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Table of Contents

INTRODUCTION TO THE PROCEEDINGS OF THE PICCOLA IMPRESA/SMALL BUSINESS 6TH WORKSHOP: “NEW PERSPECTIVES AND INTERDISCIPLINARY APPROACHES TO ENTREPRENEURSHIP”	4
<i>Full Papers</i>	10
What can we learn from the first ‘like meat’ business Made in Italy? New Business Models for the Vegan Production - <i>Demartini, P., Bernardi, C., Marii, A.</i>	11
Food Safety: Exploring the Italian Agrifood case – <i>Cesaroni, F.M., Chamochumbi, D.G., Palazzi, F., Sgrò, F.</i>	31
Food safety and Innovation in Italian Agri-Food Enterprises – <i>Del Baldo, M., Ciambotti, M., Giampaoli, D., Sentuti, A.</i>	48
The circular economy in the restaurant sector. The qualitative multiple case study of piadinerias in Pesaro – <i>Murmura, F., Savelli, E., Pierli, G., Vedovi, V.</i>	62
Sustainability practice in first-generation family firms. Some empirical evidence from the Scanian wine sector – <i>Nilson, H., Sentuti, A., Cesaroni, F.M.</i>	83
How is circular entrepreneurship created? Insights from a study on Italian entrepreneurs – <i>Mauro, S., De Chiara, A., D’Auria, A.</i>	106
How does communication in SMEs change in the digital era? Some insights from the entrepreneurial perspective – <i>Conti, E., Savelli, E., Bocconcelli, R.</i>	123
Crisis Management in SMEs: an empirical analysis in the Marche region – <i>Savelli, E., Murmura, F., Pierli, G., Vedovi, V.</i>	143
Russia-Ukraine invasion: a study on the geopolitical and energetic scenarios and the effects on the Italian SMEs – <i>Strano, M.G., Rinaldi, S.</i>	164
Financing innovative SMEs: has any progress been made? – <i>Vannoni, V., Nadotti, L.</i>	183
Entrepreneurship & Networks: A Literature Review – <i>Mutignani, F., Bocconcelli, R., Pagano, A.</i>	195

<i>Long Abstracts</i>	210
Sustainable Business Models: the role of Collaborative and Integrated Supply Chain – <i>Correggi, C., Di Toma, P.</i>	211
Rethinking business models for sustainability-oriented innovation: implementing collaborative logistics in manufacturing SMEs – <i>Galvani, S., Carloni, E., Aiudi, A.</i>	216
Enhancing SMEs’ resilience-building processes through business model innovation. A systemic perspective to face entrepreneurial challenges in times of crisis – <i>Ruisi, M., Cosenz, F., Damiano, R.</i>	224
Integrating ambidexterity and family governance for business model innovation: a case study – <i>Di Toma, P., Correggi, C.</i>	229
Looking for factors doing migrant women successful entrepreneurs. An exploratory study – <i>Floris, M., Atzori, R.</i>	235
Fostering Women Entrepreneurship under the lens of Agenda 2030. A closer look based on a systematic literature review – <i>D’Allura, G.M., Floris, M.</i>	243
Does the sector matter? Italian Innovative SME’s and Board Gender Diversity: impact on firms’ performance – <i>Schiffiliti, V., La Rocca, E.T.</i>	248
Women Entrepreneurship under the lens of Social Theory: The Italian case – <i>Bannò, M., D’Allura, G.M.</i>	253
Design(ing) for the benefit of entrepreneurship – <i>Kuura, A., Tomast, R.</i>	260
Community Entrepreneurship: a literature review and research agenda – <i>Buratti, N., Albanese, M.</i>	265
How Rural Entrepreneurship Benefits from Organic Consumers’ Personal Values for Peripheral Areas Development. The Case of Girolomoni – <i>Travasi, A., Mutignani, F.</i>	272
Tensions in SMEs’ networks for sustainable entrepreneurship – <i>Cheschel, F., Lucarno, M., Marchiori, M., Tunisini, A.</i>	280
The antecedents of entrepreneurial intention: A study of Albanian university students – <i>Makarova, M., Depperu, D., Sirianni, C., Cambrea, R.C.</i>	290
Obstacles and Enablers of the Adoption of E-commerce in SMEs – <i>Mammadov, H., Del Baldo, M., Romero, I.</i>	300

