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Are crowdfunders active investors? The role of crowdfunders activism in shaping new venture performance



FRANCESCA DI PIETRO



Dipartimento di Economia Aziendale
Department of Management and Business Administration

Agenda

- Theoretical background
 - What is crowdfunding?
- Research question
- Research method
- Preliminary findings
- Practical and theoretical implications
- Conclusions

What is Crowdfunding?

- “An open call, essentially through the internet, for the provision of financial resources in order to support initiatives for specific purposes” (Schwienbacher and Larralde, 2010)
- Forms of crowdfunding:
 - Donation-based
 - Reward-based
 - Lending-based
 - Equity-based
 - return on investment if the company does well

Theoretical background

- Importance of investors -i.e. venture capitalist- as “specialists” in providing value-adding services to new ventures (Baum&Silverman, 2004; Bertoni et al. 2011; Croce at al., 2013; Colombo&Grilli, 2010)
- BUT overall findings challenge the assumption that experienced investors add value to funded firms, and claim that most of the positive performance effects are due to industry selection effect (Rosenbusch et al. 2013)
- AND the majority of the studies focus on firms that are in the growth phase
 - research about early stage and small firms is needed to complement existing empirical work

Research question

- Entrepreneurs who resort to crowdfunding have limited managerial, human, and financial resources
- To overcome these constraints, entrepreneurs may rely on their investors to obtain additional resources and capabilities that go beyond the provision of financing

Therefore this research addresses the following question:

- *How does crowd funders activism – i.e. involvement in day-to-day activities - influence crowd-funded company's performance?*

Crowdfunders activism

- *Crowdfunders activism*: “day-to-day involvement in operational decision of the company” (Jackson et al., 2012; Bottazzi et al., 2008)
 - assist with recruiting management team
 - help in obtaining additional financing
 - advise on long-term planning
 - assist with hiring outside directors
 - assist in day-to-day activities

Proposition 1: *Crowdfunders’ involvement in day-to-day company’s activities is positively related to company performance*

Number of crowdfunders

- *Number of crowdfunders*: the number of people who invest in a certain crowdfunding campaign
 - Attention-based theory (Ocasio, 1997): too many communication channels and, thus, a large amount of information to process, can be detrimental for company's performance
 - Costly and time-consuming activity

Proposition 2: *The number of crowdfunders negatively moderates the relation between crowdfunders activism and company performance*

Proximity

Forms of proximity (Boschma, 2005):

- *Geographical proximity*: co-location
- *Social proximity*: relationships involve a high level of trust
- *Cognitive proximity*: common knowledge base and expertise

Proposition 3a: *Geographical proximity will positively influence crowd funders activism*

Proposition 3b: *Social proximity will positively influence crowd funders activism*

