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Community-level social capital and investment decisions in equity crowdfunding

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# Community-level social capital and investment decisions in equity crowdfunding

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## Abstract

We investigate the role of community-level social capital in individuals' investment decisions in equity crowdfunding. We exploit a hand-collected dataset of individual investments pledged to successful campaigns in Italy between 2014 and 2018. Individuals born in provinces with high social capital invest more substantially in riskier campaigns. Contrary to inborn social capital, social capital in the province where investors live has no impact. This evidence survives several robustness checks and highlights the crucial role of an individual's cultural traits in fostering investment in equity crowdfunding.

**Keywords:** Equity crowdfunding; Community-level social capital; Generalized trust; Culture.

**JEL classification:** G32; L26.

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## 1. Introduction

Equity crowdfunding is a concrete and viable financing opportunity for businesses around the globe. Unlike other forms of crowdfunding, pledgers in equity crowdfunding become shareholders of a company and target a profit through dividends or successful exits (Ahlers et al., 2015). Investors in equity crowdfunding are residual claimants in early-stage companies, and the outcome of their investment is highly uncertain (Giudici, 2015; Vismara, 2021). In addition, equity crowdfunding attracts unsophisticated investors who cannot rely on due diligence and direct interactions with entrepreneurs before funding a new venture (Butticè et al., 2022). The greater information asymmetry makes equity crowdfunding riskier than traditional early-stage financing, such as business angels and venture capitalists (Signori and Vismara, 2018; Block et al., 2018). Consequently, equity crowdfunding has drawn the attention of policy-makers and is currently regulated in many countries across the globe (Hornuf and Schwienbacher, 2017).

Research on equity crowdfunding has grown substantially in recent years but remains fragmented (Mochkabadi and Volkmann, 2020). Nevertheless, as Vismara (2021) highlights, equity crowdfunding markets provide an interesting setting to test existing corporate finance and financial economics theories and develop new theoretical insights. However, most of the literature explores *demand-driven* determinants of campaign success (Ahlers et al., 2015; Vismara, 2016; Cumming et al., 2019b; Johan and Zhang, 2020; among others) and the follow-up performance and funding opportunities of investee firms (Signori and Vismara, 2018; Butticè et al., 2020). *Investor-driven*

aspects, such as individual objectives and asset allocation, remain relatively unexplored. Data on single investments are difficult to obtain, and information is limited to a few platforms at most. In this paper, we study a whole equity crowdfunding market, and we contribute to explaining what drives individuals' investment decisions. Specifically, we explore how community-level social capital increases the amount pledged to riskier equity crowdfunding campaigns.

Social capital is a multidimensional concept subject to different interpretations (Hasan et al., 2020). At the community level, it is the set of norms, values, and beliefs that foster cooperation among individuals sharing the same geographical area (Guiso et al., 2004, 2012). In a high social capital environment, enhanced cooperative norms and civic-mindedness lead individuals to interact and create trust. Such individuals are, in other words, more likely to anticipate cooperation rather than opportunism from the counterparty (Colquitt et al., 2007; Hasan et al., 2020). Trust rooted at the local level has an impact not only on within-community contracts but also, more importantly, on transactions involving agents outside the local community (Guiso et al., 2004).

Community-level social capital (hereafter CSC) is related to the broader concept of culture (Guiso et al., 2008b; Servaes and Tamayo, 2017). For individuals born in a given community, cooperation-enhancing values, beliefs, and social norms are cultural traits subject to temporal and geographical stickiness (Servaes and Tamayo, 2017) and an intergenerational transmission process (Guiso et al., 2008b; Tabellini, 2008). While culture can be defined as "*those customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation*" (Guiso et al., 2006), CSC is the "*set of beliefs and values [...] that facilitate cooperation*

*among the members of a community*" or *"good culture"* (Guiso et al., 2008b; Servaes and Tamayo, 2017). Overall, individuals born in communities where CSC is high are more trusting, as stronger cooperative values and beliefs are stowed in their cultural makeup (Guiso et al., 2008b; Guiso et al., 2015; Servaes and Tamayo, 2017). This "generalized trust," i.e., the propensity of individuals to rely on others, is a crucial element in financial transactions, especially those characterized by high information asymmetry (Hong et al., 2005; Hasan et al., 2021) and involving counterparties outside the community of reference (Guiso et al., 2004).

In this paper, we investigate the effect of CSC on investment behavior in equity crowdfunding. Pledging to an equity crowdfunding campaign is a trust-intensive activity due to the high risk and informational asymmetries that characterize the market (Giudici, 2015; Vismara, 2018; Block et al., 2021). Therefore, equity crowdfunding is an ideal setting to explore the relationship between CSC and financial decision-making, as trust reportedly encourages risky investments (Guiso et al., 2004, 2008a).

We proceed in three steps. First, we investigate whether CSC positively impacts the amount invested. Second, we identify high-risk campaigns and study how CSC enhances the amount directed to riskier ventures. Third, we disentangle the differential effects of inborn CSC from the CSC in the living place of an investor. We rely on a novel, hand-collected dataset including all investments pledged to successful Italian equity crowdfunding campaigns initiated between 2014 and 2018. This country-wide dataset offers a unique opportunity to study how CSC shapes investors' decisions.

Moreover, Italy fits this purpose, as there is substantial and acknowledged heterogeneity in CSC across provinces ([Guiso et al., 2012](#)).

We contribute to the literature by advancing the following significant findings. First, CSC does not alter the propensity to allocate more money to equity crowdfunding campaigns. However, people born in high-CSC areas invest more substantially in riskier campaigns. In other words, higher generalized trust significantly increases the amount pledged to ventures characterized by an enhanced risk profile. This evidence provides strong support for the role of CSC in encouraging individuals' investment decisions in trust-intensive activities. Second, while inborn CSC affects investment behavior, CSC in the area where the investor lives has no impact. This suggests that specific aspects of an investor's cultural makeup prevail over other environmental factors potentially affecting investment choices. Like other dimensions of cultural heritage, cooperative norms, beliefs, and trust related to the place of birth impact an individual's investment decisions regardless of where such decisions are made. This result contributes to the debate on social capital being driven by inherited or environmental variables ([Guiso et al. 2004](#)) and validates the first alternative.

Existing studies on social capital in equity crowdfunding build on entrepreneurs' social (network) capital and limit their analysis to a single platform (e.g., [Vismara, 2016](#); [Lukkarinen et al., 2016](#)), base their results upon surveys and questionnaires (e.g., [Polzin et al., 2018](#)), or focus on where investors live (e.g., [Hervé et al., 2019](#); [Mohammadi and Shafi, 2020](#)). In contrast, we take an *investor-side* perspective and elaborate on actual investments in a whole market. Our conclusions shed light on how generalized trust and cultural traits affect an individual's investment decisions. To this end,

building on [Vismara \(2021\)](#), our research expands corporate finance studies to equity crowdfunding and improves our understanding of how investors make decisions in this context. This is very relevant, as equity crowdfunding has the potential to increase investors' inclusivity and democratization ([Butticè et al., 2022](#)). Our study might also provide interesting insights to platforms and entrepreneurs when planning their fundraising campaigns.

To alleviate endogeneity concerns, we rely on an epidemiological approach ([Guiso et al., 2004](#); [Fernández, 2011](#), for a review). We exploit movers in our sample to disentangle the effect of CSC from other environmental factors related to the place where an investor resides. This empirical strategy provides supportive evidence that unobservable characteristics of the investors' living place do not drive our results. Moreover, our results survive several other robustness exercises. First, we assess their validity in the context of a narrower definition of risky campaigns. Second, we perform subsample analyses based on characteristics at the campaign level that could potentially impact the results. Third, we ensure that the evidence is not driven by the economic disparity between different Italian provinces. Fourth, we control for geographical proximity between investors and ventures and the geographical distribution of ventures. Fifth, we repeat our analysis and replace our CSC index with each of its constituents. All results are consistently robust.

We organize the remainder of the article as follows. Section 2 reviews the social capital and equity crowdfunding literature, focusing on community-level social capital. Section 3 develops the testable research hypotheses. Section 4 describes our data and variables and presents the sample



descriptive statistics. Section 5 reports our empirical findings. Section 6 is devoted to robustness. Section 7 concludes.

## **2. Review of the literature**

### *2.1. Community-level social capital (CSC)*

Enclosing social capital in a unique definition is challenging. [Scrivens and Smith \(2013\)](#) and [Hasan et al. \(2020\)](#) identify four dimensions of social capital: (1) personal relationships, (2) social network support, (3) civic engagement, and (4) trust and cooperative norms. As [Lins et al. \(2017\)](#) clarify, the first two interpretations are frequently found in the sociology literature and stress the importance of networks in building social capital. The last two interpretations, viewing social capital as a resource that facilitates cooperation at the group, community, or societal level, are commonly used in finance and economics. In this paper, we follow this latter approach. We conceptualize community-level social capital (CSC) as the set of nonwritten norms, values, and beliefs that foster cooperation among individuals belonging to the same geographical area ([Guiso et al., 2004; 2008b](#)). Consequently, CSC is localized ([Laursen et al., 2012a](#)) and measured at the level of geographically linked administrative entities ([Laursen et al., 2012b](#)).

CSC operates as a societal monitoring system that incentivizes people to behave according to generalized norms of behavior ([Mistrulli and Vacca, 2015](#)). In this regard, CSC increases the cost of acting opportunistically and reduces agency costs ([Gupta et al., 2018; Hoi et al., 2019](#)). CSC has a

substantial impact on firms' and individuals' investing and financing decisions and improves financial development (Guiso et al., 2004; Javakhadze et al., 2016).

A critical facet of CSC is trust. In particular, social capital-facilitated "generalized trust" is the propensity of individuals to rely on others (Colquitt et al., 2007; Hasan et al., 2020). In a high social capital environment (e.g., province), individuals are more likely to cooperate, from both the economic (through local business relations) and the political (through civic engagement) perspectives. They are also more likely to anticipate cooperation rather than opportunistic behavior from the counterparty. In other words, individuals in high-CSC areas have higher generalized trust than their peers in low-CSC areas.

Unlike within-group trust, which acts as a substitute for financial contracts in the first place, generalized trust facilitates contractual relationships with agents outside the local community (Guiso et al., 2004). Therefore, generalized trust plays a crucial role in financial transactions characterized by high information asymmetry (Hasan et al., 2020). People in high-CSC areas hold more stocks and less cash than their peers in low-CSC areas, showing a preference for riskier investments (Guiso et al., 2004). Trust directly enhances individuals' and households' stock market participation and risk-taking (Guiso et al., 2008a). Hong et al. (2004, 2005) show that local social interactions also positively affect stock market participation. Bottazzi et al. (2016) examine the effect of trust in venture capital financing and show that trust positively predicts venture capital investment decisions and negatively correlates with successful exits. El-Attar and Porschke (2011) find that Spanish households with less trust invest more in housing and less in financial assets, particularly riskier assets.

Localized CSC is an environmental variable, i.e., a characteristic of a geographically bounded space that affects all actors sharing it. In this sense, cooperation-enhancing values, beliefs, and social norms embedded in social capital can be considered cultural traits (Guiso et al., 2008b; Tabellini, 2008; Guiso et al., 2015). According to Guiso et al. (2006), culture is defined as "*those customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation.*" In Guiso et al. (2008b), social capital is the "*set of beliefs and values [...] that facilitate cooperation among the members of a community.*" In other words, CSC is a "good culture" (Guiso et al., 2008b; Servaes and Tamayo, 2017). Consequently, people born in high-CSC areas are endowed with higher generalized trust, as stronger cooperative values and beliefs are stowed in their cultural makeup (Guiso et al., 2008b; Guiso et al., 2015; Servaes and Tamayo, 2017).

## 2.2. CSC and equity crowdfunding

Whether generalized trust, captured by inborn CSC, affects decision-making in equity crowdfunding is still unexplored. Unlike other forms of crowdfunding, equity crowdfunding is closer to traditional equity investing (Vismara, 2018, 2021). Nonfinancial motives are relatively unimportant, as backers primarily invest to achieve monetary returns (Cholakova and Clarysse, 2015). As in traditional equity investing, equity crowdfunding entails high risk and informational asymmetries (Giudici, 2015; Vismara, 2018; Block et al., 2021). In addition, the entrepreneur is usually a first-time one of low expertise and quality (Blaseg et al., 2021), the crowd is mainly composed of unsophisticated investors (Signori and Vismara, 2018), and due diligence is very heterogeneous across crowdfunding platforms (Cumming et al., 2019a). Overall, pledging to an equity crowdfunding campaign shows all the

characteristics of a trust-intensive activity ([Block et al., 2018](#)). Consequently, trust-related cultural traits are likely to be relevant in supporting investment decisions.

The existing equity crowdfunding research has focused primarily on how *demand-driven* factors (i.e., factors related to the entrepreneur or the new venture) might attenuate asymmetric information ([Ahlers et al., 2015](#); [Vismara, 2016](#); [Lukkarinen et al., 2016](#); [Lin and Pursiainen, 2022](#); among others). Consequently, it has exploited different interpretations of social capital (see [Cai et al., 2021](#), for a review). The *investor-side* perspective of equity crowdfunding is a more recent and less investigated stream of literature.

Among the existing studies, [Hervé et al. \(2019\)](#) show that population-based measures of social interaction where investors live influence their behavior, leading them to invest more. Income and education in an investor's place of residence explain the hypothetical bias, i.e., the discrepancy between investment intentions and actual investment behavior ([Cumming et al., 2020](#)). [Hervé and Schwiendbacher \(2018\)](#) document a round-number bias in investors' contributions. [Hervé et al. \(2019\)](#) also report gender-based differential risk aversion, as women invest less in equity and more in fixed-income crowdfunding. Women are also less subject to hypothetical bias ([Cumming et al., 2020](#)). In addition, female investors contribute less to high-technology firms and firms in which the proponent retains a lower equity share ([Mohammadi and Shafi, 2018](#)). More recently, [Giudici et al. \(2020\)](#) show that investors are more likely to support ventures whose board members have a similar age and reside in neighboring cities. The effect is enhanced if a venture's board members live in areas with

scarce civic responsibility and a low sense of citizenship. Finally, [Shafi and Mohammadi \(2020\)](#) report that risk-taking is affected by weather-induced moods, as larger pledges are placed on sunnier days.