The role of Educational Digital Content Marketing in improving customer engagement and small firms' brand awareness – <i>Francioni, B., Curina, I., Cioppi, M., De Cicco, R., Sigismondo, G.</i>	305
Equity crowdfunding platforms to support innovative small business: the Italian scenario – <i>Paoloni, P., Modaffari, G.</i>	312
Impact of resource interaction between a startup and a medium-sized company in a business network – <i>Dominidiato, M.</i>	320
Innovative startups and social goals: how far are Italian firms from an effective impact assessment? – <i>Vannoni, V., Palazzi, F., Sentuti, A.</i>	328
A case study of social impact evaluation in a regional non-profit organisation: Identifying challenges and suitable measures. – <i>Handley, K.</i>	335
Review on the digitalization of occupational welfare services in Italy before and after the COVID-19 pandemic – <i>Pezzolo, M., Del Baldo, M., Ascoli, U.</i>	339

Equity crowdfunding platforms to support innovative small business: the Italian scenario

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1. Objectives

The study aims on the effective role of equity crowdfunding platforms in supports Italian SMEs. Particularly, the main research questions (RQs) of this first explanatory study are: (RQ1) how are equity crowdfunding platforms distributed in the Italian economic landscape?; (RQ2) what are the main performances of Italian platforms?; (RQ3) what are the platforms' implications for the total equity amount raised for SMEs?

In recent time the world economies have been subjected to a process of transformation oriented to innovation. The innovation process has been in regards to different aspects of organizations such as the preferences, behaviors and products (Gomber et al., 2018, Balata et al., 2018; Baldissera, 2019; Pencarelli et al., 2020). This transformation has not affected only individuals but also enterprises have been involved in the process of change. Particularly, the area in which this process is being applied is entrepreneurial innovation observed from the perspective of financial innovation (Dessy, 1995; Cesaroni and Sentuti, 2016; Blakstad and Allen, 2018). Starting from 2012, the Italian regulator introduces two different kinds of innovative financial tools: the equity-side instruments (as stock exchange listing in AIM segment of Borsa Italiana and equity crowdfunding tool) and the

debt-side instruments (as private debt, minibonds, and lending crowdfunding). Hence, access to equity crowdfunding is reserved for innovative SMEs called innovative start-ups that satisfy the formal and substantive conditions established by law (Law Decree no. 179/2012). Nowadays, the number of Italian start-ups is 14.708 but only a few of these are familiar with equity-crowdfunding. In 2022, a total of 218,36 million euro (146 million of which was related to real state) was raised that supported 141 campaigns (CrowdfudningBuzz, 2023).

As it is clear, the platforms could play a crucial role in financing innovative SMEs but, in this direction, a lack in the literature emerges. Scholars seem to overlooked the role of these platforms, focusing on the main projects' characteristics (Modaffari et al., 2020; Caputo et al., 2022) and the individuals' behaviour during campaigns (Davis et al., 2017; Lukkarinen et al., 2022).

In this way, the present work aims at investigating the equity crowdfunding platform contribution in supporting innovative SMEs, as a hub between enterprises and investors. Analysing these issues is important because they represent the material junction in the financing model, without which the innovative SMEs would not have the opportunity to share equity to fill the gaps in the financial sphere.