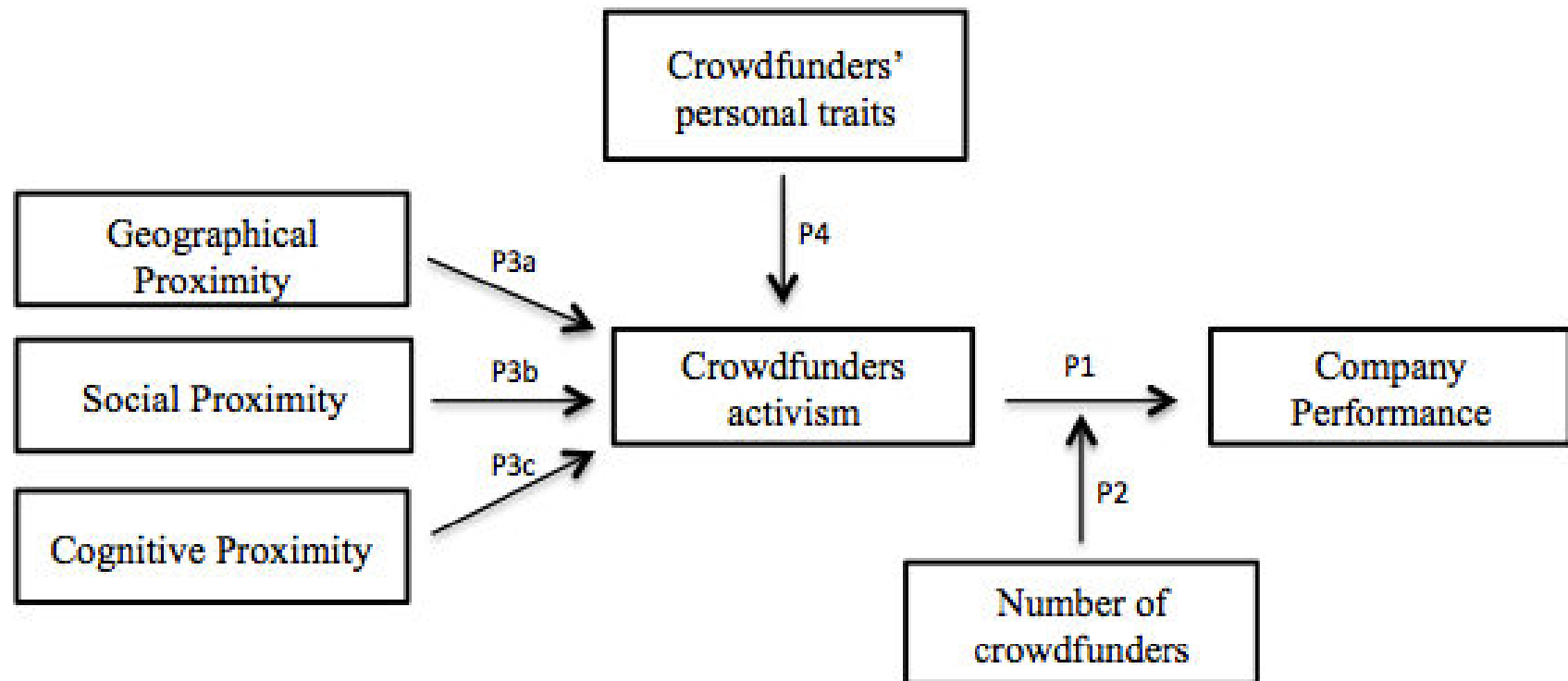
Proposition 3c: *Cognitive proximity will positively influence crowd funders activism*

Crowdfunders' personal traits

- *Crowdfunders' personal traits*: industry experience, competences, entrepreneurial experience, or any other skills or knowledge relevant for the business
 - Entrepreneurs will consider the possibility to involve funders only if they possess missing skills and knowledge relevant for the business (Grant & Baden-Fuller, 2004)

Proposition 4: *Crowdfunders' business-related knowledge and experience will positively influence crowd funders activism*