To our knowledge, there is no exploration of how backers' CSC influences their choices. Our paper aims to fill this gap. We provide the first empirical evidence that generalized trust induced by higher CSC related to the area of origin enhances investment in trust-intensive activities. Our work is related to the literature on crowdfunders' characteristics and their investing behavior and, more generally, to both the recent academic work on culture and financial decisions ([Aggarwal et al., 2016](#); [Vismara, 2021](#)) and the debate on the changing landscape in entrepreneurial finance ([Block et al., 2018](#)).

### **3. Development of hypotheses**

In high-CSC areas, shared norms of reciprocity and cooperation are enhanced, and the creation of trust is facilitated ([Guiso et al., 2004, 2012](#); [Hasan et al., 2021](#)). In a high-CSC environment, individuals are more inclined to cooperate and anticipate cooperation from a counterparty, whether the counterparty belongs to the local community or not. Social capital-facilitated generalized trust affects transactions characterized by high information asymmetry ([Guiso et al., 2004, 2008a](#); [Hasan et al., 2020](#)).

Since we are interested in investigating the role of social capital as a part of a community's culture ([Guiso et al., 2008b](#); [Servaes and Tamayo, 2017](#)), our key variable is the CSC in the birthplace

of an investor. People born in high-CSC areas are endowed with stronger cooperative values and beliefs stowed in their cultural makeup (Guiso et al., 2008b; Tabellini, 2008; Guiso et al., 2015).

Both cross-country and within-country cultural differences impact economic behavior. Ichino and Maggi (2000) find that shirking can be explained by where the employee was born, i.e., in northern or southern Italy. Uslaner (2008) shows that the cultural foundations of trust (proxied by an individual's ethnic background) play a major role in explaining trusting behavior. More related to our study, trust significantly impacts individuals' investment decisions. Trusting individuals are more likely to participate in the stock market, buy risky assets, and invest more in such assets (Guiso et al., 2008a). Following this reasoning, Guiso et al. (2004) show that people born in high-CSC areas invest larger amounts in stocks and use checks more intensively.

In equity crowdfunding, the risk of fraud is perceived as substantial (Ziegler et al., 2019). Investors endowed with high CSC are expected to trust the entrepreneur initiating a campaign more. Overall, CSC should have a positive impact on the amount invested in equity crowdfunding. Accordingly, we formulate the following hypothesis.

**H1.** Community-level social capital (CSC) positively impacts the amount pledged to an equity crowdfunding campaign.

The equity crowdfunding literature consistently shows that backers are unsophisticated investors subject to asymmetric information and opportunism, and entrepreneurs usually have low technical and managerial expertise (Giudici, 2015; Vismara, 2016; Ziegler et al., 2019; Blaseg et al.,

2021). However, while participating in equity crowdfunding is a trust-intensive activity *per se*, firms initiating an equity crowdfunding campaign have very heterogeneous risk profiles. Mohammadi and Shafi (2018), among others, show that male and female investors discriminate between campaigns based on risk-related dimensions (i.e., the proponent firm's core business, opaqueness, and the entrepreneur's commitment). Hervé et al. (2019) find that the level of uncertainty embedded in different crowdfunding models (equity-like investment vs. bond-like investment) significantly impacts investors' willingness to pledge.

We argue that contributing to riskier equity crowdfunding campaigns requires, *ceteris paribus*, a higher stock of CSC, as it is a more trust-intensive investment. Therefore, we hypothesize an enhancing role of CSC on the amount that individual backers direct to riskier campaigns. Accordingly, we formulate the following hypothesis.

**H2.** The effect of community-level social capital (CSC) on the amount invested is stronger for riskier campaigns.

We focus on inborn CSC, as we aim to explore how investors' cultural makeup affects their choices. However, the characteristics of the living place also potentially affect investors' behavior. Hervé et al. (2019), Cumming et al. (2020), and Shafi and Mohammadi (2020) report that attributes of the place where the investor resides influence the amount pledged, the type of investment, and explain behavioral biases. More specifically, environmental-level social capital, i.e., CSC in the living place of an investor, might impact equity crowdfunding investment decisions similarly to traditional

investment decisions (Guiso et al., 2004). Hence, we also investigate the role of environment-level CSC in investors' propensity to pledge.

Cultural traits have been shown to be dominant determinants of an individual's investment behavior (Fernández, 2011). Their persistent impact is consistently acknowledged throughout the literature, and it generally survives once the environmental characteristics of the place where the economic decision is made are factored in (Fernández, 2011; Guiso et al., 2004). Focusing on the interplay between cultural and environmental traits, Uslaner (2008) and Ichino and Maggi (2000) point toward a dominant role of cultural over environmental variables. Building on the documented strength and persistence of culturally related values and beliefs, we hypothesize a dominant role of cultural-level CSC over environmental-level CSC on crowdfunders' investment choices. Therefore, we formulate the following hypothesis.

**H3.** The effect of community-level social capital (CSC) bounded to an investor's place of birth on the amount pledged, especially in riskier ventures, prevails over that of CSC in their place of living.

## **4. Data, variables, and descriptive statistics**

### *4.1. Equity crowdfunding*

The equity crowdfunding industry in Italy started at the end of 2012 when an *ad hoc* law (the so-called *Decreto Sviluppo*) was passed (Giudici et al., 2013). The first campaign raised capital in 2014, and up to 2015, only "innovative startups" were allowed to operate through authorized equity



crowdfunding platforms (Girauda et al., 2019). Afterward, the opportunity was also extended to "innovative SMEs."

We hand-collect data on all individual investments made in successful Italian equity crowdfunding campaigns initiated between 2014 and 2018. In this timespan, 223 successful campaigns were launched. We exclude 8 real estate projects because of their different characteristics in terms of duration and risk. We also exclude 23 campaigns funded through a mix of crowdfunding and other sources (such as right issues or private placements), as for these ventures, we cannot distinguish crowdfunders from regular shareholders. Finally, we drop 4 campaigns due to a lack of data on the proponent firm. We are left with 188 usable campaigns, spanning 12,161 investments. Approximately 93% (11,354) of these investments are made by individuals, and a minority (7%, i.e., 807 investments) are made by firms. We exclude pledges made by firms, and for the remaining 11,354 investments, we search for crowdfunders' information.

In Italy, the list of shareholders in limited liability companies is publicly available through the Business Register (*Registro delle Imprese*), a public register held by the local (mostly provincial) chambers of commerce. Hence, we unambiguously identify all shareholders through their tax codes and link each investment to the investor's personal characteristics. In particular, we gather the investor's gender, age, place of birth, and place of residence. The place of residence is present in the Business Register for a subsample of approximately three-quarters of all investments in our sample. We exclude investments made by individuals born outside Italy's borders (352 investments out of 11,354), as we focus on within-country variation in CSC. In this last step, we drop 3 campaigns. Our

final sample is composed of 11,002 usable investments belonging to 185 successful campaigns on 13 equity crowdfunding platforms. We integrate this dataset with data on the issuer's profitability from Bureau Van Dijk AIDA.

To our knowledge, this dataset is one of the largest and most complete equity crowdfunding samples ever analyzed at a country level. Since we cover all equity crowdfunding platforms in Italy, our analysis should not be affected by potential biases from unobserved investors' preferences for using different platforms. Unfortunately, we do not possess information on investment bids submitted to unsuccessful campaigns, as the failed status implies that pledgers are not shareholders. However, the weight of such campaigns is minor in terms of the number of investments and the money committed ([Giudici et al., 2020](#)).<sup>1</sup>

PLEASE INSERT TABLE 1 ABOUT HERE

The temporal distribution of the campaigns and investments in our sample is reported in Table

1. Panel A shows that the majority of the campaigns raised money in 2018 (100 ventures out of 185),

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<sup>1</sup> Unsuccessful campaigns attract a significantly smaller number of investors. There were 92 unsuccessful equity crowdfunding campaigns in Italy initiated between 2014 and 2018. We do not know who the pledgers were (or whether they were individual investors or firms), but these campaigns were supported by 11 pledges, on average, against 65 (= 12,161/188) for successful campaigns. Moreover, pledges to unsuccessful campaigns can be placed only to attract other investors and might be withdrawn strategically before the end of the campaign ([Meoli and Vismara, 2021](#)). Therefore, using pledges to unsuccessful campaigns leads to the risk of considering pledges that would never become real.

and the number increased over time. This pattern is consistent with the relatively recent emergence of the crowdfunding phenomenon and the positive annual growth rate observed across different crowdfunding models and platforms (see [Ziegler et al., 2019](#), and [Rau, 2020](#), for an overview of the evolution of the European and worldwide crowdfunding markets, respectively). The total money raised was approximately €51 m (the mean value in a single campaign was €278k, and the median value was slightly less than €200k). In comparison, the mean pre-money valuation of the issuing company was €4.7 m (median value of approximately €2 m).

A total of 11,002 investments contributed to the success of the 185 campaigns (Table 1, Panel B), resulting in approximately 59 (= 11,002/185) investments per campaign, on average. Excluding the last year in our sample, we also observe an increasing trend in the average number of investments per campaign. We register, on average, 25 investments in 2014 (= 124/5), 30 in 2015 (= 269/9), 43 in 2016 (= 1,025/24), 74 in 2017 (= 3,496/47), and 61 in 2018 (= 6,088/100). The average amount pledged was approximately €3,170 (the median was €750).

#### *4.2. Community-level social capital*

We measure CSC at the provincial level (corresponding to the NUTS-3 regions in the Eurostat classification), as is common in the literature ([Guiso et al., 2004](#); [Guiso et al., 2008](#); [Giudici et al., 2018](#)). Provincial (rather than the much broader regional) borders are more likely to characterize communities sharing norms and values.

The measurement of social capital is a central issue. We adopt a broad measurement strategy to acknowledge the many dimensions of social capital at the local level ([Rupasingha et al., 2006](#)). More specifically, we follow previous work on localized social capital and crowdfunding in the Italian context ([Giudici et al., 2018](#)). We employ provincial-level (a) voter turnout (*Turnout*), (b) waste recycling (*Waste*), (c) number of nonprofit organizations (*Nonprofit*), (d) number of volunteers (*Volunteers*), and (e) people satisfied with their relationship with others (*Satisfaction*) as proxies for CSC.<sup>2</sup> All variables are drawn from the Italian National Statistics Bureau (ISTAT) and the Italian Ministry of the Interior.

We collect voter turnout in the 2013 National Parliamentary election, the most recent general election before the start of our sample period. We retrieve the waste recycling rate in 2003. We choose 2003, as the legal obligation to sort waste was implemented in Italy after 2003. Hence, waste sorting in 2003 was driven by unwritten norms and social pressures on leaving a better planet for future generations rather than a legal obligation ([Galardo et al., 2019](#)).<sup>3</sup> *Turnout* and *Waste* capture citizens' trust in institutions, as they involve norms and values responsible for civic engagement and cooperation with fellow citizens ([Putnam, 1993](#); [Giudici et al., 2018](#)).

Then, we collect the number of nonprofit organizations and the number of volunteers. Nonprofit involvement and volunteering are correlated with civic-mindedness ([Hasan et al., 2021](#)).

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<sup>2</sup> Table A1 in the appendix provides a detailed description of the proxies and how they are constructed, along with the data source.

<sup>3</sup> We weight 2003 waste recycling by the share of the population in each province that was actually covered by sorted waste collection services, as in [Galardo et al. \(2019\)](#).

Such involvement provides multiple opportunities to interact with people outside one's social circle and facilitates the creation of generalized trust (Larsen et al., 2012a; Hasan et al., 2020) by encouraging solidarity, reciprocity, and cooperation with strangers (Putnam, 1993; Rupasingha et al., 2006). Finally, we include the share of people satisfied with friendship relationships. This variable captures trust creation through friendship and socialization outside the working environment (Larsen et al., 2012; Giudici et al., 2018). These three proxies (*Nonprofit*, *Volunteers*, and *Satisfaction*) capture voluntary participation in social associations and prosocial behavior, which are crucial to building trust and improving cooperation within geographically bounded communities (Rupasingha et al., 2006; Laursen et al., 2012a).

Except for *Turnout* (2013) and *Waste* (2003), the other three variables are measured in 2011, when the Italian Statistical Agency (ISTAT) conducted three large-scope censuses (the Agriculture Census, the Population Census, and the Industry and Services Census). This is unlikely to be a problem for our analysis, as social norms are characterized by temporal stickiness due to their lengthy accumulation through intergenerational transmission (Guiso et al., 2012; Jha, 2019). In our multivariate analysis, we control for a large set of provincial-level variables, also from the ISTAT.

We extract the principal components from *Turnout*, *Waste*, *No-profit*, *Volunteers*, and *Satisfaction*. The first component is the only one with an eigenvalue greater than 1 (= 1.85), explaining approximately 70% of the total variance. We use the first component as our provincial-level measure

of social capital (CSC).<sup>4</sup> Table A1 in the Appendix provides factor loadings for the five proxies and shows that they are all positively and highly correlated with CSC. The provincial distribution of CSC by quintiles is mapped in Figure 1.<sup>5</sup>

PLEASE INSERT FIGURE 1 ABOUT HERE

Higher CSC is concentrated in the northern part of the country, as is commonly found in Italy (Guiso et al., 2004). Red dots in Figure 1A (1B) highlight provinces above the median (in the upper decile) by CSC. We will turn to this visual inspection in the robustness section later in the paper, where we will repeat our investigations excluding high-CSC areas.

#### *4.3. Descriptive statistics*

The descriptive statistics of the variables in our sample are reported in Table 2. Variables can be categorized according to three sets of information: characteristics of the investments, attributes of the campaign, and CSC and territorial controls at the province level.

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<sup>4</sup> In the robustness section later in the paper, we also use each of these five variables in isolation. In spite of an expected lower statistical significance, this exercise shows that the main results of the paper continue to hold.

<sup>5</sup> Figure A1 in the Appendix shows the provincial distribution for each of the five proxies.

