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Book Review

CROWDFUNDING
Fundamental Cases, Facts and Insights

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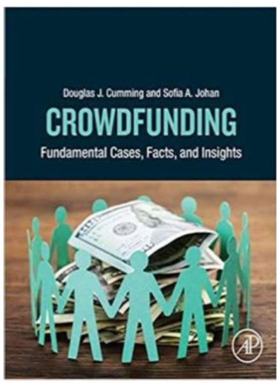

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Crowdfunding involves individuals, typically entrepreneurial oriented or entrepreneurial firms raising capital through online internet platforms from large numbers of small investors. Crowdfunding is a cheap and effective way for entrepreneurs to raise capital at their earliest stages of starting and growing their ideas and products. Part I of this book comprises three chapters. *Chapter one* briefly refers to aggregate industry statistics on crowdfunding around the world to compare the size of the markets in different countries. *Chapter two* is an overview of agency and signalling theory in crowdfunding, describes information asymmetries and agency problems in crowdfunding. The aim of this chapter is to provide a framework for working through the data and concepts in the subsequent chapters. *Chapter three* provides an overview of the empirical methods considered in this book. The description of the statistical and econometric techniques used is intended to be user friendly so that all readers can follow along each of the

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chapters regardless of background. In addition, the chapter depicts an overview of the institutional and legal settings in the countries considered in the subsequent chapters. Finally, the chapter provides an overview of empirical valuation methods insofar as they pertain to crowdfunding campaigns.

Part II of this book (Chapters 4 to 7) considers rewards-based crowdfunding. *Chapter four* explains the mechanics of rewards-based crowdfunding. Also, it provides examples to highlight cases that have worked well versus cases that have failed. *Chapter five* explains that reward-based crowdfunding campaigns are commonly offered in one of two models via fundraising goals set by an entrepreneur: "keep-it-all" (KIA), where the entrepreneur keeps the entire amount raised regardless of achieving the goal, and "all-or-nothing" (AON), where the entrepreneur keeps nothing unless the goal is achieved. The chapter hypothesizes that AON forces the entrepreneur to bear greater risk and encourages crowdfunders to pledge more capital-enabling entrepreneurs to set larger goals. The chapter further hypothesizes that AON is a costly signal of commitment for entrepreneurs yielding a separate equilibrium with higher quality and more innovative projects with greater success rates. Empirical tests are provided in the chapter in support of these hypotheses.

Chapter six shows that cleantech crowdfunding is more common in countries with low levels of individualism and more common when oil prices are rising. Cleantech crowdfunding campaigns are more likely to have higher capital goals, more photos, a video pitch, and longer text descriptions of the campaign. Relative to non-cleantech campaigns, the success of cleantech campaigns, in terms of achieving funding goals, is more economically sensitive to the campaign's goal size, being not-for-profit, and having a video pitch. The evidence is consistent with the view that while alternative energies are viewed as being more risky and investors face greater information asymmetries relative to other types of investment projects, there are mechanisms for entrepreneurs to mitigate these information problems and be at least as successful in cleantech crowdfunding markets. *Chapter seven* considers how entrepreneurs have used other crowdfunding platforms to internationalize their entrepreneurial start-up activities. Specifically, the chapter examines case studies and portals where entrepreneurial internationalization is facilitated by crowdfunding. It also discusses opportunities, challenges, and future research opportunities that pertain to crowdfunding and internationalization.

Part III of this book (Chapters 8 to 14) presents information pertinent to equity crowdfunding. *Chapter eight* provides an overview of equity crowdfunding. It explains how entrepreneurs value their projects, what proportion of equity to give up, and things that need to be included in an equity crowdfunding campaign. Also, it provides some perspective on selecting between debt and equity crowdfunding. *Chapter nine* provides an overview of equity crowdfunding models and various theoretical perspectives on equity crowdfunding. *Chapter ten*, signalling in equity crowdfunding, uses data on equity crowdfunding from the Australian Small Scale Offerings Board (ASSOB), one of the first equity crowdfunding platforms in the world, to study the role of signalling in equity crowdfunding. It examines the impact of venture quality (human capital, social capital, and intellectual capital) and uncertainty on fundraising success. Further, it highlights that retaining equity and providing more detailed information about risks can be interpreted as effective signals and can therefore strongly impact the probability of funding success. Social and intellectual capitals, by contrast, have little or no impact on funding success.