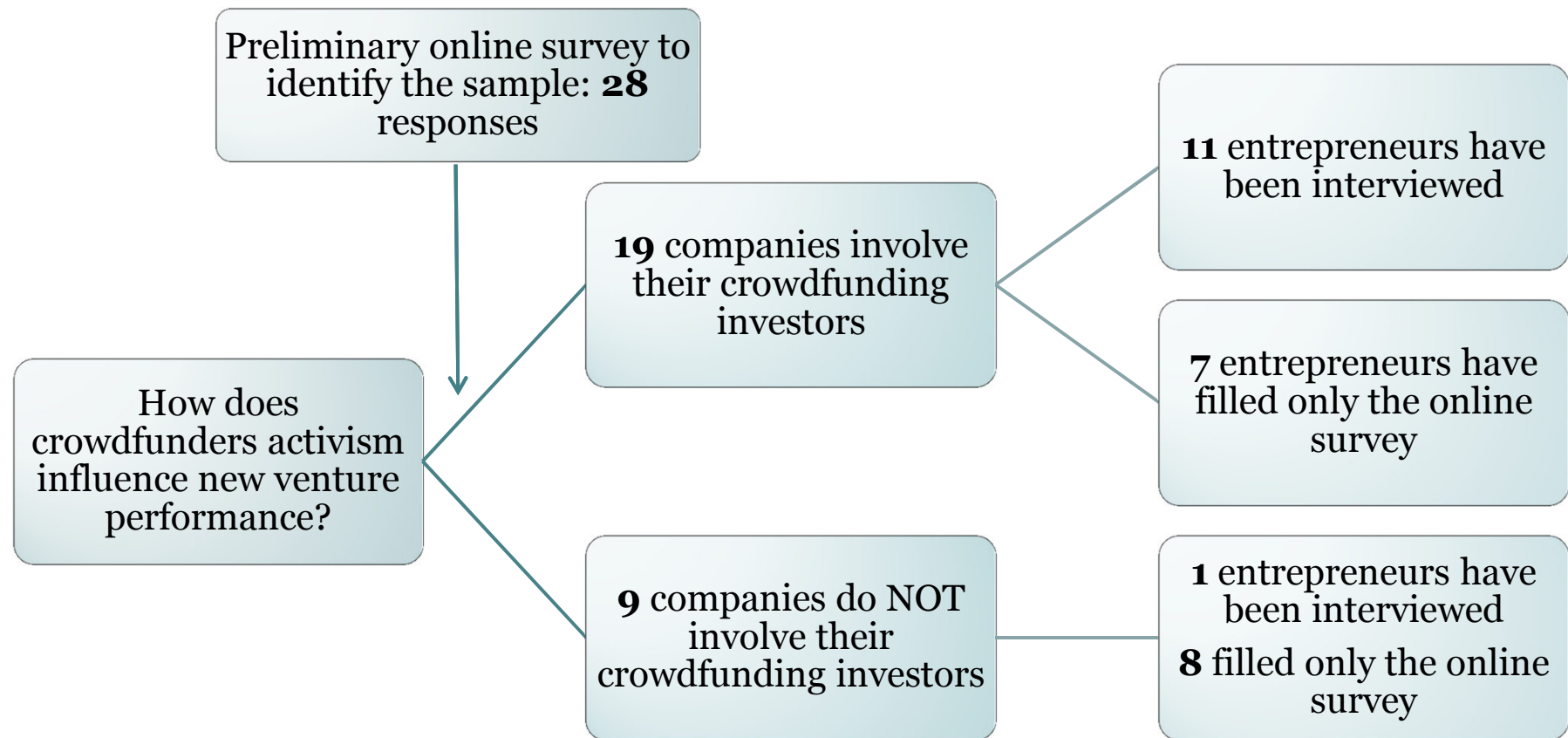
Theoretical Framework



Research method

- Multiple case study
- Data collection methods:
 - Preliminary online-survey
 - Semi-structured interviews with entrepreneurs who engaged in equity-crowdfunding

Research process



Preliminary online survey

- 28 responses

Country	Platforms	Projects funded	Sample	Responses
UK	Crowdcube	96	60	8
	Seedrs	53	28	6
Germany	Seedmatch	60	56	2
	Innovestment	28	18	0
	Companisto	30	25	0
France	Wisseed	36	36	5
The Netherland	Symbid	21	16	3
Sweden	FoundedByMe	15	14	4
Switzerland	C-crowd	8	8	0

Semi-structured interviews

- 12 semi-structured interviews
- How: 7 by Skype, 5 in person (London)
- When: April-May 2014
- Average duration: 30 minutes
- Company location: 9 in UK, 2 in The Netherland, 1 in Sweden

Summary of interview data collection

9 companies based in London

Industry: 3 Food
4 Software
1 Social media
1 Housing development

Small companies:
average number of employees **3,7**

2 companies based in Rotterdam

Industry: Financial services
High-tech

Average number of investors: **155**
Min: 28
Max: 640

1 company based in Helsinki

Industry: Food

Average equity offered **16%**
Min 4%
Max 40%

Preliminary findings

- Why equity crowdfunding?
- Crowdfunders activism
- Crowdfunders activism and company performance
- Geographical proximity and crowdfunders activism
- Number of investors
- Crowdfunding downsides

Preliminary findings: Why equity crowdfunding?

