

Equity Crowdfunding for Cultural Startup: The Case of Italy

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Cultural industries belong to the fastest growing sectors but, currently, there are no findings regarding the financial structure of this sector. For the first time, this study specifically combines the research on Italian cultural industries and startup financing to examine the entrepreneurial factors that influence the use of equity crowdfunding.

JEL Codes: G23, L26

Key words: Equity Crowdfunding, Cultural Startup, Informal Capital

1. Introduction

In the World, the academic interest of the cultural industries is relatively new and also primarily driven by institutions (Flew & Cunningham 2010; United Nations 2010; European Commission 2012; Izzo 2013; EY 2015; MIBAC 2015; Beretta & Migliardi 2012). In particular, most studies in Italy refer to definitional, characterizing and economic issues, but research on the funding issue in view of the specific characteristics of actors and enterprises of cultural industries is scarce (Konrad 2015). In addition, data on specific factors on critical resources, such as financial means, in the startup phase is missing (Denis 2004; Nivoix & Ouchrif 2015).

Moreover, cultural industries are a recent phenomenon compared with the other economic sectors; therefore, contributions to the existing financial theories are lacking (Kebir & Crevoisier 2008). The present study unites the research on cultural industries and startup financing. The present study examines the entrepreneurial factors that influence the use of equity crowdfunding. The article is organized as follows: in the next sections, the author presents research approach and hypotheses; then, there is a description of the data, methodology and results. The author concludes by discussing the article's contribution and future research.

2. Literature Review

2.1 Equity Crowdfunding Features

“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 use their social networks to raise capital”, Framework for European Crowdfunding (2012).

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The launch of a campaign of collected funds, aimed at offering start-up venture capital is defined *equity crowd*. The lender in this case qualifies as a shareholder in the company and has administrative and capital rights.

Emotional and motivational aspects play in crowdfunding dominant role. Belleflamme, Lambert & Schwienbacher (2014) point out that the crowdfunders have stronger incentives in funding, if they perceive the opportunity to have a preview of product and receive emotional rewards. The founders are also the future consumers (Belleflamme, Lambert & Schwienbacher 2014), who take part in the productive process already in the planning phase, giving their creative as well as economic contribution and favouring the production customization.

Gerber, Hui and Kuo (2012) identified as the principal motivation in participation of crowdfunding campaign, the opportunity perceived by crowdfunder to expand its network and get in touch with others who share the same passions or support the same cause. Moreover, most of the crowdfunding platforms make the number of contributions, the funds' amount, and the founders' names accessible to all people; this transparency represents both a key factor to face dishonest behaviours as well as a way to encourage the potential funders' involvement and active participation in crowdfunding initiatives (Pais & Valeri 2016).

Crowdfunding reduces both access and capital barriers. This is possible because crowdfunding operates through online platforms. The latter facilitates the transformation of social capital (accessible through social media) into financial capital, available for the realization of ideas, projects and new businesses. This phenomenon is demonstrated in a recent research conducted by Mollick (2014), showing a positive correlation between the number of Facebook friends of founders and success of their crowdfunding campaign.

The equity crowdfunding phenomenon can be assimilated as a form of crowdsourcing in which the contribution made by the donor could be even not only strictly economic; in fact, there are platforms that allow donors to take part in the decision-making process so that they can express their preferences about the product/service's characteristics or make their time and competencies available for project realization (Pais & Valeri 2016).

2.2 Theoretical Framework

As explained in the *Introduction* scientific interest of the cultural industries is recent and it is focused on definitional, characterizing and economic issues (Flew & Cunningham 2010; United Nations 2010; European Commission 2012; Izzo 2013; EY 2015; MIBAC 2015; Beretta & Migliardi 2012). Moreover, the research on the funding issue in view of the specific characteristics of actors and enterprises of cultural industries is scarce (Konrad 2015). In addition, data on specific factors on critical resources, such as financial means, in the startup phase is missing (Denis 2004; Nivoix & Ouchrif 2015). Additionally, cultural industries are recent phenomenon compared with the other economic sectors, therefore, contributions to the existing financial theories are lacking (Kebir & Crevoisier 2008).

The present study unites the research areas of cultural industries and start-up financing. It is based on the Pecking-Order Theory by Myers and Majluf (1984). Based on this theory the first objective of the entrepreneurs after internal financing is to raise formal and informal funds while minimizing risk and costs inside their financing structure.

In the area of financing of start-ups seen from the agency point of view, a lack of business know-how, inadequate relationships (networks) with financiers as well as information asymmetries influence a diversified and thus broader financing structure (Nofsinger & Wang 2011).

Information asymmetries increase the probability of underfunding of start-ups and even of non-funding due to the lack of financial resources (Binks & Ennew 1996). Recent study (Chaston & Sadler-Smith 2012; Konrad 2015) find that a pro-active entrepreneurial attitude, a market orientation and a certain degree of risk affinity and pro-active behaviour counteract information asymmetries.

Based on the theoretical analysis, hypotheses to explain the aspects influence the use of equity crowdfunding by cultural start-ups are presented.

