


# Chapter 5

## Crowdfunding Platforms Dynamics: When Local Connections Matter

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### ABSTRACT

*This chapter compares two national crowdfunding markets based on their platforms and regulatory legislation on crowdfunding. Spain and France were selected through a cluster analysis since both differ on those characteristics. Mean comparison tests were carried out to estimate differences. Data were based on a survey specifically designed and conducted for this research. While crowdfunding is an internet-powered activity with global accessibility, national boundaries and geographic proximity play a significant role in shaping the performance of crowdfunding platforms. Regarding practical implications, as each country developed its specific legislation, it is concluded that this legislation may boost or hinder the growth of crowdfunding. On the other hand, the different way platforms managed their business does not affect their outcomes in terms of number of projects and funds raised. As a result, although platforms are indispensable as an intermediate agent between funders and investors, they determine neither the number of projects hosted nor the funds raised.*

DOI: 10.4018/978-1-7998-3226-3.ch005

## **INTRODUCTION**

Over the last decade, the situation of companies to obtain capital for new projects has changed drastically due to the crisis. The lack of access to financing through banks or subsidies, the uncertainty of the return on investment, and the need for funding from the public sector reduced the possibilities of obtaining financial resources. Additionally, new firms face difficulties to access to external finance during their first years of activity, and some of them remain permanently unfunded (Chen et al. 2009; Cosh et al. 2009). According to Beck, and Demircuc-Kunt (2006), SMEs found major barriers to obtain financing through traditional channels, such as bank loans, due to a lack of solvency, and their own working background. Private capital and venture capital companies mainly finance large companies, and a very short selection of SMEs. So paradoxically, the companies that most need funding are the ones experiencing severe limitations to gain resources. In addition, financing interest rates usually are too high for them to be easily repaid.

This background drives to the increase of alternative financing methods, such as crowdfunding (Prpić 2014; Paschen 2017). Even more, according to Bellihi, and Berachid (2018), crowdfunding permit to fill the funding gap that most new ventures suffer from especially in the early stages of their lifecycle. Relatedly, two more trends are worth mentioning to better explain crowdfunding growth. Firstly, the expansion of social networks that collaborate with each other be it for profit or non-profit reasons expect to have a boom in crowdfunding in the coming years. Secondly, another important factor for entrepreneurs and SMEs to opt for this formula is the raising of capital flows without financial intermediaries.

With regard to crowdfunding management, platforms seem to play a key role and its operational understanding will be essential in the future. However, only a limited number of papers have dealt with the importance of platforms and how they work. In this context, since crowdfunding mostly happens in crowdfunding platforms (Belleflamme et al. 2015), the main contribution of this chapter is to analyze the role that crowdfunding platforms play from a comparative perspective. In so doing, this chapter focuses on crowdfunding platforms, complementing extant studies, which have mostly focused on project success on a single platform. Another contribution is that this present study analyses European platforms whereas most studies to date reported data from U. S. platforms. Finally, this chapter analyses crowdfunding platforms and the factors that drive their creation.

After designing and conducting a specific survey, this chapter presents a comparative research between Spanish and French platforms. In so doing, it enlarges the research carried out by Belleflamme et al. (2015), and Greenberg et al. (2013), offering a wider explanation of how crowdfunding platforms work by specifically analyzing number of projects, success or time. In fact, the present

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