Empirical observations	First-order codes
<p>“It gives the possibility to raise a small amount of money a reasonable cost” <i>Wild Trail</i></p> <p>“I didn’t want to get a lot of funding, just enough to build a minimum viable product” <i>PlayEnable</i></p> <p>“A bank will take a lot of time and they probably won’t lend you, to raise the money with angels it is very time consuming” <i>Microcosm</i></p> <p>“We wanted to move quickly” <i>Goodio Goods</i></p> <p>“One of the positive aspect of crowdfunding is that it gives you a clear deadline. With angels very often you don’t get yes or not, you get keep me in the loop. With crowdfunding you have 3 months. That is really good, knowing that there is a clear deadline because is never a maybe is either a yes or a no. I like that” <i>Company D</i></p>	Fast, small, and easy money
<p>“We wanted to see if there is a demand for such products because there is no product available in the market, in that way we have evaluated the product demand” <i>Goodio Goods</i></p>	Marketing
<p>“I tried with angels and private equity investors but they all wanted to have the control over the company” <i>Pizza Rossa</i></p> <p>“We also though that high net-worth individuals want to have more control over how we do things” <i>Hab Housing</i></p>	Control

Preliminary findings: Why equity crowdfunding?

Empirical observations	First-order codes
<p>“I tried to raise money with angels, I would have preferred angels but I couldn’t commit” <i>Company D</i></p> <p>“Banks asked me my house as a collateral and I didn’t want to risk” <i>Pizza Rossa</i></p> <p>“When I started there were limited sources of funding available to me” <i>PlayEnable</i></p> <p>“I basically used it as an alternative of what people call friends & family money, because I needed about 30,000 pounds and I don’t have reach friends and family so I didn’t have access to that money” <i>Company S</i></p>	Limited sources of funding
<p>“For us is very much about building this community of users for our product who are involved in that, crowdfunding is completely synergic with what we do and what we are as a business” <i>Compare&Share</i></p> <p>“Opening the opportunity to a wide group of people fits well with the values of the company” <i>Hab Housing</i></p> <p>“The product we offer is related to crowdfunding, they are complementary” <i>Company E</i></p>	Synergic with the business
<p>“We had a lot of friends and family who wanted to get involved in what we were doing and crowdfunding just seemed the best option for us to gather as much of the money as we could ourselves” <i>Fuzmo</i></p> <p>“We wanted to do it together with our fans and friends” <i>Goodio Goods</i></p> <p>“We decided to do that to be able to raise money and to get a lot of people enthusiastic investing, also friends and family” <i>Company N</i></p>	Fans, Friends, and Family support

Preliminary findings: Crowdfunders activism

Empirical observations	First-order codes
<p>“A couple of them helped me to obtain additional financing” <i>PlayEnable</i></p> <p>“They made contact with other people in order to obtain additional financing” <i>Fuzmo</i></p> <p>“The main activity that we have some involved in is raising finance for property development scheme, so we are working actively with two of our investors who now are helping us on trading future investments” <i>Hab Housing</i></p> <p>“Only one investors is involved. He helped me in obtaining additional financing” <i>Wild Trail</i></p>	<p>Help in obtaining additional financing</p>
<p>“The bigger investor is in the board now. His family has 20 restaurants and he gives suggestions about future directions” <i>Pizza Rossa</i></p> <p>“They make suggestions about how the company can grow, scale, and develop” <i>Compare&Share</i></p> <p>“Some of our investors are going to advising us and helping us to move forward” <i>Fuzmo</i></p> <p>“One of our investors became part of our management team, she is a lawyer, she can assist us in many things” <i>Goodio Goods</i></p> <p>“One investors helps me for strategy and business management. He became chairman” <i>Wild Trail</i></p>	<p>Advise on long-term planning</p>
<p>“We communicate them that we are recruiting to see whether they know anybody who is interested and I know that we have two applications from investors” <i>Hab Housing</i></p>	<p>Help with recruiting</p>