PLEASE INSERT TABLE 2 ABOUT HERE

The descriptive statistics of the 11,002 investments are reported in the upper part of Table 2. Other than the amount invested, also reported in Table 1, we note that less than 10% of total pledges are submitted by female investors, and the average (median) age of investors across all investments is 43 (42). Sociodemographic characteristics of investors, such as gender and age, are known to affect their investment behavior (Hervé et al., 2019; Mohammadi and Shafi, 2018); hence, we later control for such attributes. We employ the region in which the investor was born to build three dummy variables, i.e., *North*, *Centre*, and *South and islands*. Since the geographical distribution of CSC is highly correlated with the Italian North-South divide (see Figure 1), we wish to control for differences between people born in the different macro-areas of the country. As expected, investments are unevenly distributed across the three macro-areas. Investors born in the Northern (and richer) part contribute to 64% of the bids within our sample, against 15% and 21% for *Centre* and *South and islands*, respectively.

We build the same three dummy variables as above, i.e., *North*, *Centre*, and *South and Islands*, but referring to where the investor resides. Later, in our multivariate analysis, we will disentangle the role of CSC where an investor lives from that of inborn CSC. We cannot retrieve information on the investor's residence from the Business Register for approximately one-fourth of the sample. Hence, variables requiring this information are limited to 8,459 investments (out of 11,002). Investors living in Northern Italy contribute to 71% of the bids in our sample (against 64% for individuals born in

Northern Italy). This figure reflects a common internal migration pattern from the South to the Northern part of Italy due to acknowledged macroregional disparities between these two areas (Ichino and Maggi, 2000). We construct two dummy variables that take the value of 1 if the province of birth (or residence) of the investor coincides with the province where the funded firm is incorporated. *Local home bias (birth and residence)* should control for the propensity of crowdfunders to invest in geographically closer projects. These variables also control for the potential effect of within-community (within group) trust, rather than generalized (across groups) trust, on the amount invested. Only 14% (17%) of the investments are made by backers born (living) in the same province where the firm is located. *First investment* is an indicator variable identifying each investor's first (chronological) investment within our sample period. As in Hervé and Schwiabacher (2018), it captures potential investors' inexperience when pledging for the first time. Finally, *Mover* detects investors living in a province other than that in which they were born (34% of the investments in our sample are made by such investors).

The second group of variables characterizes equity crowdfunding campaigns. Backers in equity crowdfunding are generally nonprofessional and lack the expertise to assess a firm's performance and value (Wilson and Testoni, 2014; Signori and Vismara, 2018). An investment's riskiness is likely weighed through rule of thumb and high-level reading of intuitive and easy-to-gather information. Additionally, many firms in equity crowdfunding have no detailed records of financial information. Based on this evidence, we build two measures of a campaign's riskiness that are readily available and easily understandable by less-refined investors.



First, we identify campaigns belonging to Fintech, Biotech/Pharma/Lifescience, or Hi-Tech/IT/Communication categories. Technological firms are riskier than firms operating in traditional sectors due to the uncertain nature of their operations (Mohammadi and Shafi, 2018). The dummy variable *Tech* detects such campaigns. *Tech* proxies for business risk, and it is easily understandable by relatively unsophisticated investors. Second, we identify investments in firms reporting a negative net income in the year before the campaign or in the year in which the campaign starts. The dummy *Unprofitable* exploits the evidence that investors exhibit a threshold mentality, perceiving continuous data in discrete form (Degeorge et al., 1999). Investors (especially naïve ones) base their investments on rules of thumb and display a "negativity bias," being more averse to losses (Degeorge et al., 1999). *Unprofitable* signals a negative past or current profitability and should detect financial risk.<sup>6</sup> As Table 2 shows, almost 37% of the campaigns in our sample are referred to as technological firms, and 7 firms out of 10 are unprofitable.

Equity crowdfunding is a financing channel for seed and innovative firms, and focusing on only one of the two variables at a time might not fully capture the campaign's riskiness. We also construct a *High risk* indicator, i.e., the intersection of the two variables above. In other words, *High risk* equals one when both business (industry) and financial (profitability) risk are high (i.e., *Tech* and *Unprofitable* are jointly equal to 1). Table 2 shows that approximately one-fourth of the campaigns in our sample are classified as high risk.

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<sup>6</sup> We recognize that for some firms (e.g., newly established ventures), information on profitability might not be accessible when the campaign is launched. We discuss this matter later in the paper, and we check the robustness of our results to a more restrictive definition of *Unprofitable*.

We control for firms launching multiple equity crowdfunding campaigns with a *Follow-on* variable taking the value of 1 if the campaign is a second-round (or above) equity issuance. Table 2 shows that 7% of the campaigns (13 out of 185) are follow-on rounds. We also construct two dummies (*Soft cap* and *Hard cap*) to detect campaign-specific clauses that may be important in explaining their funding. *Soft cap* identifies campaigns requiring a minimum amount to be successful and canceled if this threshold is not reached. *Hard cap* controls for highly successful campaigns ending before the scheduled end date, thus preventing additional investments from being made. Table 2 shows that almost all the campaigns have a soft cap, and approximately one-quarter of them have a hard cap.

For the third group of variables, we report the descriptive statistics of our CSC index, each of the CSC proxies, and provincial-level controls. Control variables account for characteristics of Italian provinces that may influence an individual's propensity to invest (Guiso et al., 2004). They also control for the effects of economic development, infrastructure, and labor market quality (Hoi et al., 2019). Table 2 shows that the average *Population density* is approximately 270 inhabitants per square kilometer, with sizeable cross-province variation (the minimum value is 36, and the maximum is 2,631). Since we cannot directly observe an investor's wealth, we use *Household income* as a proxy, as in Hervé et al. (2019). The average annual net income is approximately €30k. The average investment in our sample is located in a province with 545 bank branches and a GDP per capita of approximately €25k. Finally, approximately 10% of the population reached higher education. As for the previous variables, significant cross-province variation is present.

## 5. Empirical results

### 5.1. Univariate analysis

We now provide the first univariate evidence on the role played by CSC in investment choices. Table 3 partitions the whole sample of 11,002 investments into two subsamples, i.e., investments made by investors born in provinces with a CSC score above and below the median in our sample.<sup>7</sup> The average value of investment-related variables is shown, along with their difference and statistical significance.

PLEASE INSERT TABLE 3 ABOUT HERE

The first piece of evidence is that the average amount pledged by investors endowed with higher-than-median CSC is slightly larger (€3.4k v. €3.0k), but the €0.4k difference is insignificant (t-statistic = 1.34). Likewise, both *Tech* and *Unprofitable* are similar in the two subsamples, and the same holds for *High risk*. Overall, there is no statistically significant (univariate) evidence of CSC affecting the amount invested or the type of firm when the two dimensions are separately considered.

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<sup>7</sup> The number of observations is not exactly the same in each of the two subsamples, as CSC is defined at the provincial level, and all investments made by investors born in the same province share the same level of CSC.

Next, we examine whether CSC discriminates between the amount invested in ventures characterized by higher riskiness; i.e., we jointly consider *Amount invested* and each risk dimension. The evidence is very different. Table 3 reports that the average investment pledged to *Tech* ventures by backers endowed with high CSC is much larger than the corresponding amount pledged by backers with low CSC (€4.0k v. €3.1k). The €0.9k difference is statistically and economically significant. When we look at the complementary subsample, i.e., the amount pledged to nontech ventures, we find that the €0.1k average difference is not distinguishable from zero. The evidence when considering *Unprofitable* is similar (the average pledge to unprofitable ventures is €3.5k when considering investors endowed with high CSC and €3.0k for the complementary subset). However, in this case, the €0.5k difference is not statistically significant (t-statistic = 1.21). Finally, when the two variables are jointly considered (*High risk*), investors with high CSC contribute on average €4.2k, against €2.9 for investors with low CSC. The €1.3k difference is significant at the 1% level and sizeable, representing approximately 40% of the €3.2k average pledge in our sample (from Table 2). This might signify that CSC has no wealth effect by itself, but investors with higher CSC pledge higher sums to riskier ventures. This evidence would be in line with H2, as a higher stock of CSC leads to greater contributions to riskier ventures.

For the other variables of Table 3, there is no difference between investors with high vs. low CSC in terms of gender (*Female*). *Age* is statistically but not economically significant (the average age of investors in the two subsamples is very close, i.e., 43.9 v. 42.4 years). When we look at the three geographic dummies (considering both the province of birth and the province of living), differences

are significant. Such evidence is expected, as it aligns with what was already noted by [Putnam \(1993\)](#) and with previous works on CSC ([Guiso et al., 2004](#); [Guiso et al., 2012](#)). The variable *Local home bias* (birth) shows a slight difference between the two subsamples, i.e., 11% of the investments made by high-CSC investors are directed to firms located within the same province of birth, compared to 16% for low-CSC investors. Finally, movers are more present in the low-CSC subsample, in line with the evidence on internal migration flows from Southern to Northern Italy.

Table 4 reports the pairwise correlation coefficients between our variables (figures in bold indicate statistical significance at the 1% level).

PLEASE INSERT TABLE 4 ABOUT HERE

It is worth mentioning the high and significant correlation between CSC and geographic dummies, i.e., 69% with *North, birth*, and -82% with *South and islands, birth*. Again, this is consistent with previous studies reporting similar correlations between CSC and geographical macroindicators ([Guiso et al., 2004](#)). For this reason, in the multivariate setting, we will augment all regressions with North-South indicators and territorial controls. The correlation between *Log amount invested* and *CSC* is low, and so is the correlation between *Tech*, *Unprofitable*, and *High risk* on the one side, and *CSC* on the other. Only the correlation between *CSC* and *Tech* is significant. This is in line with the evidence

that CSC has a weak role or no role in explaining the amount invested and the type of venture when separately considered. In what follows, we formally test our hypotheses in a multivariate setting.

## *5.2. Multivariate analysis*

To test our hypotheses, we proceed as follows. We run cross-sectional linear regressions, where our dependent variable is the logarithm of the amount invested for all investments in our sample. Our covariates include the same set of variables as in Table 2, i.e., CSC, investment-related variables, campaign-related variables, and territorial controls. We also control for unobservable factors affecting the amount invested through the platform and time fixed effects. We cluster the standard errors at the same level as the community-level CSC, i.e., at the provincial level.

### *5.2.1. Community-level social capital and amount invested*

To test our first hypothesis, we regress the logarithm of the amount invested on the investor's CSC and controls. According to our theoretical discussion, a positive and significant coefficient of CSC indicates a positive impact of CSC on the amount invested. Model 1 in Table 5 reports the results of this analysis.

PLEASE INSERT TABLE 5 ABOUT HERE

The variable of interest is *CSC*. We control for *Female*, *Age*, North-South indicators at the level of an investor's place of birth, *Local home bias*, *First investment*, and the presence of *Soft cap* and *Hard cap*. We also include *Log population density*, *Log household income*, a proxy for the quality of the local financial sector (*Log Number of bank branches*), *Log GDP per capita*, and *Education*.

Model 1 shows that the *CSC* index is insignificant in explaining the amount invested. In line with the univariate evidence, we do not find support for the role of *CSC* in increasing the amount pledged to equity crowdfunding campaigns. As for the control variables, *Age* positively affects the amount invested, likely capturing wealth effects at the investor level. People born in Northern Italy invest higher amounts than investors born in the Centre or South of the country. This is not surprising, as the North of Italy is richer and more economically developed, and investors born there are more likely wealthier. *Follow-on* is positive and statistically significant, meaning that campaigns in their second (or later) round attract larger investments.<sup>8</sup> *First investment* is also positive, meaning that first-time pledges are significantly higher than contributions made after some experience is accumulated.<sup>9</sup> Finally, *Hard cap* is also positive, as campaigns reaching a given threshold are the most successful. One may argue that such campaigns are somewhat different in terms of the investors' characteristics, as they no longer accept pledges once the cap is reached. For robustness, later in the paper, we rerun all our regressions excluding such campaigns.

### 5.2.2. Community-level social capital, amount invested, and campaign riskiness

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<sup>8</sup> All results hold unchanged excluding follow-on campaigns.

<sup>9</sup> We repeat our regressions in the subsample of first pledgers. All results continue to hold.

We now turn to analyze the role of CSC in the amount pledged to different campaigns depending on their riskiness. We regress the logarithm of the amount pledged on our measure of CSC, alone and interacted with the variables characterizing a campaign's riskiness, i.e., *Tech* and *Unprofitable*. We also jointly consider high-risk campaigns, i.e., ventures operating in the tech industry and not yet profitable (*High risk*). The results of this analysis are reported in Models 2 to 8 of Table 5.

Model 2 includes *CSC* and *Tech*, and Model 3 augments Model 2 with their interaction. Models 4 and 5 follow the same logic but explore the role of *Unprofitable*. Model 6 combines both risk variables (*Tech* and *Unprofitable*) and their interactions with *CSC*. Finally, Models 7 and 8 use *High risk* and show the effect of its interaction with *CSC*.

*CSC* alone is insignificant in all models. Additionally, riskier ventures attract more capital per single investment, on average. This is evident from the positive and significant coefficient of *Tech* in Model 2, *Unprofitable* in Model 4, and the combined effect of both variables in Model 7. In particular, individual pledges to high-tech firms are 12% larger ( $= \exp(.109) - 1$ ) in Model 2. The same figure is approximately 15% when considering *Unprofitable* ( $= \exp(.142) - 1$ ) in Model 4. The combined figure for *High risk* campaigns is 29% ( $= \exp(.255 + .227 - .227) - 1$ ), as in Model 7. Considering the sample mean of *Amount invested* (approximately €3,170, as in Table 2), this means a €920 higher pledge directed to high-risk campaigns, after controlling for other covariates.

We now turn to the interaction between risk attributes and *CSC*. This interaction is positive and strongly significant in Model 3 (considering *Tech*) and in Model 5 (considering *Unprofitable*). The



two interacted effects combine with one another and survive in Model 6. Interestingly, when looking at the interaction between high-risk campaigns and CSC (Model 8), the coefficient is still positive and strongly significant. This means that CSC positively impacts the amount pledged to campaigns with a more uncertain outcome. A one standard deviation change in CSC (= 1.9, as in Table 2) yields a 13% increase ( $= \exp(1.9 \times 0.0623) - 1$ ) in the amount pledged to high-risk campaigns (Model 8). Relative to the average amount invested (€3,170, Table 2), this means approximately €400. The same figure increases to 20% (almost one-fifth of the average amount pledged, i.e., approximately €600) if we consider an interquartile range increase in CSC (= 2.7, Table 2). This evidence confirms that the economic impact of CSC is also relevant. This multivariate evidence follows our previous univariate results and is in line with our second hypothesis.

