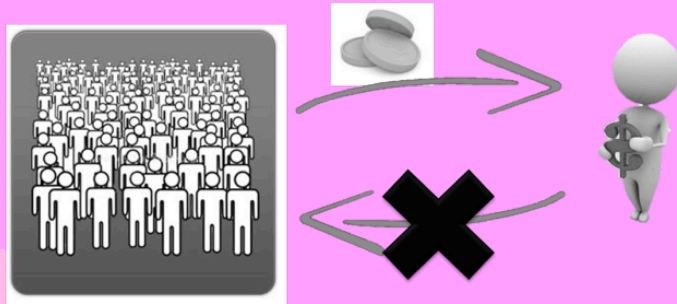
**Schwienbacher et al., 2012**

Non-profit projects are more successful than for profit ones

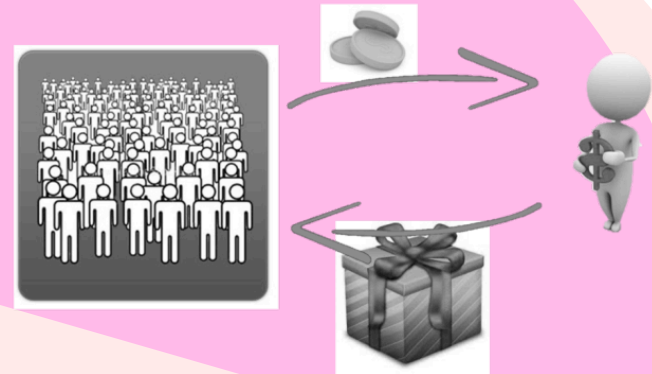
# CROWDFUNDING MODELS

## Non Profit

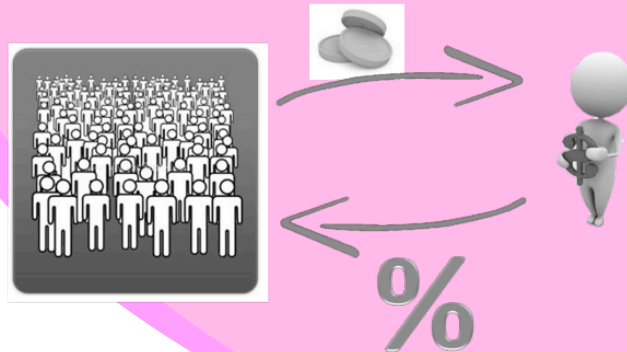
- *Donation-based:*



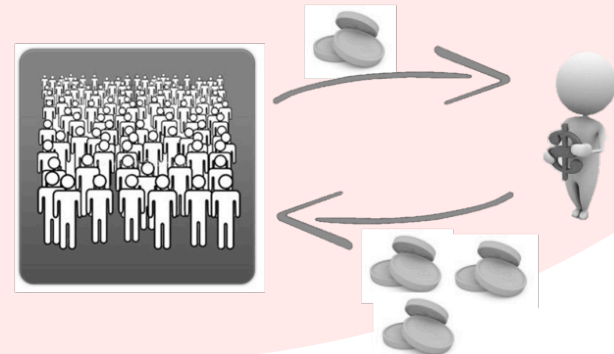
- *Reward-based:*



- *Lending-based:*



- *Equity-based:*



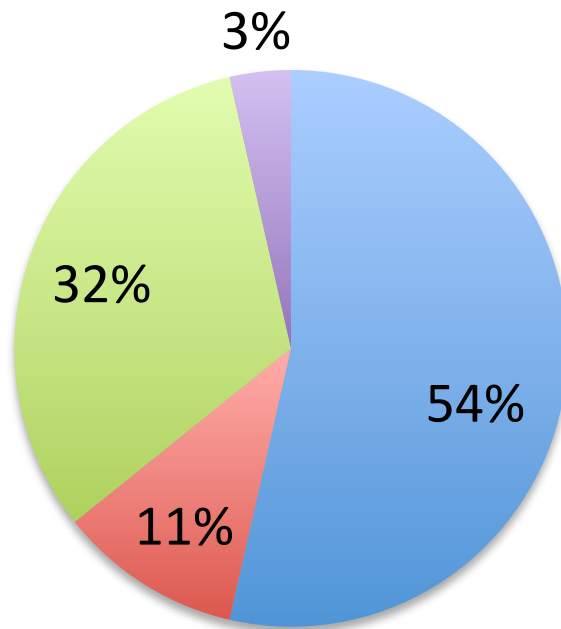
**Profit**

# ITALIAN CF PLATFORMS

October 2013 (Castrataro, Pais, 2014 )