Actors in the cultural industries with a strong entrepreneurial motivation prefer *formal* forms of financing, such as bank loans, rather than *informal* forms of financing, such as equity crowdfunding, to remain self-sufficient in their decisions (independence).

Hp1: Low degree of entrepreneurial motivation (independence), has a positive influence on the use of equity crowdfunding.

Also, a strong community orientation inside the cultural sectors is typical (Konrad 2015). It is expectable that actors with a strong community or collective motivation use more informal financing structures.

Hp2: High degree of community orientation and collective motivation increases the probability to use equity crowdfunding.

Moreover, it is assumed that age has an influence on the choice of capital (Denis 2004). The age is a component of human capital, reflects the education, professional and founding experience (Cassar 2004).

H3. There is a high probability that young founders use their own resources and equity crowdfunding in comparison to older founders.

3. The Methodology and Model

This paper adopts a qualitative approach. It aims to understand the phenomenon of equity crowdfunding for Italian cultural startups and what are the entrepreneurial factors that influence the use of equity crowdfunding.

In order to this, the study is conducted on two levels: on desk and on field: *on desk*, by studying scientific journals, industrial reports, company websites, equity crowdfunding platform sites; *on field* through interviews with cultural start-ups that had successfully fundraising through equity crowdfunding in the period 2014-2016. The period analyzed is short because equity crowdfunding in Italy is recent, dating back to the Decree Law 179/2012.

In the years 2014–2016 in Italy, only one cultural startup (Wayonara) has successfully completed its equity crowdfunding campaign. Present study examines the entrepreneurial factors that influence Wayonara startup to use equity crowdfunding.

In particular, for the survey the study adopted a semi structured questionnaire concerning the following issues:

1. the reasons to use equity crowdfunding;
2. the complementarity or competition between equity crowdfunding and formal investor;
3. credibility of equity crowdfunding platforms.

4. The Findings

Recent studies show that in the last three years, 72 (Osservatorio.net 2017) cultural startups were funded globally, engaged for 39% on *Ticket booking activities* and 20% *Sales*. In Italy there is considerable activity in *Support services* for visiting museums and cities; since there is a strong connection with tourism, the latter is a growing and dynamic sector.

The Wayonara startup, whose case is analyzed, works in the social travel market. The interview shows that the cultural entrepreneur's profile is relatively young, 38 years on an average. Entrepreneurs have tried to approach institutional investors (banks) but the response was negative. In particular, the capital required could not be achieved due to the lack of guarantees and distinctly innovative connotation of the business idea. Moreover, entrepreneurs highlight the strong credibility of equity platforms, reinforced by the government legislative framework (Decree Growth 2.0 in 2012) and the evaluation and monitoring done by CONSOB on equity crowdfunding platforms (*Regolamento sulla raccolta di capitali di rischio da parte di start-up innovative tramite portali on-line*, 2013). Entrepreneurs attach high credibility with equity crowdfunding platforms because they guarantee competence, specialization, implementation of investor protection systems and networking with institutional investors. Finally, they point out that the use of bank debt is easier after a successful equity crowdfunding campaign because the business idea has already become successful in the market through the campaign.

Based on previous observations, Hp3 was accepted: there is a high probability that young founders use their own resources and equity crowdfunding compared with older founders.

The entrepreneurs showed strong *community orientation* and low *independence*; in fact, the main reasons behind using equity crowdfunding were:

- a) testing the interest of potential customers;
- b) expanding entrepreneurship visibility;
- c) increasing the network of specialized skills;
- d) possibility of obtaining lenders' technical and business suggestions;
- e) creating a virtual community interested in the events of enterprise, even after the conclusion of the round-up;

Previous findings confirm Hp1 (low degree of entrepreneurial motivation and independence has a positive influence on the use of equity crowdfunding) and Hp2 (high degree of community orientation and collective motivation increases the probability of using equity crowdfunding).

5. Summary and Conclusions

As explained before, cultural industries belong to the fastest growing sectors but, currently, there are no findings regarding the financial structure of this sector. For the first time, this study specifically combines the research on Italian cultural industries and startup financing to examine the entrepreneurial factors that influence the use of equity crowdfunding.

Moreover, the study gives information on degree of legitimacy and complementarity of equity crowdfunding than conventional/formal financing for Italian cultural startups. The study shows a non-competition between equity crowdfunding platforms and formal lenders, but a complementarity between these two kind of actors.

Although the survey does not claim conclusive results yet, because the phenomenon is very recent. The study confirms that the equity crowdfunding portals can actively contribute to the realization of new online marketplace, transferring the classical schemes of investment in a different and highly dynamic environment able to revolutionize early stages market and to mitigate the asymmetric information related to innovative startups, fostering the integration and collaboration of different actors and institutional in enterprise capital.

In this context, the present study can give an important suggestion for further research about cultural industries, entrepreneurial actors in cultural sector and success factors in cultural entrepreneurship to promote the cultural industries sector.

The main limitation is attributable to the fact that the results cannot be extended because the phenomenon is very recent in Italy; in fact, there is only Wayonara case history.

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