### 5.2.3. Community-level social capital in the province of birth and residence

CSC and other institutions where an investor lives might impact investment decisions. We now aim to investigate this aspect and study the influence of CSC where the investor lives on the amount pledged. We proceed as follows and test H3 in two steps.

First, we repeat our previous analysis for H1 and H2 and replace the CSC measure (i.e., localized social capital where the investor was born) with CSC in an investor's residence (Table 6). Second, we regress the amount pledged to equity crowdfunding campaigns on both CSC variables, i.e., at the level of the province of birth and the province of residence (Table 7). In so doing, we disentangle the individual contributions of these two CSC variables. To carry out these empirical

investigations, we will rely on a sample of approximately 8.5k investments (against 11k investments in our full sample), as for about one-fourth of the investments, the Business Register does not report information on an investor's place of living.

PLEASE INSERT TABLE 6 ABOUT HERE

Table 6 is similar to Table 5 but includes *CSC* at the level of an investor's province of residence rather than in the province of birth. The same geographic localization is applied to all control variables, including provincial-level controls, which are now measured at the level of an investor's place of living. *CSC* is still insignificant *per se* and significant when interacted with the variables measuring a campaign's riskiness. However, and interestingly, the intensity of the statistical significance is weaker. *Tech x CSC* is positive and significant at only the 10% level, and *Unprofitable x CSC* is insignificant. Finally, the product between *CSC* and *High risk* is significant at the 5% level. As Table 2 shows, in approximately two-thirds of the investments, there is no difference between an investor's province of birth and province of living (the average of the dummy *Mover* is 34%). Therefore, while the results in Table 6 resemble those of Table 5, the weaker significance of the coefficients leads to a first support of H3, as inborn *CSC* seems to be a more important determinant than its environmental counterpart.

To shed more light on the individual contributions of these two CSC variables in explaining the amount invested, we now include both as regressors. We also include a *Mover* dummy and all provincial-level control variables, i.e., localized at the level of both birth and residence places. The results are reported in Table 7 (we suppress the visualization of all control variables for brevity and better readability).

PLEASE INSERT TABLE 7 ABOUT HERE

Compared to the previous tables, three comments are in order. First, CSC alone is insignificant, regardless of whether we localize it at the level of the province of birth or residence. Second, when interacting CSC with risk variables, only inborn CSC maintains its significance, while CSC in the living place is never significant. This is evident in Model 3 for *Tech*, in Model 5 for *Unprofitable*, and in Model 8 for *High risk*. This result is noteworthy, as it confirms that the cultural dimension of CSC dominates the environmental dimension in explaining backers' behavior. Third, the dummy *Mover* is always insignificant. Movers are no different than individuals born and residing in the same province with regard to the amount invested in equity crowdfunding campaigns. Taken together, this evidence supports our third hypothesis, i.e., the notion that cooperative norms and beliefs linked to the place of birth remain ingrained in individuals' minds, similar to other dimensions of cultural heritage ([Guiso](#)

[et al., 2012](#)), and affect their decisions regardless of the characteristics of the place in which such decisions are made.<sup>10</sup>

#### 5.2.4. Movers

The evidence hitherto discussed strongly points toward a relevant role of the investor's inborn CSC. However, possessing information on both the place of birth and the location of residence of an investor allows us to exploit movers in our sample and weaken endogeneity concerns. Movers also reinforce the conclusion on the prevalence of inborn over environmental CSC.

To confirm our baseline results for H1 and H2 in Table 5, we follow an "epidemiological approach" ([Fernández, 2011](#)), previously used in the literature on culture and economic outcomes by [Ichino and Maggi \(2000\)](#), [Guiso et al. \(2004\)](#), and [Fernández and Fogli \(2009\)](#), among others. Consideration of investors who no longer live where they were born allows us to control for the institutional environment shared by investors living in the same province ([Guiso et al., 2015](#)). In other words, movers permit the addition of province-of-residence fixed effects in all regressions.

Province-of-residence fixed effects control for all unobservables in an investor's area of residence that might affect the amount invested (e.g., the formal and informal institutional environment). This is a relevant exercise aimed at reducing endogeneity concerns, as unobservables at the provincial level with explanatory power for both the economic and industrial development of

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<sup>10</sup> In untabulated results, we repeat the analysis in Table 7 only for a subsample of 2,246 investments made by movers. The results continue to hold and are available upon request.

Italian provinces and their community-level social capital are subsumed in the province-of-residence fixed effects. We include these effects in Panel A of Table 8, where we repeat the analysis as in Table 5, and we add the dummy *Mover*. As before, we use heteroscedasticity-robust standard errors clustered at the level of the province of birth. All other variables are unchanged.

PLEASE INSERT TABLE 8 ABOUT HERE

Panel A of Table 8 shows that the results are robust and mostly unchanged. This evidence confirms that CSC plays an important role in explaining risky investment choices. This effect persists after controlling for province-of-residence fixed effects, i.e., the impact of formal and informal institutions in the place of residence and any indirect wealth effect associated with living in a richer and more economically developed province.

In Panel B of Table 8, we leverage on movers to further confirm the prevalence of cultural-level CSC over environmental-level CSC. We follow [Guiso et al. \(2004\)](#), and we replace the CSC variable with three distinct ones, i.e., (a) CSC of birth and (b) CSC of residence for investors who moved across provinces and (c) CSC of birth for nonmovers (identical to CSC of residence for these investors). The results in Panel B of Table 8 clearly show that CSC of birth prevails over CSC of residence in explaining the amount invested in riskier ventures. Focusing on movers, only the former is strongly significant, while the latter is insignificant in all specifications. This evidence consistently

confirms the importance of the cultural inherited trait rather than the environmental dimension of CSC in explaining investors' behavior.

## 6. Robustness

We now carry out a set of robustness exercises to validate our results. First, we ensure that our results are robust to a narrower definition of *Unprofitable*. Second, we exclude campaigns endowed with a hard cap provision and control for potential confounders due to highly successful campaigns. Third, we ensure that our results are not driven by economic disparities among Italian provinces. Fourth, we control for geographical proximity between investors and ventures and ventures' geographical distribution. Last, we replace the CSC index with each of its constituents.

### 6.1. Unprofitable as a risk measure

Our sample is composed of successful campaigns launched by Italian limited liability companies. These firms are required by law to file several documents (including statutes, financial statements, and all shareholders) with the Business Register, a public register accessible to everyone. However, no profit and loss account is available in the short run if a firm is newly established. *Unprofitable* cannot be *ex ante* defined in such a case. We acknowledge this limitation of our *Unprofitable* dummy, and to support the validity of our results, we proceed as follows.

We check in our dataset whether the webpage of the crowdfunding campaign reports bottom-line profits (even preliminary and not yet filed) on the firm seeking funding. We flag campaigns for which there is no such information on the webpage and in the public Business Register. We exclude

these campaigns from our sample and repeat the paper's main analyses. Panel A of Table 9 is the equivalent of Table 5 (CSC of birth), and Panel B of Table 9 replicates Table 7 (CSC of birth and residence). We report only the relevant covariates for better readability. Approximately 12% and 13% of the observations are dropped from the samples in Panel A and Panel B, respectively, but the results remain robust.

PLEASE INSERT TABLE 9 ABOUT HERE

## *6.2. Campaign-level checks*

A caveat in interpreting our results is that the presence of a hard cap provision might self-select the investments in our sample. Table 2 shows that approximately one-quarter of the campaigns have a hard cap. These campaigns end ahead of time, as soon as the target equity capital is reached. This provision may endogenously exclude potential investors who are willing to pledge but are precluded from investing due to the unexpected end of the collection period. While unlikely, we cannot rule out the possibility that our results are affected by such selection bias. To alleviate this concern, in Panel A of Table 10, we repeat our main analysis excluding campaigns with a hard cap. The results are robust despite the lower number of observations (7,896 versus 11,002, as in Table 5). All variables maintain their sign, significance, and magnitude. This also means that a potential selection bias is hardly an issue in our setting.

PLEASE INSERT TABLE 10 ABOUT HERE

We also acknowledge that CSC might be less important in explaining the amount pledged to very successful campaigns. Instead, the hype generated by such campaigns may be an important determinant of their success. Following this concern, we repeat our investigation excluding the first, fifth, and tenth upper percentiles of the cross-sectional distribution of the campaigns by amount raised. We present our results in Panel B of Table 10. Models 1 and 2 exclude the first percentile (2 campaigns), Models 3 and 4 exclude the first five percentiles (10 campaigns), and Models 5 and 6 exclude the first ten percentiles (18 campaigns). The results are mostly unchanged. Our results are also robust if we progressively exclude the first, fifth, and tenth lower percentiles of the cross-sectional distribution of the campaigns by their duration (in days), as campaigns that terminate rapidly can also be considered more successful. We do not tabulate these results for brevity.

### *6.3 Geographical subsamples*

Figure 1 shows a high concentration of CSC in some areas. No provinces in Southern Italy had a CSC score above the median (Figure 1A). Additionally, the first quartile of CSC is concentrated in the North, with many provinces in the Northeast. In our analysis, we use a rich set of provincial controls, but we cannot completely rule out the possibility that our results are driven by confounders, such as wealth, correlated with the regional distribution of CSC. We now repeat the main analysis



progressively excluding investments made by pledgers born in provinces belonging to the highest decile, quartile, and 50th percentile of the cross-sectional distribution (by province) of CSC. The results reported in Panel A of Table 11 are qualitatively robust. It seems improbable that such confounders drive the evidence in Table 5.

PLEASE INSERT TABLE 11 ABOUT HERE

We further analyze this issue with three additional checks (Table 11, Panel B). First, we exclude investments made by investors born in Lombardy, the first Italian region by per capita GDP and the most industrialized (by number of active firms, source: ISTAT). Investments made by pledgers born in Lombardy account for approximately 28% of our sample. We repeat the regressions in this subsample (Models 1 and 2 of Panel B, Table 11). The results confirm that our conclusions are unlikely to be driven by wealth and economic development.

In a second related and more drastic check (Models 3 and 4 of Panel B, Table 11), we exclude the top three Italian regions by per capita GDP. CSC and per capita GDP are positively but not perfectly correlated (in our sample, their correlation is approximately 50%, unreported). In addition to Lombardy, we drop investments made by pledgers born in Lazio (where the Italian capital, Rome, is located) and Veneto (in the northeast of the country). Lombardy, Lazio, and Veneto are also the first three regions by the number of active firms, as economic and industrial development are highly

correlated. This is a drastic exercise, as all these investments account for approximately 43% of our sample. However, our previous conclusions hold.

Finally, we drop investments made by pledgers born in the three regions contributing more to equity crowdfunding (by the number of investments), i.e., Lombardy, Piedmont, and Emilia-Romagna. We are left with approximately half of the original sample. The results (Models 5 and 6 of Panel B, Table 11) are robust and confirm that our conclusions do not depend on the concentration of pledgers born in these regions.

#### 6.4. *Venture location*

We previously controlled for the propensity of crowdfunders to invest in geographically closer projects through *Local home bias*, a dummy tracking investors born (residing) in the same province as the funded venture. This provincial-level variable is consistent with our geographical definition of CSC and allows us to control for within-community preferences potentially affecting our results. However, we now repeat our regressions replacing *Local home bias* with *Geographical proximity*, i.e., the inverse of the square root of the minimum linear distance between each investor's municipality of birth and the venture's exact address (Giudici et al., 2020). *Geographical proximity* is a continuous measure of geographical proximity between investors and ventures. Models 1 and 2 of Table 12 show that the evidence is robust. *Geographical proximity* (as it previously was for *Local home bias*) is statistically insignificant.

PLEASE INSERT TABLE 12 ABOUT HERE

The Italian North-South divide correlates not only with the distribution of CSC across provinces but also with the geographic distribution of ventures. Approximately two-thirds of our campaigns are initiated by firms located in Northern Italy, while the rest are equally split between Central and Southern Italy (including islands). It may be argued that campaigns launched by firms located in the South are different (for instance, riskier) than those launched by firms located in Northern and Central Italy. It may also be argued that our results are partially driven by the interaction between the CSC of the investor and the CSC of the venture. To control for this, in Table 12, we repeat our analysis replacing the variable *Local home bias* with macroregional fixed effects (Models 3 and 4) and fixed effects at the level of the province in which the firm is headquartered (Models 5 and 6). All results are unchanged. In particular, the last two specifications are very restrictive. They lessen the concern that our results are driven by formal and informal institutions in the province where the entrepreneur is located, also comprising their CSC.

#### *6.5. Community-level social capital constituents*

In a final robustness exercise, we replace the CSC index with its constituents, as described in Section 4.2. Each of the five models in Table 13 uses a single CSC variable, i.e., voter turnout (Model 1), waste recycling (Model 2), number of nonprofit organizations (Model 3), number of volunteers (Model 4), and satisfaction with relationships with others (Model 5). The magnitude of the

coefficients in Table 12 is affected by the different units of measure of these variables. However, the results are qualitatively robust, and the economic interpretation is unchanged.

PLEASE INSERT TABLE 13 ABOUT HERE

## 7. Conclusion

Equity crowdfunding is a viable and widespread financing alternative for early-stage firms around the globe. It represents a means of democratization in entrepreneurial finance, as it is available to traditionally underrepresented and financially constrained categories of entrepreneurs (Cumming et al., 2021; Butticiè and Vismara, 2022). However, equity crowdfunding is risky. Backers are generally unsophisticated, largely exposed to asymmetric information, a low expertise and quality of entrepreneurs, and opportunism (Giudici, 2015; Vismara, 2016, Blaseg et al., 2021; Ziegler et al., 2019). Investing in equity crowdfunding is even riskier than traditional early-stage financing, such as business angels and venture capitalists, because of the low contractual power of pledgers (Block et al., 2018).

Equity crowdfunding is an ideal laboratory to explore the role of trust-related cultural traits linked to CSC as factors influencing investment choices. We rely on a novel, hand-collected sample of all investments pledged to successful Italian equity crowdfunding campaigns initiated between 2014

and 2018, and we investigate the role of CSC in shaping individual investment decisions in a highly uncertain context. Unlike previous studies, this dataset allows us to explore the investment strategies individuals implement within a whole market.