2. Literature review

The literature section provides a general panorama of the equity crowdfunding tools, and then, it focuses on the function of platforms with particular attention to describing their business model in the Italian context. Equity crowdfunding represents one of the main equity-side innovative financial tools introduced by the Fintech Revolution (Belleflamme et al., 2014; Modaffari et al., 2020; Grassi and Fantaccini, 2022; Caputo et al., 2022). In 2012, equity crowdfunding was introduced in Italian Law (Law Decree no. 83/2012) and other relevant regulations (for instance in the USA by the Jobs ACT), allowing innovative start-ups to raise equity from investors (the crowd) through online portals, namely platforms (Zarandi et al., 2015; Vulkan et al., 2016; Walthoff-Borm et al., 2018; Cumming et al., 2020). This instrument was born to reduce the equity-gap in start-up ventures, allowing them to overcome liquidity threats in the early-stage (Veugelers, 2011; Cesaroni and Sentuti, 2016; Quintiliani, 2017; Baldissera, 2019; Pencarelli et al., 2020). However, while several scholars focus their works on other facets

of equity-crowdfunding, such as campaigns' issues or investors' behaviors, platforms' research stream has been underestimated.

Platforms represent the link between firms and investors and play a fundamental role in resolving potential principal-agent mismatching that hurt the financing process. Their effectiveness can be observed in relation to the services offered pre, during and post campaign (Burtch et al., 2015; Vismara, 2016; Paschen, 2017; Davis et al. 2017; Hornuf and Neuenkirch, 2017; Signori and Vismara, 2018). More specifically, their typical behavior can be deduced from phases such as the evaluation of the project presented by the start-up, the preparation of the negotiation and the shares placement, the possible subscription by investors and finally, the assignment of the capital shares of the start-up (Hagedorn and Pinkwart, 2016). The information that is provided during these phases, helps the investor to better understand the entrepreneurial initiative. Project evaluation and subscription phases are a crucial moment for the business model of the platform (Attuel-Mendes et al., 2018), in which a lot of activity return is generated. In fact, during the project evaluation phase the platform, based on the business plan provided by start-ups, fixes its yield expectation. However, in countries where there is weak or no regulation, platforms have more liberty to adapt their business models based on market needs. Conversely, in countries where there is strong regulation, platforms have to try to be profitable by adopting more rigid business models in compliance with the law.

Focusing on the Italian context, the Consob Regulation nr. 18592 issued on 2013, June 26, (updated on 2020, 6 feb by the resolution nr. 21259) regulates equity crowdfunding instrument, providing the behavioural requirements that platforms must maintain while operating as online portals. These mainly refers to disclosure requirements, investor protection duties, confidentiality issues and obligatory reporting of any violations to CONSOB. Particularly, it are: insurance coverage (Art.7-bis), maximum inactivity limit of not more than 6 months (Art.11-bis), conflict of interest with investors in terms of disclosure and co-investment (Art.13), due diligence to be carried out on each project by an independent professional (Art.13), negotiation of mini-bonds (Art.13), fraud risk prevention measures (Art.14), confidentiality obligations (Art.19) and record-keeping obligations (Art.20).

3. Approach/Method

To reach the declared goal, Exploratory Descriptive Qualitative (EDQ) research (Carvalho et al., 2005; Cleff, 2014; Modaffari and della Corte, 2022) supports the paper. EDQ is a qualitative methodology suitable for addressing research objectives that aim to provide a direct description of phenomena (Sandelowski, 2004).

The EDQ was applied to understand the phenomenon of equity crowdfunding platforms in Italy, through the analysis of 51 active portals that are authorized by CONSOB (Italian acronym for "Commissione Nazionale per le Società e la Borsa"). To develop the analysis and answer the RQs, the authors had to build a dataset that combines platform data from different sources. The dataset was built through three main stages. The first stage has extracted matching the platforms information by ordinary Register held by CONSOB. On 2023, Jan 03, there were 51 platforms authorized to raise equity in Italy.

After obtaining data from CONSOB register, the authors extract the information by AIDA database through queries via vat number for each platform. The extracted information focus on several issues from income statement and financial statements. Moreover, an insight on the main financial index was provided. For each platform the authors observed the working capital, operating cash flow, ROI (%), ROE (%), Quick Ratio, Debt/Equity ratio, Debt/EBITDA ratio and the NFP (Net Financial Position).