Chapter eleven presents data, also from ASSOB, on the role of distance between investors and the entrepreneur. Data on cash flow versus control rights in equity crowdfunding are presented in the chapter. It considers the role of the influence of geographic distance among retail, accredited, and overseas investors and venture location in an equity crowdfunding context. The comparison of home country and overseas investors in the chapter reveals that overseas investors are not sensitive to distance. However, when comparing only home country investors (subdivided into retail and accredited), the chapter documents that both investor types are similarly sensitive to the distance of possible ventures. *Chapter twelve* examines dual-class equity crowdfunding as a digital ownership model. Unique to this context, companies can set an investment threshold under which no voting rights are granted, making the issuance of Class A versus Class B shares, depending on individual investors. Using a sample of 491 offerings on the UK platform Crowd cube from 2011 to 2015, the chapter shows that a higher separation between ownership and control rights lowers the probability of success of the offering, the likelihood of attracting professional investors, as well as the long-run prospects. Family businesses, although less attractive to small investors, are relatively safer investments, because of their lower chances of failure.

Chapter thirteen explains the importance of equity crowdfunding for democratizing access to capital. With a growing number of equity crowdfunding campaigns that are targeting traditionally disadvantaged communities, it is natural to wonder whether equity crowdfunding equalizes access to capital. Remotely located companies are more likely to launch equity crowdfunding offerings than IPOs and have higher chances to successfully complete an equity crowdfunding offering. On the contrary, female entrepreneurs do not have higher chances to raise funds in equity crowdfunding. Minority entrepreneurs do not have higher chances of successfully raising capital but do attract a higher number of investors. *Chapter fourteen* discusses marketplace lending, including the typical interest rates in marketplace lending, and which types of marketplace lending campaigns attract more investor interest. Also, it explains, with reference to evidence from Germany, that marketplace lending investors pay attention to easy-to-understand ratings of borrowers instead of complicated financial information.

Part IV (Chapters 15 to 19) discusses crowdfunding regulation and public policy. *Chapter fifteen* provides an introduction to regulation in the crowdfunding setting. It explains what crowdfunding platforms do (such as due diligence), and how platforms and their investors can mitigate adverse selection and agency costs. Also, it provides some evidence on crowdfunding fraud and the frequency of fraud. Further, the chapter explains that fraud is more common among campaigns with entrepreneurs that do not have a presence in the social media (e.g., LinkedIn, Facebook, and Twitter). *Chapter sixteen* discusses investor, platform, and entrepreneurial views toward crowdfunding regulation. Specifically, the chapter considers the evolution of crowdfunding regulation from the perspective of the race-to-the-bottom/race-to-the-top debate.

Chapter seventeen explains that an appropriate set of regulatory and public policy goals consider regulation not in isolation, but in terms of how there is interplay between different forms of entrepreneurial finance. That is, research in the area of public policy toward entrepreneurial finance has traditionally been focused on financing gaps and whether or not government programs successfully address or mitigate those financing gaps. More recently, a growing literature has identified externalities across different forms of entrepreneurial finance. Sometimes these externalities are positive and other times they are negative. *Chapter eighteen* shows how regulatory developments that are perhaps overly stringent can lead to entrepreneurial activity to develop in regions that are not overly constrained by regulation. The chapter examines the context of fintech (crowdfunding is just one component of fintech, and it is broader than crowdfunding in its coverage of activity) VC investments taking place around the world and the role of institutional factors in the international allocation of fintech VC. The evidence in the chapter shows a notable change in the pattern of fintech VC investments around the world relative to other types of investments after the global financial crisis. For entrepreneurial start-ups, regulatory arbitrage drives investment into countries with a dearth of enforcement and regulatory costs. *Chapter nineteen* discusses regulation around an unusual but popular type of crowdfunding, that is, crypto-currencies. Specifically, the chapter examines initial coin offerings (ICOs), and how this application of crowdfunding mechanism has the promise for economic innovation. The distributed ledger technology, also known as blockchain, is gaining traction globally. Cryptocurrencies are the newest asset class being introduced to investors worldwide and are being used by companies to raise capital to further their development of the advancement of blockchain technology via ICOs. The substantial inflow of unregulated capital into a transactional and transnational industry has aroused interest from not just investors but also national securities and monetary regulatory agencies. Recognizing the inability of enforcement within existing regulatory frameworks, the authors argue for the regulation of the crypto asset class and internal collaboration between government agencies and developers in the establishment of an ecosystem that integrates investor protection and investment.

Finally, in Part V, summary and conclusion remarks are provided in *Chapter twenty*. It highlights the lessons for entrepreneurs in running successful crowdfunding campaigns, for platforms in running efficient forums for enabling the matching between entrepreneurs and their investors, and for investors in terms of doing due diligence and making suitable decisions in the crowdfunding market. The book presents a vast knowledge about crowdfunding through datasets, case analysis and presents it systematically and comprehensively. This will definitely serve as a very useful reference resource for researchers and practitioners.