We report two main findings. First, individuals endowed with higher inborn CSC invest more substantially in riskier campaigns. CSC does not alter the propensity of allocating more money in general, but it is crucial to determine the investment in riskier ventures. The impact of inborn CSC is economically relevant, as a one standard deviation change in CSC yields a 13% increase in the amount pledged to high-risk campaigns. Second, the effect of cultural-level CSC on investment choices persists after accounting for the potential role of CSC in the place of living. This evidence underscores how specific aspects of an investor's cultural makeup prevail over other potentially relevant environmental factors affecting investment behavior.

We advance original contributions to two strands of literature. First, we add to the understanding of how individuals make decisions in equity crowdfunding by focusing on the impact of CSC on their investment choices. To our knowledge, this is the first study analyzing the cross-section of actual investments in equity crowdfunding in a whole market that shows how CSC impacts individuals' decision-making. Second, and more generally, we contribute to the literature on how generalized trust and cultural traits affect an individual's investment decisions, showing that inherited variables prevail over environmental traits in driving the creation of social capital. Overall, our work adds to the debate on challenges and opportunities in entrepreneurial finance. Digitalization has opened the door to new players and financing channels and broadened the range of financing

opportunities for young and innovative firms (Block et al., 2018). Our study uses a dataset of Italian ventures and investors, yet we believe that our evidence can be, to some extent, generalized to other trust-intensive activities typical of the entrepreneurial finance context (e.g., different crowdfunding models and initial coin offerings) (Block et al., 2021). This is especially true in geographical regions where legal enforcement is weak (Hasan et al., 2020).

We recognize that our study also has weaknesses, mainly due to data limitations. First, our dataset does not contain information on investments submitted to unsuccessful campaigns. Second, we do not possess information on the residence of some investors. Third, we cannot obtain data on individual wealth in the Italian setting. Fourth, we do not directly test causality, as our setting does not allow for a quasi-experimental research design. While we cannot overcome such issues, we argue that our conclusions are unlikely to be reversed. Pledges to unsuccessful campaigns are modest, in both size and number. Missing data on investors' residence affects only one-quarter of the 11,002 investments in our sample. Individual wealth effects are proxied by a rich set of correlated provincial controls, as in other studies (e.g., Hervé et al., 2019; Shafi and Mohammadi, 2020). Lastly, the evidence we draw from the subsample of movers and several further robustness exercises suggests that alternative explanations (such as regional economic disparities) are unlikely to cause our results.

We acknowledge that a promising research avenue is to further study the mechanism through which CSC affects equity crowdfunding investments. According to modern portfolio theory, we might argue that generalized trust decreases relative risk aversion and increases the budget money invested in risky assets. Moreover, it could be worth exploring potential mediators of the CSC-investment

behavior nexus, as observed investment choices could indeed be the result of unobserved attributes of proponents playing a role in the valuation process of individuals (Colombo et al., 2022). However, future research is needed to investigate this effect, and we welcome studies that add new evidence through surveys and interviews with equity crowdfunding pledgers.

We believe our findings are relevant for entrepreneurs and policy-makers alike. Entrepreneurs seeking funds through an equity crowdfunding campaign should be aware of a clientele effect. High risk ventures are more likely to be supported by investors coming from high-CSC areas. Further evidence on what leads individuals to make investment choices in equity crowdfunding is also relevant to regulators evaluating the potential of innovative financing for firm growth and the protection of occasional investors.

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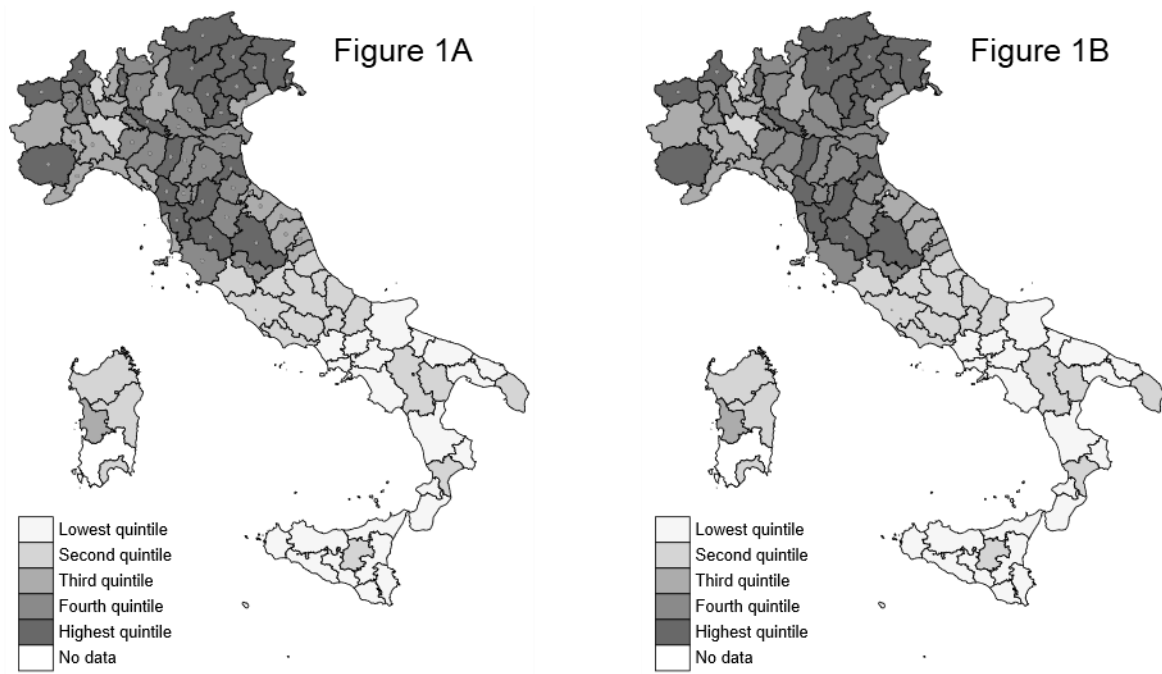
<https://doi.org/10.2139/ssrn.3772260>

<b>Panel A</b>		<b>Campaigns</b>		<b>Amount raised, €k</b>			<b>Pre-money value, €k</b>		
<b>Year</b>	<b>N</b>	<b>N, %</b>	<b>Total</b>	<b>Mean</b>	<b>Median</b>	<b>Total</b>	<b>Mean</b>	<b>Median</b>	
2014	5	2.7	1,715.3	343.1	380.0	4,016	803.2	676.2	
2015	9	4.9	3,008.7	334.3	240.0	15,200	1,684.9	1,215.0	
2016	24	13.0	4,365.6	181.9	166.5	60,800	2,534.3	1,396.6	
2017	47	25.4	14,600.0	310.8	193.3	271,000	5,767.4	2,077.8	
2018	100	54.1	27,700.0	277.0	198.5	523,000	5,233.8	5,745.6	
Total	185	100.0	51,389.6	277.8	199.0	874,016.0	4,724.4	2,077.8	

<b>Panel B</b>		<b>Investments</b>	
<b>Year</b>	<b>No. of investments</b>	<b>Mean contribution, €</b>	<b>Median contribution, €</b>
2014	124	10,604.6	1,470.0
2015	269	4,158.4	1,500.0
2016	1,025	2,715.6	501.0
2017	3,496	3,229.6	999.7
2018	6,088	3,017.0	500.7
Total	11,002	3,169.9	749.7

**Table 1 – Campaigns and investments.** Panel A shows the number of funded crowdfunding campaigns launched between 2014 and 2018 in Italy. It also shows the total, average, and median amount raised (in € thousands) and the total, average, and median pre-money value of funded companies (in € thousands). Panel B shows the number of investments and the average and median contribution.



**Figure 1 – Distribution of community-level social capital (CSC).** Figure 1A shows the geographical distribution of the CSC index by quintiles across Italian provinces. Darker areas correspond to higher levels of CSC (larger quintiles). The dots indicate provinces above the median of the CSC distribution. Figure 1B replicates the visual inspection of CSC by provinces, but highlights (dots) provinces in the upper decile of CSC.

	<b>N</b>	<b>Mean</b>	<b>SD</b>	<b>Min</b>	<b>Q1</b>	<b>Median</b>	<b>Q3</b>	<b>Max</b>
<b>Investments</b>								
<i>Amount invested, €</i>	11,002	3,169.9	15,814.4	90.0	495.0	749.7	1,999.4	1,083,951.0
<i>Female, %</i>	11,002	9.4	29.2	0	0	0	0	100
<i>Age, years</i>	11,002	43.1	11.5	18.0	35.0	42.0	50.0	97.0
<i>North, birth, %</i>	11,002	63.8	48.1	0	0	100	100	100
<i>Centre, birth, %</i>	11,002	14.8	35.5	0	0	0	0	100
<i>South and islands, birth, %</i>	11,002	21.4	41.0	0	0	0	0	100
<i>Local home bias, birth, %</i>	11,002	13.7	34.4	0	0	0	0	100
<i>First investment, %</i>	11,002	56.2	49.6	0	0	100	100	100
<i>North, residence, %</i>	8,459	71.2	45.3	0	0	100	100	100
<i>Centre, residence, %</i>	8,459	16.8	37.4	0	0	0	0	100
<i>South and islands, residence, %</i>	8,459	11.9	32.4	0	0	0	0	100
<i>Local home bias, residence, %</i>	8,459	16.5	37.1	0	0	0	0	100
<i>Mover, %</i>	8,459	33.7	47.3	0	0	0	100	100
<b>Campaigns</b>								
<i>Tech, %</i>	185	36.8	48.3	0	0	0	100	100
<i>Unprofitable, %</i>	185	71.9	45.1	0	0	100	100	100
<i>High risk (Tech x Unprofitable), %</i>	185	24.3	43.0	0	0	0	0	100
<i>Follow-on, %</i>	185	7.0	25.6	0	0	0	0	100
<i>Soft cap, %</i>	185	95.1	21.6	0	100	100	100	100
<i>Hard cap, %</i>	185	24.3	43.0	0	0	0	0	100
<b>Social capital and territorial controls</b>								
<i>CSC</i>	106	0.0	1.9	-4.1	-1.3	0.6	1.4	5.8
<i>Turnout, %</i>	106	75.1	6.1	59.5	70.3	76.9	79.9	84.3
<i>Waste, %</i>	106	19.9	15.0	0.0	6.8	18.6	30.6	58.1
<i>Nonprofit, %</i>	106	1.1	0.3	0.4	0.9	1.2	1.3	2.1
<i>Volunteers, %</i>	106	17.8	8.0	3.9	11.6	18.1	22.1	60.2
<i>Satisfaction, %</i>	106	25.2	4.5	15.3	21.0	27.2	28.8	33.6
<i>Population density, inh/km<sup>2</sup></i>	106	271.4	383.2	35.6	106.8	177.9	277.6	2,630.5
<i>Household income, €</i>	106	30,300.2	4,534.7	22,054.0	26,242.0	31,477.0	34,253.0	39,217.0
<i>Number bank branches</i>	106	544.8	547.4	56.0	232.0	374.0	678.0	3,630.0
<i>GDP per capita, €</i>	106	25,609.0	7,098.2	14,699.7	18,694.3	25,641.6	30,535.2	52,409.7
<i>Education, %</i>	106	9.9	1.7	6.9	8.6	9.9	10.7	15.8

**Table 2 – Descriptive statistics.** The table reports the descriptive statistics of the variables. *Amount invested* is the amount pledged by each investment; *Female* is a dummy taking 1 if the investor's gender is female; *Age* is the age of the investor; *North, birth, Centre, birth, and South and islands, birth* are dummies taking the value of 1 if the investor is born in the North, Centre, or South (including islands) of Italy, respectively; *Local home bias, birth* is a dummy taking the value of 1 if the province of birth of the investor coincides with the province where the funded company is incorporated; *First investment* is a dummy variable taking the value of 1 for each investor's first (chronological) investment; *North, residence, Centre, residence, and South and islands, residence* are dummies taking the value of 1 if the investor lives in the North, Centre, or South (including islands) of Italy, respectively; *Local home bias, residence* is a dummy taking the value of 1 if the province of residence of the investor coincides with the province where the funded company is incorporated; *Mover* is a dummy taking the value of 1 if the investor lives in a province other than that in which they were born; *Tech* is a dummy taking the value of 1 if the funded project belongs to the categories of "Fintech," "Biotech/Pharma/Lifescience," or "Hi-Tech/IT/Communication" (proxying business risk); *Unprofitable* is a dummy taking the value of 1 if the funded company reports a negative net income in the year before the campaign or in the year in which the campaign has started (proxying financial risk); *High risk* is a dummy taking the value of 1 if the company is both *Tech* and *Unprofitable*; *Follow-on* is a dummy taking the value of 1 if the campaign is a second-round (or above) equity issuance; *Soft cap* is a dummy taking the value of 1 if the funded campaign requires a minimum amount to be raised for success; *Hard cap* is a dummy taking the value of 1 if the funded campaign has reached a maximum pre-established amount, and has closed before the planned end date; *CSC* is the community-level social capital index (for the 106 Italian provinces), and *Turnout, Waste, Nonprofit, Volunteers, and Satisfaction* are its five components (see Appendix A for their definition); *Population density* is the number of inhabitants per square kilometer in the province of birth of the investor (in 2016); *Household income* is the average household income in the province of birth of the investor (in 2016); *Number of bank branches* is the number of bank branches in the province of birth of the investor (in 2016); *GDP per capita* is the level of gross domestic product in the province of birth of the investor (in 2016); *Education* is the share of the population in the investor's province of birth reaching higher education (in 2011).