Preliminary findings: Crowdfunders activism

Empirical observations	First-order codes
<p>“One of the funders sent us information about a more affordable packaging material, he is from Estonia and it seems that he could make a really good price for us. Then this investors helped us to get more retailers” <i>Goodio Goods</i></p> <p>“We are also using investors to early test our approaches to marketing and websites” <i>Hab Housing</i></p> <p>“The only one thing that my crowdfunding investors have really been involved in is Public Relations. So one of the crowdfunding guys is a PR consultant, so he helped us with that” <i>Company S</i></p> <p>“Sometimes they send me advices” <i>PlayEnable</i></p> <p>“I send them updates and I always ask for suggestions and advice. I received many emails from people giving advise about retailers, business development, etc. Somehow all of them gave me advise and very interesting tips” <i>Pizza Rossa</i></p> <p>“We have investors who are particularly interested in technology itself so they would give us feedback on the product itself, they come up with suggestions and idea how we can improve our technology” <i>Compare&Share</i></p> <p>“We had donation of equipment, advice and support, and people are helping us with aspects of marketing” <i>Microcosm</i></p> <p>“10% or less respond if we pose questions on the crowdfunding platform. We try to keep them informed and they are just happy helping us to share and hoping the company success” <i>Company N</i></p>	<p>Assist in day-to-day company activities</p>

Preliminary findings: Crowdfunders activism and firm performance

Empirical observations	First-order codes
<p>“In terms of our development and our evolution their involvement has definitely benefited the business” <i>Compare&Share</i></p> <p>“Investors are our customers and they use the product and give us feedback, we wouldn't be doing what we are doing” <i>Microcosm</i></p> <p>“We will launch the product in June and they will help us to get more retailers and if they do online marketing for us. They want us to sell” <i>Goodio Goods</i></p> <p>“We use them as resource” <i>Hab Housing</i></p> <p>“They had a positive impact on our performance and sales” <i>Wild Trail</i></p> <p>“They had a positive impact only from a networking perspective” <i>Company E</i></p> <p>“They will influence company sales as soon as the product will be commercialised. They and their network will be our first clients” <i>Pizza Rossa</i></p>	Non-financial benefits
<p>“In terms of money yes, but in terms of anything else not really” <i>PlayEnable</i></p> <p>“They had a positive influence to get more investments” <i>Company S</i></p>	Financial benefits
<p>“Not at all” <i>Company D</i></p> <p>“We haven't been able to make the most from our investors because we are still building at the moment” <i>Fuzmo</i></p> <p>“Not a lot” <i>Company N</i></p>	Small impact

Preliminary findings: Geographical Proximity and crowdfunders activism

Empirical observations	First-order codes
<p>“The one guy who is more involved lives in Nordic and come to London regularly so when he is in London I can meet him” <i>Company S</i></p> <p>“No, it doesn’t matter. We are an internet technology company, is irrelevant” <i>Microcosm</i></p> <p>“Geography doesn’t matter, I have decided not to involve them” <i>Wild Trail</i></p> <p>“I don’t think it does matter, because I communicate with them through email, so it doesn’t really matter where you are” <i>Fuzmo</i></p> <p>“We are still small and we will start from Finland and then I think people from here would be more involved” <i>Goodio Goods</i></p> <p>“I communicate with the board by email, the bigger investors who is in the board lives in Brasil” <i>Pizza Rossa</i></p> <p>“I think so, it is easier from them to follow us, if we are in the local media and especially in The Netherlands where everything is pretty small” <i>Company N</i></p> <p>“I suspect that because they are in London yes” <i>Compare&Share</i></p>	<p>Geographical proximity</p>