41 platforms (28 active)

Reward Lending  
Donation Equity



# ITALIAN CF PLATFORMS

Submitted projects	50.000
of which published	30%
<b>of which successful</b>	<b>30%</b>

4.500 successful projects

**54% of total lending based projects**

**44% of total donation based projects**

24% of total reward based projects

0% of total equity based projects

<b>Total amount financed</b>	<b>€23 million</b>
<b>of which lending based</b>	<b>80%</b>
of which reward based	15%
of which donation based	5%
of which equity based	0%

# METHODOLOGY

**Model** that explains **successful** crowdfunding in the **non profit** sector according to:

- Project's social scale and scope
- Territorial social capital (localization of projects/proponents in territories with a dense social capital)
- Proponents' social network
- Project's social network
- Geographical proximity



- Project's target funding
- Minimum size of contribution



- Maximum reward offered
- Formal quality of the project's presentation
- Past experience of CF campaigns

# METHODOLOGY

PROBIT regression. Dependent variable: SUCCESS

Independent variables:

- **Social scale and scope [sss]** dummy variable indicating whether the project pursues a social or humanitarian target (generating benefits to persons different from the proponent)
- **Territorial social capital [tsc]**: existing metric (i-citylab) measuring the social capital of proponents' cities of residence
- **Project' s social capital [pjsc]**: number of likes on the projects' Facebook page
- **Proponent' s social capital [ppsc]**: number of proponents' contacts on LinkedIn and Facebook

# METHODOLOGY

- **Proximity [proximity]**: dummy variable indicating co-localisation between the proponent and the context of implementation of the project
- **Target capital [target]**: overall amount of the project's target funding
- **Minimum size of contributions [minimum]**: minimum amount of money accepted from contributors
- **Offered reward [reward]**: maximum amount of money offered as reward by the project
- **Quality of the project [quality]**: number of different types/categories of information provided to describe the project
- **Past experience [experience]**: dummy variable accounting for “multiple bidders”

# SAMPLE OF ANALYSIS

- Data extracted from the **DB of the Italian Observatory on Crowdfunding** (14.4.2014)
- Focus: concluded non-profit projects (social, cultural, environmental etc.)
  - **1051 projects**
  - **23 platforms**
  - More than 80% on just **5 platforms**:
    - Produzioni dal Basso
    - Retedeldono
    - BuonaCausa
    - Eppela
    - Iodono
- Huge amount of **missing values** → partly filled-in (heterogeneous data from each platform)



# THE SAMPLE OF ANALYSIS - PROJECTS

- 46% of the proponents are **organizations**, 19% are individuals, 6% are teams (28% na)
- 497 projects (47%) have a **social scale or scope**
- 74% of the projects belong to **Social non-residential services** (47%) followed by Artistic and recreational activities (14%) and Video/music making (12%)
- Most of the projects are localized in the **north** of the country (36%) and in the metropolitan areas of Milan (10%), Rome (7%), Turin (2%), and Naples (2%)
- Projects are mainly **small scale projects** collecting small contributions from limited groups of sponsors (the average number of funders per project is 20 but moda is 3)
- **218 projects (21%) succeeded** in obtaining their target funding (175 of the 497 social projects)

# THE SAMPLE OF ANALYSIS - PROJECTS

TARGET CAPITAL	% PROJECTS
< 1,000 €	12%
<b>1,000 – 10,000 €</b>	<b>65%</b>
1,000 – 2,500 €	24%
2,500 – 5,000 €	21%
5,000 – 10,000 €	20%
>10, 000€	23%