	Above median		Below median		Difference	t-statistic
	N	Mean	N	Mean		
<i>Amount invested, €</i>	5,375	3,378.5	5,627	2,970.6	407.9	1.34
<i>Tech, %</i>	5,375	38.0	5,627	37.2	0.8	0.86
<i>Amount invested, Tech = 1, €</i>	2,040	3,987.0	2,091	3,054.6	932.5	2.49 **
<i>Amount invested, Tech = 0, €</i>	3,335	3,006.3	3,536	2,920.9	85.4	0.20
<i>Unprofitable, %</i>	5,375	66.8	5,627	66.4	0.4	0.44
<i>Amount invested, Unprofitable = 1, €</i>	3,593	3,535.2	3,739	3,022.0	513.2	1.21
<i>Amount invested, Unprofitable = 0, €</i>	1,782	3,062.6	1,888	2,868.8	193.8	0.57
<i>High risk (Tech x Unprofitable), %</i>	5,375	26.5	5,627	25.9	0.6	0.67
<i>Amount invested, High risk = 1, €</i>	1,422	4,177.3	1,457	2,882.0	1,295.3	2.85 ***
<i>Amount invested, High risk = 0, €</i>	3,953	3,091.2	4,170	3,001.5	89.7	0.24
<i>Female, %</i>	5,375	9.6	5,627	9.2	0.4	0.81
<i>Age, years</i>	5,375	43.9	5,627	42.4	1.5	7.06 ***
<i>North, birth, %</i>	5,375	83.2	5,627	45.3	37.9	45.33 ***
<i>Centre, birth, %</i>	5,375	16.8	5,627	12.9	3.9	5.80 ***
<i>South and islands, birth, %</i>	5,375	0.0	5,627	41.9	-41.9	-63.66 ***
<i>Local home bias, birth, %</i>	5,375	11.4	5,627	15.9	-4.4	-6.79 ***
<i>First investment, %</i>	5,375	57.9	5,627	59.6	-1.7	-1.84 *
<i>North, residence, %</i>	4,162	82.8	4,297	60.0	22.8	24.06 ***
<i>Centre, residence, %</i>	4,162	16.4	4,297	17.2	-0.8	-0.94
<i>South and islands, residence, %</i>	4,162	0.7	4,297	22.8	-22.1	-33.77 ***
<i>Local home bias, residence, %</i>	4,162	13.0	4,297	19.8	-6.8	-8.46 ***
<i>Mover, %</i>	4,162	27.7	4,297	39.6	-11.9	-11.69 ***

**Table 3 – Descriptive statistics of investments by CSC.** The table reports the descriptive statistics of the sample of investments by median of investor's CSC. All variables are defined in Table 2. Mean differences and their t-statistics are reported. \*\*\*, \*\*, \*, denote statistical significance at the 1, 5, and 10% level, respectively.

		#1	#2	#3	#4	#5	#6	#7	#8	#9
#1	CSC	1.00								
#2	Log amount invested	<b>0.032*</b>	1.00							
#3	Female	0.02	<b>0.041*</b>	1.00						
#4	Age	<b>0.072*</b>	<b>0.238*</b>	<b>0.085*</b>	1.00					
#5	Local home bias, birth	<b>0.083*</b>	<b>0.062*</b>	<b>0.076*</b>	<b>0.043*</b>	1.00				
#6	North, birth	<b>0.686*</b>	<b>0.055*</b>	0.00	<b>0.069*</b>	<b>0.130*</b>	1.00			
#7	South and islands, birth	<b>-0.824*</b>	<b>-0.056*</b>	<b>-0.016*</b>	<b>-0.080*</b>	<b>-0.105*</b>	<b>-0.693*</b>	1.00		
#8	First investment	0.00	<b>0.048*</b>	<b>0.128*</b>	<b>-0.051*</b>	<b>0.183*</b>	<b>-0.027*</b>	0.01	1.00	
#9	Tech	0.00	<b>0.070*</b>	0.01	<b>0.070*</b>	0.00	0.00	-0.02	<b>-0.071*</b>	1.00
#10	Unprofitable	<b>0.044*</b>	<b>0.016*</b>	0.01	<b>0.037*</b>	<b>0.059*</b>	<b>0.066*</b>	<b>-0.047*</b>	0.00	<b>0.050*</b>
#11	High risk	<b>0.020*</b>	<b>0.051*</b>	0.01	<b>0.045*</b>	-0.01	<b>0.032*</b>	<b>-0.038*</b>	<b>-0.050*</b>	<b>0.768*</b>
#12	Follow-on	<b>0.021*</b>	<b>0.078*</b>	-0.01	0.01	<b>0.020*</b>	<b>0.045*</b>	<b>-0.032*</b>	<b>-0.059*</b>	<b>0.119*</b>
#13	Soft cap	<b>-0.018*</b>	<b>-0.057*</b>	<b>0.017*</b>	-0.02	-0.01	<b>-0.028*</b>	<b>0.041*</b>	-0.01	<b>-0.217*</b>
#14	Hard cap	-0.01	<b>0.063*</b>	<b>-0.023*</b>	0.00	<b>-0.029*</b>	<b>0.019*</b>	-0.01	<b>-0.097*</b>	<b>0.034*</b>
#15	Local home bias, residence	0.00	<b>0.081*</b>	<b>0.089*</b>	<b>0.056*</b>	<b>0.722*</b>	<b>0.041*</b>	<b>-0.021*</b>	<b>0.213*</b>	0.01
#16	North, residence	<b>0.477*</b>	<b>0.055*</b>	-0.01	<b>0.069*</b>	<b>0.060*</b>	<b>0.781*</b>	<b>-0.462*</b>	<b>-0.054*</b>	<b>0.018*</b>
#17	South and islands, residence	<b>-0.521*</b>	<b>-0.043*</b>	-0.01	<b>-0.135*</b>	<b>-0.024*</b>	<b>-0.463*</b>	<b>0.673*</b>	<b>0.063*</b>	<b>-0.045*</b>
#18	Mover	<b>-0.171*</b>	<b>0.043*</b>	<b>-0.026*</b>	<b>0.111*</b>	<b>-0.144*</b>	<b>-0.140*</b>	<b>0.180*</b>	<b>-0.106*</b>	<b>0.018*</b>

	#10	#11	#12	#13	#14	#15	#16	#17	#18
#10 <i>Unprofitable</i>	1.00								
#11 <i>High risk</i>	<b>0.421*</b>	1.00							
#12 <i>Follow-on</i>	<b>0.153*</b>	<b>0.163*</b>	1.00						
#13 <i>Soft cap</i>	<b>-0.122*</b>	<b>-0.278*</b>	<b>-0.569*</b>	1.00					
#14 <i>Hard cap</i>	0.01	<b>0.128*</b>	<b>0.329*</b>	<b>-0.200*</b>	1.00				
#15 <i>Local home bias, residence</i>	<b>0.081*</b>	<b>0.019*</b>	<b>0.054*</b>	<b>-0.030*</b>	<b>-0.021*</b>	1.00			
#16 <i>North, residence</i>	<b>0.064*</b>	<b>0.044*</b>	<b>0.057*</b>	<b>-0.028*</b>	<b>0.029*</b>	<b>0.089*</b>	1.00		
#17 <i>South and islands, residence</i>	<b>-0.055*</b>	<b>-0.061*</b>	<b>-0.033*</b>	<b>0.044*</b>	0.00	<b>-0.051*</b>	<b>0.089*</b>	1.00	
#18 <i>Mover</i>	<b>0.022*</b>	<b>0.025*</b>	<b>0.021*</b>	<b>-0.032*</b>	<b>0.053*</b>	-0.01	<b>-0.051*</b>	<b>-0.092*</b>	1.00

**Table 4 – Correlation table.** The table shows the pairwise correlation of the variables. Statistically significant correlation coefficients (at the 1% level) are reported in bold. All variables are defined in Table 2.



	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)	Model (7)	Model (8)
<i>CSC</i>	0.00651 (0.0284)	0.00548 (0.0285)	-0.00801 (0.0301)	0.00671 (0.0280)	-0.0184 (0.0325)	-0.0304 (0.0342)	0.00507 (0.0282)	-0.0115 (0.0300)
<i>Tech</i>		0.109*** (0.0247)	0.104*** (0.0242)			0.0994*** (0.0237)	0.255*** (0.0417)	0.254*** (0.0416)
<i>Tech x CSC</i>			0.0360*** (0.0137)			0.0336** (0.0134)		
<i>Unprofitable</i>				0.142*** (0.0300)	0.139*** (0.0287)	0.135*** (0.0291)	0.227*** (0.0353)	0.227*** (0.0353)
<i>Unprofitable x CSC</i>					0.0383** (0.0176)	0.0358** (0.0176)		
<i>High risk</i>							-0.227*** (0.0489)	-0.238*** (0.0469)
<i>High risk x CSC</i>								0.0623*** (0.0167)
<i>Female</i>	-0.00260 (0.0567)	-0.00519 (0.0564)	-0.00723 (0.0564)	-0.00572 (0.0565)	-0.00518 (0.0565)	-0.00949 (0.0561)	-0.00755 (0.0560)	-0.00960 (0.0560)
<i>Age</i>	0.0234*** (0.00170)	0.0231*** (0.00168)	0.0231*** (0.00168)	0.0233*** (0.00170)	0.0233*** (0.00169)	0.0230*** (0.00168)	0.0229*** (0.00168)	0.0229*** (0.00169)
<i>Local home bias, birth</i>	0.151 (0.107)	0.148 (0.102)	0.148 (0.102)	0.147 (0.107)	0.144 (0.108)	0.142 (0.102)	0.140 (0.0992)	0.137 (0.0976)
<i>North, birth</i>	0.148*** (0.0558)	0.151*** (0.0560)	0.152*** (0.0560)	0.140** (0.0558)	0.139** (0.0555)	0.144** (0.0557)	0.146** (0.0564)	0.146** (0.0561)
<i>South and islands, birth</i>	0.0433 (0.0777)	0.0447 (0.0781)	0.0476 (0.0784)	0.0499 (0.0778)	0.0483 (0.0773)	0.0522 (0.0781)	0.0409 (0.0776)	0.0368 (0.0771)
<i>First investment</i>	0.114*** (0.0414)	0.121*** (0.0411)	0.122*** (0.0411)	0.120*** (0.0410)	0.117*** (0.0404)	0.124*** (0.0401)	0.132*** (0.0408)	0.130*** (0.0407)
<i>Follow-on</i>	0.255*** (0.0606)	0.268*** (0.0609)	0.265*** (0.0606)	0.221*** (0.0619)	0.222*** (0.0615)	0.232*** (0.0615)	0.207*** (0.0625)	0.206*** (0.0621)
<i>Soft cap</i>	0.186** (0.0832)	0.244*** (0.0840)	0.245*** (0.0842)	0.209** (0.0828)	0.212** (0.0829)	0.267*** (0.0830)	0.231*** (0.0824)	0.236*** (0.0823)
<i>Hard cap</i>	0.155***	0.161***	0.161***	0.156***	0.154***	0.160***	0.179***	0.179***

	(0.0327)	(0.0331)	(0.0333)	(0.0326)	(0.0324)	(0.0329)	(0.0323)	(0.0324)
<i>Log population density</i>	-0.0109	-0.0123	-0.0132	-0.0105	-0.0115	-0.0135	-0.0108	-0.0120
	(0.0349)	(0.0344)	(0.0343)	(0.0342)	(0.0348)	(0.0343)	(0.0334)	(0.0336)
<i>Log household income</i>	-0.402	-0.388	-0.376	-0.390	-0.387	-0.363	-0.409	-0.407
	(0.254)	(0.254)	(0.254)	(0.253)	(0.254)	(0.254)	(0.249)	(0.248)
<i>Log number bank branches</i>	0.0766**	0.0776**	0.0787**	0.0758**	0.0760**	0.0780**	0.0739**	0.0739**
	(0.0337)	(0.0336)	(0.0334)	(0.0333)	(0.0332)	(0.0330)	(0.0332)	(0.0331)
<i>Log GDP per capita</i>	0.136	0.129	0.127	0.145	0.147	0.138	0.145	0.146
	(0.235)	(0.236)	(0.235)	(0.233)	(0.233)	(0.232)	(0.232)	(0.231)
<i>Education</i>	-1.012	-0.923	-0.910	-1.123	-1.102	-1.004	-1.025	-0.999
	(1.508)	(1.508)	(1.500)	(1.496)	(1.491)	(1.487)	(1.496)	(1.487)
<i>Constant</i>	8.356***	8.203**	8.092**	8.155**	8.106**	7.866**	8.317***	8.286***
	(3.147)	(3.130)	(3.122)	(3.112)	(3.129)	(3.106)	(3.076)	(3.058)
<i>Time FE</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Platform FE</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	11,002	11,002	11,002	11,002	11,002	11,002	11,002	11,002
Adjusted R-squared	0.183	0.184	0.185	0.185	0.186	0.187	0.188	0.189

**Table 5 – CSC and amount pledged to risky campaigns.** The table reports the coefficients of a linear regression for the natural logarithm of the amount invested (*Log Amount Invested*). All covariates are defined in Table 2. All regressions include time and platform fixed effects. Heteroscedasticity-robust standard errors clustered at the level of the province of birth of the investor are in parentheses. \*\*\*, \*\*, \*, denote statistical significance at the 1, 5, and 10% level, respectively.