Preliminary findings: Number of investors

Empirical observations	First-order codes
<p>“I think that we see generally it as a positive thing having a high number of investors, with the email list it is easy to communicate” <i>Hab Housing</i></p> <p>“The numerosity doesn’t matter because you manage them through the platform. I write one message on the Seedrs website and they send it to all investors” <i>Company S</i></p> <p>“We manage them through Seedrs we only have one shareholder from a legal perspective” <i>Microcosm</i></p> <p>“They are inside a legal entity, so we deal with its representatives” <i>CompanyE</i></p> <p>“At this stage it wouldn’t make any difference, I just deal with Seedrs” <i>Fuzmo</i></p> <p>“Crowdcube has a really simple mechanism by which we can communicate with all of the investors, and that is probably the easiest way for us to communicate with them” <i>Compare&Share</i></p> <p>“They are not many. We had no preference on how many investors we wanted” <i>Company N</i></p>	<p>The number of investors is irrelevant</p>
<p>“In the beginning I would have preferred to have fewer investors. But having many little investors with no voting rights allowed me to have more control over the company” <i>Pizza Rossa</i></p> <p>“If you have more and if I am able to manage them, which in the case of Seedrs you can, they act as market mavens for you, which means they promote the product outside” <i>PlayEnable</i></p>	<p>The higher, the better</p>
<p>“They are difficult to manage and I would have preferred to have fewer investors who invested more” <i>Wild Trail</i></p>	<p>Too many</p>

Preliminary findings: equity crowdfunding downsides

Empirical observations	First-order codes
<p>“About crowdfunding itself the difficult thing is you have to put your business plan out in a very public arena, everybody can read your business plan including your competitors. You don’t know whether they are potentially big investors or somebody who is your competitor or wants you to fail. It is a painful process and you have to manage it very carefully” <i>Hab Housing</i></p> <p>“We did get some inquiries about our business plan from people who had no intention to invest in, but they were potential competitors. So I think you have to be a little bit careful about that” <i>Compare&Share</i></p> <p>“It was more work than we expected to be and you get a lot of scrutiny, so people asked very critical questions during the campaign” <i>Company N</i></p>	Information disclosure
<p>“We start discussing about second round investment, not with crowdfunding but with VCs or angels it can be something that turns out to be a negative thing in a negotiation” <i>Goodio Goods</i></p> <p>“It can make things more complicated when you do the following investment rounds because there are lot of things that are specific to crowdfunding that traditional investors have not usually seen before” <i>Company S</i></p> <p>“We are starting to raise a second round investment and I think they would ask about it but it doesn’t mean that it would be a problem in the sense that would make them not to invest. It is something that you have to have a good answer for” <i>Company N</i></p>	Discourage future professional investment

Preliminary findings: equity crowdfunding downsides

Empirical observations	First-order codes
<p>“We have got a few investors who are quite nervous” <i>Compare&Share</i> “Investors keep email me, they are too many and it takes time to manage them” <i>Wild Trail</i> “For strategic decisions having many investors may be a problem” <i>Company E</i></p>	<p>Managing investors</p>
<p>“The biggest problem of crowdfunding is that you do not get the intelligent, you just get dumb money. There was nobody competent to help me, I would have loved to have somebody in the board who has started something similar and kind of sat down with me and mentor me a little bit. When non-professionals invest that means that you won’t never have somebody’s proper attention to do the real hard-core things. People don’t invest enough so that they are intensely involved” <i>Company D</i> “Because it is 97 of them I am not going to spend my time researching and like digging into to their specific background if there is something they can offer me” <i>Company D</i> “The majority of them want to be update but they don’t seem they want to be involved too much. I think they invested just because they tough was a good idea and wanted be part of it and profit from it and I didn’t look to their profile to see if there were specific people we want to contact” <i>Company N</i> “The point if that if I had the chance to know their capabilities and if they were more open I will reach out to them” <i>PlayEnable</i></p>	<p>Collective intelligence exploitation</p> <p>Average number of investors involved: 5</p>