Last but not least, the third stage focused on the analysis of capital raised during the analysis period (2018-2021). For the purpose of our study and to link the performance of platforms with the volume of raised capital, the equity crowdfunding volume (Politecnico di Milano, 2022) has been:

- 36.39 million euros were raised in 2018;
- 65.41 million euros were raised in 2019;
- 101.05 million euros were raised in 2020; and
- 148.26 million euros were raised in 2021 (the last year of our analysis).

As it is clear, each stage of dataset is directly related to the specific topics of RQs.

4. Results/Findings

Equity crowdfunding represents one of the main innovative equity-side financing instruments that support innovative SMEs (Modaffari et al., 2020). Using this tool, companies obtain financial resources as risk capital to financing their business idea.

Investors, on the other hand, subscribe and get shares in the company, which offers future profits and capital gains in return. According to RQs, findings show several relevant topics. Firstly, the Italian equity-crowdfunding platforms have an irregular distribution. The data reveals a lack of homogeneity in the territorial distribution of the platforms. A significant concentration is found in the province of Milan, where 28 units out of 51 reside (or about 55% of the total). In the rest of northern Italy there are another 10 platforms, which together with the previous ones amount to 38 units (or 75.5% of the total). In central Italy there are 9 units while in the south only 3 units (RQ1). This concentration can be linked with a phenomenon already known in Italian economic history as industrial districts. In this case "digital" ones, dedicated to innovative financing instruments that offer services to innovative SMEs from the pre-collection phase up to the exit phase.

Focusing on platforms' performance (RQ2), the aggregated data do not show positive results in terms of performance for the 51 active Italian equity crowdfunding platforms. However, negative statements about the sector are not entirely correct. In fact, by focusing only on the entities that present profitability in terms of EBITDA, positive performance results become visible. Firstly, we should mention that out of the 51 platforms, only 18 have a positive EBITDA (i.e. only 35% of the sector). These 18 platforms, in 2021, contribute to the production of approximately 85% of the entire revenue volume (eur 9.5 million out of eur 11.1), producing a positive EBITDA of eur 1.7 million. From this conclusion, subsequent studies could be elaborated to understand which cost factors make platforms economically vulnerable.

Finally, approaching (RQ3), only a few players hold up the equity crowdfunding market. While the official data shows an increase in volumes raised, only a few platforms reach positive performances. In this way, SMEs seem to prefer only some platforms for promoting their equity crowdfunding campaigns. Deeping the analysis, another significant finding is that while generating negative results, platforms try to stay alive as if the cost-opportunity of losing the CONSOB authorisation is greater than the negative performance achieved each year.

In the light of what has been discussed so far and the points derived from the answer to 3RQs, we can conclude by defining the platform sector, which derives from the phenomenon of financing through equity crowdfunding, as a heterogeneous sector in which the risk of loss is greater than 50% of the entire sample. In other words, to date, the number of platforms with positive performances represents only 35% of the sector. A

further positive growth forecast can be linked to the regulations introduced in 2020, with which the possibility of negotiating debt-side instruments such as minibonds was also provided to the portal. Today, this possibility is exploited by only 13% of Italian platforms (7 units), but in the near future it could allow a real democratization of the phenomenon of innovative financing instruments.

5. Value & Implications

The work can help improve the relationship between start-ups and platforms by providing a clear representation of the current market. The present study has several theoretical and practical implications. From a theoretical perspective, it enriches the literature on innovative small-medium enterprises and innovative financial tools. Several aspects of the functioning of the innovative equity financial market for SMEs have been treated, and several topics theorized by scholars on equity crowdfunding platforms have been checked within this empirical study. From a practical perspective, the present research can be useful twofold. On one hand, it can support public authorities, such as CONSOB, in monitoring the equity crowdfunding phenomenon. On the other hand, it can navigate practitioners in supporting innovative small businesses toward platforms that perform better and therefore stand a greater likelihood of success in raising capital, supporting the growth of start-ups, which represent a rapidly growing entrepreneurial phenomenon in Italy.

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