	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)	Model (7)	Model (8)
<i>CSC, residence</i>	-0.00791 (0.0458)	-0.0107 (0.0460)	-0.0220 (0.0473)	-0.00806 (0.0455)	-0.0335 (0.0508)	-0.0460 (0.0523)	-0.0107 (0.0457)	-0.0266 (0.0476)
<i>Tech</i>		0.121*** (0.0347)	0.107*** (0.0324)			0.105*** (0.0335)	0.223*** (0.0517)	0.225*** (0.0518)
<i>Tech x CSC, residence</i>			0.0299* (0.0175)			0.0283 (0.0172)		
<i>Unprofitable</i>				0.0677 (0.0438)	0.0530 (0.0416)	0.0461 (0.0432)	0.120** (0.0461)	0.121*** (0.0459)
<i>Unprofitable x CSC, residence</i>					0.0377 (0.0255)	0.0365 (0.0254)		
<i>High risk</i>							-0.156** (0.0671)	-0.186*** (0.0663)
<i>High risk x CSC, residence</i>								0.0579** (0.0242)
<i>Female</i>	0.0203 (0.0771)	0.0189 (0.0765)	0.0172 (0.0766)	0.0204 (0.0769)	0.0199 (0.0771)	0.0169 (0.0766)	0.0195 (0.0765)	0.0178 (0.0767)
<i>Age</i>	0.0220*** (0.00348)	0.0217*** (0.00343)	0.0217*** (0.00344)	0.0220*** (0.00347)	0.0220*** (0.00347)	0.0217*** (0.00342)	0.0217*** (0.00344)	0.0216*** (0.00344)
<i>Local home bias, residence</i>	0.140 (0.127)	0.134 (0.123)	0.133 (0.122)	0.136 (0.129)	0.134 (0.129)	0.129 (0.124)	0.130 (0.122)	0.129 (0.121)
<i>North, residence</i>	0.147* (0.0762)	0.150* (0.0769)	0.152* (0.0771)	0.145* (0.0760)	0.145* (0.0762)	0.150* (0.0771)	0.150* (0.0767)	0.151* (0.0773)
<i>South and islands, residence</i>	0.129 (0.115)	0.131 (0.115)	0.130 (0.114)	0.132 (0.115)	0.128 (0.116)	0.129 (0.115)	0.127 (0.115)	0.120 (0.114)
<i>First investment</i>	0.158*** (0.0487)	0.168*** (0.0490)	0.168*** (0.0490)	0.159*** (0.0484)	0.158*** (0.0484)	0.167*** (0.0488)	0.172*** (0.0488)	0.170*** (0.0487)
<i>Follow-on</i>	0.281*** (0.0652)	0.296*** (0.0661)	0.295*** (0.0659)	0.262*** (0.0704)	0.264*** (0.0703)	0.280*** (0.0716)	0.258*** (0.0739)	0.258*** (0.0738)
<i>Soft cap</i>	0.252*** (0.0859)	0.310*** (0.0906)	0.310*** (0.0909)	0.260*** (0.0861)	0.264*** (0.0856)	0.319*** (0.0901)	0.292*** (0.0946)	0.294*** (0.0943)
<i>Hard cap</i>	0.142***	0.150***	0.149***	0.143***	0.141***	0.148***	0.165***	0.166***

	(0.0279)	(0.0282)	(0.0283)	(0.0279)	(0.0279)	(0.0283)	(0.0281)	(0.0281)
<i>Log population density, residence</i>	0.0324	0.0299	0.0292	0.0323	0.0304	0.0274	0.0311	0.0288
	(0.0408)	(0.0409)	(0.0411)	(0.0406)	(0.0413)	(0.0415)	(0.0409)	(0.0415)
<i>Log household income, residence</i>	-0.270	-0.249	-0.239	-0.269	-0.262	-0.232	-0.270	-0.259
	(0.358)	(0.357)	(0.358)	(0.357)	(0.358)	(0.359)	(0.352)	(0.354)
<i>Log number bank branches, residence</i>	0.0591	0.0611	0.0621	0.0591	0.0585	0.0615	0.0598	0.0595
	(0.0454)	(0.0452)	(0.0450)	(0.0452)	(0.0453)	(0.0449)	(0.0449)	(0.0448)
<i>Log GDP per capita, residence</i>	0.238	0.235	0.233	0.242	0.247	0.241	0.240	0.243
	(0.334)	(0.333)	(0.332)	(0.333)	(0.334)	(0.331)	(0.331)	(0.330)
<i>Education</i>	-3.505*	-3.444*	-3.421	-3.547*	-3.508*	-3.424	-3.479*	-3.434
	(2.049)	(2.067)	(2.067)	(2.049)	(2.061)	(2.080)	(2.064)	(2.069)
<i>Constant</i>	5.968	5.710	5.623	5.926	5.823	5.498	5.908	5.775
	(4.409)	(4.387)	(4.398)	(4.382)	(4.416)	(4.408)	(4.368)	(4.390)
<i>Time FE</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Platform FE</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	8,459	8,459	8,459	8,459	8,459	8,459	8,459	8,459
Adjusted R-squared	0.173	0.175	0.175	0.173	0.174	0.175	0.175	0.176

**Table 6 – CSC of residence and amount pledged to risky campaigns.** The table reports the coefficients of a linear regression for the natural logarithm of the amount invested (*Log Amount Invested*). All covariates are defined in Table 2. All regressions include time and platform fixed effects. Heteroscedasticity-robust standard errors clustered at the level of the province of residence of the investor are in parentheses. \*\*\*, \*\*, \*, denote statistical significance at the 1, 5, and 10% level, respectively

	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)	Model (7)	Model (8)
<i>CSC, birth</i>	0.00395 (0.0472)	0.00550 (0.0471)	-0.0175 (0.0475)	0.00354 (0.0473)	-0.0356 (0.0511)	-0.0527 (0.0520)	0.00442 (0.0471)	-0.0204 (0.0476)
<i>CSC, residence</i>	-0.0183 (0.0507)	-0.0222 (0.0507)	-0.0121 (0.0505)	-0.0180 (0.0510)	-0.00823 (0.0517)	-0.00477 (0.0515)	-0.0214 (0.0508)	-0.0148 (0.0505)
<i>Tech</i>		0.121*** (0.0325)	0.121*** (0.0297)			0.118*** (0.0299)	0.223*** (0.0538)	0.223*** (0.0534)
<i>Tech x CSC, birth</i>			0.0617*** (0.0176)			0.0582*** (0.0178)		
<i>Tech x CSC, residence</i>			-0.0253 (0.0260)			-0.0235 (0.0260)		
<i>Unprofitable</i>				0.0657* (0.0388)	0.0635* (0.0356)	0.0559 (0.0370)	0.118*** (0.0413)	0.118*** (0.0413)
<i>Unprofitable x CSC, birth</i>					0.0576*** (0.0200)	0.0531** (0.0205)		
<i>Unprofitable x CSC, residence</i>					-0.0145 (0.0245)	-0.0114 (0.0241)		
<i>High risk</i>							-0.155*** (0.0528)	-0.164*** (0.0540)
<i>High risk x CSC, birth</i>								0.0895*** (0.0214)
<i>High risk x CSC, residence</i>								-0.0214 (0.0289)
<i>Mover</i>	0.0622 (0.0534)	0.0604 (0.0535)	0.0631 (0.0531)	0.0630 (0.0534)	0.0632 (0.0536)	0.0638 (0.0533)	0.0609 (0.0535)	0.0638 (0.0531)
<i>Constant</i>	6.872 (4.206)	6.578 (4.187)	6.505 (4.180)	6.810 (4.175)	6.689 (4.192)	6.345 (4.170)	6.753 (4.154)	6.639 (4.133)
<i>Control variables</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Time FE</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Platform FE</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	8,459	8,459	8,459	8,459	8,459	8,459	8,459	8,459
Adjusted R-squared	0.177	0.178	0.179	0.177	0.178	0.180	0.179	0.181

**Table 7** – *CSC of birth, CSC of residence, and amount pledged to risky campaigns*. The table reports the coefficients of a linear regression for the natural logarithm of the amount invested (*Log Amount Invested*). All covariates are defined in Table 2, and all controls are included both at the level of the province of birth and residence. All regressions include time and platform

fixed effects. Heteroscedasticity-robust standard errors clustered at the level of the province of birth of the investor are in parentheses. \*\*\*, \*\*, \*, denote statistical significance at the 1, 5, and 10% level, respectively.

<b>Panel A</b>				
	<b>Model (1)</b>	<b>Model (2)</b>	<b>Model (3)</b>	<b>Model (4)</b>
<i>CSC</i>	-0.0153 (0.0464)	-0.0386 (0.0525)	-0.0490 (0.0532)	-0.0214 (0.0468)
<i>Tech</i>	0.113*** (0.0318)		0.111*** (0.0321)	0.205*** (0.0569)
<i>Tech x CSC</i>	0.0408*** (0.0139)		0.0381*** (0.0138)	
<i>Unprofitable</i>		0.0441 (0.0364)	0.0372 (0.0380)	0.0935** (0.0433)
<i>Unprofitable x CSC</i>		0.0531** (0.0222)	0.0511** (0.0225)	
<i>High risk</i>				-0.144*** (0.0537)
<i>High risk x CSC</i>				0.0733*** (0.0179)
<i>Mover</i>	0.0601 (0.0429)	0.0606 (0.0433)	0.0603 (0.0433)	0.0602 (0.0431)
<i>Constant</i>	12.58** (5.135)	12.91** (5.159)	12.56** (5.157)	12.55** (5.136)
<i>Control variables</i>	Yes	Yes	Yes	Yes
<i>Residence FE</i>	Yes	Yes	Yes	Yes
<i>Time FE</i>	Yes	Yes	Yes	Yes
<i>Platform FE</i>	Yes	Yes	Yes	Yes
<i>Observations</i>	8,459	8,459	8,459	8,459
<i>Adjusted R-squared</i>	0.198	0.197	0.199	0.199

<b>Panel B</b>				
	<b>Model (1)</b>	<b>Model (2)</b>	<b>Model (3)</b>	<b>Model (4)</b>
<i>CSC (non movers)</i>	-0.0479 (0.0401)	-0.0584 (0.0416)	-0.0733 (0.0439)	-0.0529 (0.0400)
<i>CSC, birth (movers)</i>	0.0177 (0.0534)	-0.00329 (0.0575)	-0.0180 (0.0581)	0.0130 (0.0538)
<i>CSC, residence (movers)</i>	0.0242 (0.0517)	0.0114 (0.0562)	0.0241 (0.0554)	0.0176 (0.0531)
<i>Tech</i>	0.124*** (0.0290)		0.121*** (0.0293)	0.223*** (0.0531)
<i>Tech x CSC (non-movers)</i>	0.0429* (0.0238)		0.0409* (0.0234)	
<i>Tech x CSC, birth (movers)</i>	0.0539*** (0.0175)		0.0507*** (0.0177)	
<i>Tech x CSC, residence (movers)</i>	-0.0525 (0.0377)		-0.0500 (0.0380)	
<i>Unprofitable</i>		0.0627* (0.0356)	0.0546 (0.0370)	0.116*** (0.0412)
<i>Unprofitable x CSC (non-movers)</i>		0.0405 (0.0276)	0.0383 (0.0277)	
<i>Unprofitable x CSC, birth (movers)</i>		0.0580**	0.0541**	

		(0.0221)	(0.0222)	
<i>Unprofitable x CSC, residence (movers)</i>		-0.00612	-0.000967	
		(0.0316)	(0.0316)	
<i>High risk</i>				-0.161***
				(0.0531)
<i>High risk x CSC (non-movers)</i>				0.0770***
				(0.0289)
<i>High risk x CSC, birth (movers)</i>				0.0808***
				(0.0214)
<i>High risk x CSC, residence (movers)</i>				-0.0490
				(0.0383)
<i>Constant</i>	6.598	6.780	6.452	6.736
	(4.136)	(4.159)	(4.134)	(4.100)
<i>Control variables</i>	Yes	Yes	Yes	Yes
<i>Time FE</i>	Yes	Yes	Yes	Yes
<i>Platform FE</i>	Yes	Yes	Yes	Yes
<i>Observations</i>	8,459	8,459	8,459	8,459
<i>Adjusted R-squared</i>	0.180	0.179	0.181	0.182

**Table 8 – CSC and investment in high-risk campaigns, movers.** The table reports the coefficients of a linear regression for the natural logarithm of the amount invested (*Log Amount Invested*). All covariates are defined in Table 2. All regressions include time and platform fixed effects. Panel A also includes province-of-residence fixed effects. Territorial controls in Panel A are measured at the level of the province of birth. Territorial controls in Panel B are measured both at the level of the province of birth and the province of residence of the investor. Heteroscedasticity-robust standard errors clustered at the level of the province of birth of the investor are in parentheses. \*\*\*, \*\*, \*, denote statistical significance at the 1, 5, and 10% level, respectively.



<b>Panel A</b>								
	<b>Model (1)</b>	<b>Model (2)</b>	<b>Model (3)</b>	<b>Model (4)</b>	<b>Model (5)</b>	<b>Model (6)</b>	<b>Model (7)</b>	<b>Model (8)</b>
<i>CSC</i>	0.00185 (0.0297)	0.000425 (0.0300)	-0.0102 (0.0308)	0.00163 (0.0291)	-0.0262 (0.0337)	-0.0348 (0.0345)	2.57e-05 (0.0295)	-0.0155 (0.0307)
<i>Tech</i>		0.136*** (0.0227)	0.132*** (0.0221)			0.123*** (0.0225)	0.327*** (0.0445)	0.326*** (0.0444)
<i>Tech x CSC</i>			0.0293** (0.0124)			0.0250** (0.0122)		
<i>Unprofitable</i>				0.163*** (0.0319)	0.158*** (0.0297)	0.151*** (0.0304)	0.275*** (0.0382)	0.275*** (0.0382)
<i>Unprofitable x CSC</i>					0.0447** (0.0187)	0.0418** (0.0189)		
<i>High risk</i>							-0.311*** (0.0614)	-0.321*** (0.0582)
<i>High risk x CSC</i>								0.0613*** (0.0172)
<i>Constant</i>	7.916** (3.218)	7.845** (3.212)	7.769** (3.191)	7.582** (3.172)	7.558** (3.180)	7.444** (3.157)	7.930** (3.177)	7.955** (3.146)
<i>Control variables</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Time FE</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Platform FE</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	9,670	9,670	9,670	9,670	9,670	9,670	9,670	9,670
Adjusted R-squared	0.186	0.189	0.189	0.190	0.191	0.193	0.194	0.196

<b>Panel B</b>								
	<b>Model (1)</b>	<b>Model (2)</b>	<b>Model (3)</b>	<b>Model (4)</b>	<b>Model (5)</b>	<b>Model (6)</b>	<b>Model (7)</b>	<b>Model (8)</b>
<i>CSC, birth</i>	-0.0105 (0.0479)	-0.00913 (0.0480)	-0.0281 (0.0483)	-0.0110 (0.0479)	-0.0460 (0.0524)	-0.0589 (0.0533)	-0.00995 (0.0478)	-0.0293 (0.0487)
<i>CSC, residence</i>	-0.0155	-0.0195	-0.0111	-0.0155	-0.0178	-0.0145	-0.0188	-0.0200

	(0.0522)	(0.0521)	(0.0529)	(0.0524)	(0.0528)	(0.0535)	(0.0521)	(0.0526)
<i>Tech</i>		0.149***	0.150***			0.146***	0.311***	0.312***
		(0.0299)	(0.0280)			(0.0291)	(0.0547)	(0.0544)
<i>Tech x CSC, birth</i>			0.0549***			0.0505***		
			(0.0171)			(0.0170)		
<i>Tech x CSC, residence</i>			-0.0247			-0.0257		
			(0.0282)			(0.0282)		
<i>Unprofitable</i>				0.0797*	0.0698*	0.0577	0.164***	0.165***
				(0.0402)	(0.0368)	(0.0386)	(0.0430)	(0.0431)
<i>Unprofitable x CSC, birth</i>					0.0550***	0.0501**		
					(0.0202)	(0.0205)		
<i>Unprofitable x CSC, residence</i>					0.00329	0.00611		
					(0.0274)	(0.0271)		
<i>High risk</i>							-0.256***	-0.273***
							(0.0662)	(0.0673)
<i>High risk x CSC, birth</i>								0.0808***
								(0.0240)
<i>High risk x CSC, residence</i>								-0.00325
								(0.0347)
<i>Constant</i>	5.563	5.477	5.411	5.434	5.338	5.231	5.666	5.513
	(4.393)	(4.383)	(4.360)	(4.342)	(4.356)	(4.330)	(4.366)	(4.324)
<i>Control variables</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Time FE</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Platform FE</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	7,284	7,284	7,284	7,284	7,284	7,284	7,284	7,284
Adjusted R-squared	0.180	0.182	0.183	0.180	0.182	0.185	0.184	0.186

**Table 9** – *CSC and investment in high-risk campaigns, narrower definition of Unprofitable*. The table reports the coefficients of a linear regression for the natural logarithm of the amount invested (Log Amount Invested). All covariates are defined in Table 2. All regressions include time and platform fixed effects. Campaigns for which there is no information on bottom-line profits on the webpage or in the public Business Register are dropped. Panel A replicates Table 5, while Panel B replicates Table 7. Territorial controls in Panel A are measured at the level of the province of birth. Territorial controls in Panel B are measured both at the level of the province of birth and the province of residence of the investor. Heteroscedasticity-robust standard errors clustered at the level of the province of birth of the investor are in parentheses. \*\*\*, \*\*, \*, denote statistical significance at the 1, 5, and 10% level, respectively.