Theoretical implications

- Contribution to the entrepreneurial finance and the crowdfunding literature
 - Focus on small and young companies: investors may be an important source of knowledge also for young companies
 - First study focusing on the post-crowdfunding phase

Practical implications

- Greater professionalism/ skill/ expertise from the crowd to be able to support inexperienced entrepreneurs
- New techniques to facilitate the match between competences possessed by the crowd and competences needed by entrepreneurs

To be exploited, the collective intelligence needs first to be recognized!

Conclusions

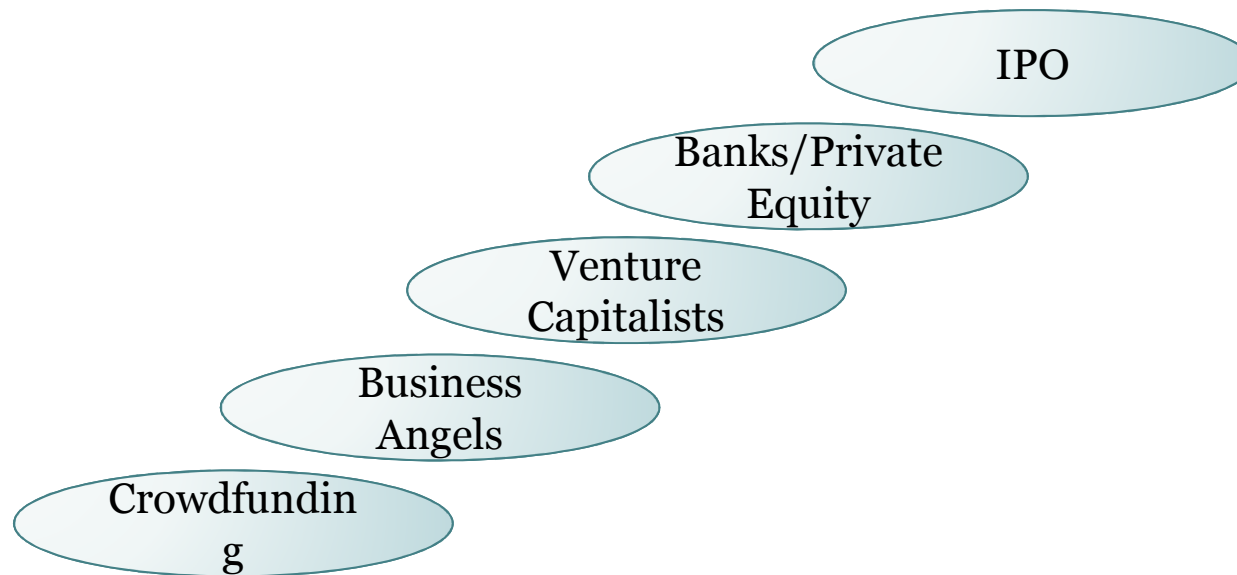
- The “crowd” provides additional resources and has positive influence on company performance
 - Additional financing
 - Long-term planning
 - Recruiting
 - Day-to-day activities

BUT collective intelligence exploitation is low and influenced by:

- Amount invested
- Crowd competences and professionalism
- Founders and co-founders expertise
- Entrepreneurs professional network
- Professional investors

Conclusions

- Equity-crowdfunding has enlarged the sources of financing available for entrepreneurs
 - It is the first step for entrepreneurs seeking money: an alternative to Friends & Family funds
- WILL NOT substitute professional seed-financing investors



Further analysis

- Longitudinal study to monitor the crowd involvement over time
- Analyze the relation between crowdfunders activism and:
 - cognitive/social proximity
 - exploitation of other external knowledge sources
 - entrepreneurs' human capital

Thank you!