MINIMUM CONTRIBUTION	% PROJECTS
< 10 €	<b>45%</b>
10 - 50 €	24%
> 50 €	4%
No minimum contribution	8%
n/a	19%

# DESCRIPTIVE STATISTICS - VARIABLES

Variable	Obs	Mean	Std. Dev.	Min	Max
success	1051	.2074215	.405653	0	1
proximity	965	.5160622	.5000011	0	1
tsc	1038	361.0519	82.94736	183.35	561.71
pjsc	776	115.3853	251.6836	0	2924
ppsc	726	3903.986	35841.93	0	753019
sss	916	.5425764	.4984561	0	1
target	1051	15346.71	86873.32	0	2000000
minimum	767	21.10812	187.7884	.38	5000
reward	442	167.7425	601.0124	.38	10000
quality	1051	.4700285	1.661269	0	23
experience	1051	.0532826	.2247033	0	1

# RESULTS

Probit regression

Log likelihood = **-76.095982**

Number of obs = **244**

LR chi2(10) = **97.98**

Prob > chi2 = **0.0000**

Pseudo R2 = **0.3917**

success	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
proximity	<b>-.1949152</b>	<b>.2547257</b>	<b>-0.77</b>	<b>0.444</b>	<b>-.6941684</b>	<b>.304338</b>
tsc	<b>.0023883</b>	<b>.0013766</b>	<b>1.73</b>	<b>0.083</b>	<b>-.0003097</b>	<b>.0050863</b>
pjsc	<b>.0030242</b>	<b>.0005641</b>	<b>5.36</b>	<b>0.000</b>	<b>.0019186</b>	<b>.0041298</b>
ppsc	<b>9.17e-07</b>	<b>.0000171</b>	<b>0.05</b>	<b>0.957</b>	<b>-.0000326</b>	<b>.0000345</b>
sss	<b>.3158116</b>	<b>.2408736</b>	<b>1.31</b>	<b>0.190</b>	<b>-.156292</b>	<b>.7879153</b>
target	<b>-.0002476</b>	<b>.000071</b>	<b>-3.49</b>	<b>0.000</b>	<b>-.0003868</b>	<b>-.0001084</b>
minimum	<b>-.0032053</b>	<b>.008826</b>	<b>-0.36</b>	<b>0.716</b>	<b>-.0205041</b>	<b>.0140934</b>
reward	<b>.0002048</b>	<b>.0004055</b>	<b>0.50</b>	<b>0.614</b>	<b>-.0005901</b>	<b>.0009996</b>
quality	<b>.1069499</b>	<b>.0365483</b>	<b>2.93</b>	<b>0.003</b>	<b>.0353166</b>	<b>.1785832</b>
experience	<b>-.6616973</b>	<b>.7148321</b>	<b>-0.93</b>	<b>0.355</b>	<b>-2.062743</b>	<b>.7393479</b>
_cons	<b>-1.497855</b>	<b>.5761895</b>	<b>-2.60</b>	<b>0.009</b>	<b>-2.627165</b>	<b>-.3685439</b>

# RESULTS

## Verified Hypotheses

- PJSC is **positively correlated** with the probability of success of the project: the larger the social capital of the project, the higher the likelihood of success of the project
- TARGET is **negatively correlated** with the probability of success of the project: the bigger the target, the smaller the likelihood of success of the project
- QUALITY is **positively correlated** with the probability of success of the project: the larger the number and type of information provided to describe the project, the higher the likelihood of success of the project

Conversely, the hypothesized correlation with geography, territorial social capital, social scope and scale, past experience, proponent's social network are not verified → **no path dependent**  
**... no place specific ... no third sector predominance**

# DISCUSSION

- Considering the determinants of success, non profit CF does not show sharp differences with profit CF
- Non-profit crowdfunding is successful as far as it is pursued to fund **small scale** projects with a relevant **dissemination** (information and contacts on the social media)
- Interesting implications to public policies supporting crowdfunding as an alternative source of funding social welfare in a context of shrinking public funds: **general** (no specific) **CF dynamics**, **a-territorial** phenomenon
- Yet the several missings require cautious interpretation



# Thank You!

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