<b>Panel A</b>				
	<b>Model (1)</b>	<b>Model (2)</b>	<b>Model (3)</b>	<b>Model (4)</b>
<i>CSC</i>	0.00207 (0.0321)	-0.0148 (0.0331)	-0.0277 (0.0351)	-0.00402 (0.0312)
<i>Tech</i>	0.0935*** (0.0264)		0.110*** (0.0250)	0.392*** (0.0532)
<i>Tech x CSC</i>	0.0262* (0.0152)		0.0289* (0.0151)	
<i>Unprofitable</i>		0.182*** (0.0353)	0.193*** (0.0342)	0.382*** (0.0405)
<i>Unprofitable x CSC</i>		0.0411** (0.0187)	0.0426** (0.0188)	
<i>High risk</i>				-0.449*** (0.0654)
<i>High risk x CSC</i>				0.0622*** (0.0187)
<i>Constant</i>	7.632** (3.412)	7.346** (3.375)	7.254** (3.334)	7.584** (3.222)
Observations	7,896	7,896	7,896	7,896
Control variables	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes
Platform FE	Yes	Yes	Yes	Yes
Adjusted R-squared	0.193	0.197	0.199	0.205

<b>Panel B</b>						
	<b>Model (1)</b>	<b>Model (2)</b>	<b>Model (3)</b>	<b>Model (4)</b>	<b>Model (5)</b>	<b>Model (6)</b>
	<b>&lt; 99 perc</b>	<b>&lt; 99 perc</b>	<b>&lt; 95 perc</b>	<b>&lt; 95 perc</b>	<b>&lt; 90 perc</b>	<b>&lt; 90 perc</b>
<i>CSC</i>	-0.0300 (0.0343)	-0.0125 (0.0297)	-0.0402 (0.0385)	-0.0128 (0.0322)	-0.0326 (0.0414)	-0.00948 (0.0337)
<i>Tech</i>	0.0767*** (0.0238)	0.241*** (0.0426)	0.0203 (0.0258)	0.0139 (0.0481)	-0.0191 (0.0270)	-0.0367 (0.0534)
<i>Tech x CSC</i>	0.0261* (0.0135)		0.0397** (0.0161)		0.0298* (0.0161)	
<i>Unprofitable</i>	0.123*** (0.0296)	0.221*** (0.0351)	0.0443 (0.0375)	0.0404 (0.0422)	0.0667* (0.0351)	0.0575 (0.0447)
<i>Unprofitable x CSC</i>	0.0356* (0.0194)		0.0400* (0.0213)		0.0382 (0.0238)	
<i>High risk</i>		-0.253*** (0.0481)		0.00612 (0.0506)		0.0208 (0.0589)
<i>High risk x CSC</i>		0.0551*** (0.0173)		0.0613*** (0.0177)		0.0598*** (0.0186)
<i>Constant</i>	7.961** (3.127)	8.361*** (3.073)	8.785*** (3.333)	8.854*** (3.316)	8.369** (3.465)	8.373** (3.435)

Control variables	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Platform FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	10,448	10,448	9,091	9,091	8,501	8,501
Adjusted R-squared	0.179	0.181	0.179	0.179	0.175	0.175

**Table 10 – CSC and investment in high-risk campaigns, campaign-level checks.** The table reports the coefficients of a linear regression for the natural logarithm of the amount invested (*Log Amount Invested*). Panel A excludes campaigns in which a hard cap was reached. Panel B excludes the first (Models 1 and 2), fifth (Models 3 and 4), and tenth (Models 5 and 6) upper percentile of the cross-sectional distribution of the campaigns by amount raised. All covariates are defined in Table 2. All regressions include time and platform fixed effects. Heteroscedasticity-robust standard errors clustered at the level of the province of birth of the investor are in parentheses. \*\*\*, \*\*, \*, denote statistical significance at the 1, 5, and 10% level, respectively.

<b>Panel A</b>						
	<b>Model (1)</b>	<b>Model (2)</b>	<b>Model (3)</b>	<b>Model (4)</b>	<b>Model (5)</b>	<b>Model (6)</b>
	<b>&lt;= 90 perc</b>	<b>&lt;= 90 perc</b>	<b>&lt;= 3rd quartile</b>	<b>&lt;= 3rd quartile</b>	<b>&lt;= median</b>	<b>&lt;= median</b>
<i>CSC</i>	-0.0433 (0.0358)	-0.0247 (0.0328)	-0.0459 (0.0488)	-0.0286 (0.0465)	-0.0865 (0.0517)	-0.0537 (0.0482)
<i>Tech</i>	0.101*** (0.0251)	0.248*** (0.0442)	0.132*** (0.0283)	0.290*** (0.0480)	0.105*** (0.0387)	0.255*** (0.0614)
<i>Tech x CSC</i>	0.0376** (0.0145)		0.0525*** (0.0171)		0.0388* (0.0200)	
<i>Unprofitable</i>	0.134*** (0.0305)	0.218*** (0.0370)	0.122*** (0.0333)	0.214*** (0.0422)	0.183*** (0.0431)	0.224*** (0.0530)
<i>Unprofitable x CSC</i>	0.0405* (0.0212)		0.0311 (0.0247)		0.0636** (0.0241)	
<i>High risk</i>		-0.224*** (0.0499)		-0.246*** (0.0598)		-0.217*** (0.0784)
<i>High risk x CSC</i>		0.0721*** (0.0180)		0.0738*** (0.0198)		0.0737*** (0.0207)
<i>Constant</i>	8.035** (3.079)	8.420*** (3.030)	8.774*** (3.174)	9.262*** (3.156)	6.782** (3.306)	7.524** (3.197)
<i>Control variables</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Time FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Platform FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
Observations	10,143	10,143	8,137	8,137	5,776	5,776
Adjusted R-squared	0.182	0.184	0.191	0.193	0.183	0.185

<b>Panel B</b>						
	<b>Model (1)</b>	<b>Model (2)</b>	<b>Model (3)</b>	<b>Model (4)</b>	<b>Model (5)</b>	<b>Model (6)</b>
	<b>w/o Lombardy</b>	<b>w/o Lombardy</b>	<b>w/o top3 (GDP)</b>	<b>w/o top3 (GDP)</b>	<b>w/o top3 (inv)</b>	<b>w/o top3 (inv)</b>
<i>CSC</i>	-0.0441 (0.0380)	-0.0198 (0.0341)	-0.0358 (0.0413)	-0.0116 (0.0369)	-0.0900** (0.0380)	-0.0630* (0.0336)
<i>Tech</i>	0.104*** (0.0247)	0.268*** (0.0475)	0.0927*** (0.0269)	0.242*** (0.0494)	0.102*** (0.0306)	0.230*** (0.0626)
<i>Tech x CSC</i>	0.0355** (0.0140)		0.0320** (0.0154)		0.0332** (0.0147)	
<i>Unprofitable</i>	0.159*** (0.0269)	0.252*** (0.0373)	0.124*** (0.0289)	0.207*** (0.0405)	0.196*** (0.0299)	0.254*** (0.0455)
<i>Unprofitable x CSC</i>	0.0433** (0.0171)		0.0384** (0.0172)		0.0510*** (0.0181)	
<i>High risk</i>		-0.253*** (0.0610)		-0.231*** (0.0672)		-0.191** (0.0735)
<i>High risk x CSC</i>		0.0657*** (0.0177)		0.0548*** (0.0195)		0.0697*** (0.0181)
<i>Constant</i>	7.544* (4.267)	8.098* (4.224)	10.35** (4.285)	10.96** (4.227)	4.172 (4.312)	4.744 (4.261)
<i>Control variables</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Time FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Platform FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Observations</i>	7,957	7,957	6,326	6,326	5,859	5,859
<i>Adjusted R-squared</i>	0.198	0.200	0.204	0.206	0.211	0.212

**Table 11** – *CSC and investment in high-risk campaigns, geographical subsamples*. The table reports the coefficients of a linear regression for the natural logarithm of the amount invested (*Log Amount Invested*). In Panel A, the analysis excludes investments by investors in the upper decile (Models 1 and 2), quartile (Models 3 and 4), and above the median (Models 5 and 6) of *CSC*. In Panel B, the analysis excludes investors born in Lombardy (Models 1 and 2), in the top-three regions by regional-level GDP (Lombardy, Lazio, and Veneto, Models 3 and 4), and in the top-three regions by number of investments (Lombardy, Piedmont, and Emilia-Romagna, Models 5 and 6). All covariates are defined in Table 2. All regressions include time and platform fixed effects. Heteroscedasticity-robust standard errors clustered at the level of the province of birth of the investor are in parentheses. \*\*\*, \*\*, \*, denote statistical significance at the 1, 5, and 10% level, respectively.

	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)
<i>CSC</i>	-0.0309 (0.0347)	-0.0118 (0.0304)	-0.0330 (0.0345)	-0.0139 (0.0303)	-0.0334 (0.0336)	-0.0134 (0.0281)
<i>Tech</i>	0.0989*** (0.0226)	0.257*** (0.0408)	0.120*** (0.0232)	0.233*** (0.0424)	0.163*** (0.0317)	0.322*** (0.0577)
<i>Tech x CSC</i>	0.0341** (0.0134)		0.0303** (0.0135)		0.0229* (0.0124)	
<i>Unprofitable</i>	0.136*** (0.0290)	0.230*** (0.0360)	0.136*** (0.0290)	0.204*** (0.0349)	0.106*** (0.0314)	0.198*** (0.0428)
<i>Unprofitable x CSC</i>	0.0360** (0.0177)		0.0364** (0.0170)		0.0395** (0.0184)	
<i>High risk</i>		-0.243*** (0.0482)		-0.179*** (0.0517)		-0.233*** (0.0645)
<i>High risk x CSC</i>		0.0629*** (0.0167)		0.0597*** (0.0166)		0.0529*** (0.0162)
<i>Geographical proximity (birth)</i>	0.0887 (0.0684)	0.0864 (0.0668)				
<i>Constant</i>	7.663** (3.148)	8.102** (3.089)	7.235** (3.090)	7.612** (3.039)	7.350** (2.885)	7.564*** (2.847)
<i>Control variables</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Time FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Platform FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Venture macro-region FE</i>	No	No	Yes	Yes	No	No
<i>Venture province FE</i>	No	No	No	No	Yes	Yes
Observations	11,002	11,002	11,002	11,002	11,002	11,002
Adjusted R-squared	0.187	0.188	0.190	0.191	0.213	0.214

**Table 12 – CSC and investment in high-risk campaigns, venture location controls.** The table reports the coefficients of a linear regression for the natural logarithm of the amount invested (*Log Amount Invested*). The analysis controls for the geographical distance between investor's municipality of birth and venture location's address (Models 1 and 2), venture's macro-regional distribution (Models 3 and 4), and venture's provincial distribution (Models 5 and 6). All covariates are defined in Table 2. All regressions include time and platform fixed effects. Heteroscedasticity-robust standard errors clustered at the level of the province of birth of the investor are in parentheses. \*\*\*, \*\*, \*, denote statistical significance at the 1, 5, and 10% level, respectively.

	Model (1) Turnout	Model (2) Waste	Model (3) Nonprofit	Model (4) Volunteers	Model (5) Satisfaction
<i>Turnout</i>	-1.428** (0.714)				
<i>Waste</i>		0.0883 (0.205)			
<i>Nonprofit</i>			-18.92 (15.28)		
<i>Volunteers</i>				-0.336 (0.553)	
<i>Satisfaction</i>					0.778 (0.949)
<i>Tech</i>	0.257*** (0.0412)	0.255*** (0.0417)	0.254*** (0.0417)	0.254*** (0.0416)	0.253*** (0.0419)
<i>Unprofitable</i>	0.228*** (0.0348)	0.228*** (0.0354)	0.226*** (0.0354)	0.226*** (0.0353)	0.227*** (0.0353)
<i>High risk</i>	-1.673*** (0.413)	-0.385*** (0.0722)	-0.497*** (0.117)	-0.412*** (0.106)	-0.860*** (0.180)
<i>Turnout x High risk</i>	1.870*** (0.531)				
<i>Waste x High risk</i>		0.609*** (0.184)			
<i>Nonprofit x High risk</i>			26.04** (9.984)		
<i>Volunteers x High risk</i>				1.087* (0.560)	
<i>Satisfaction x High risk</i>					2.471*** (0.675)
<i>Constant</i>	6.630*** (2.092)	9.559*** (2.584)	7.837*** (2.404)	7.939*** (2.587)	9.229*** (2.522)
<i>Control variables</i>	Yes	Yes	Yes	Yes	Yes
<i>Time FE</i>	Yes	Yes	Yes	Yes	Yes
<i>Platform FE</i>	Yes	Yes	Yes	Yes	Yes
<i>Observations</i>	11,002	11,002	11,002	11,002	11,002
<i>Adjusted R-squared</i>	0.189	0.189	0.189	0.188	0.189

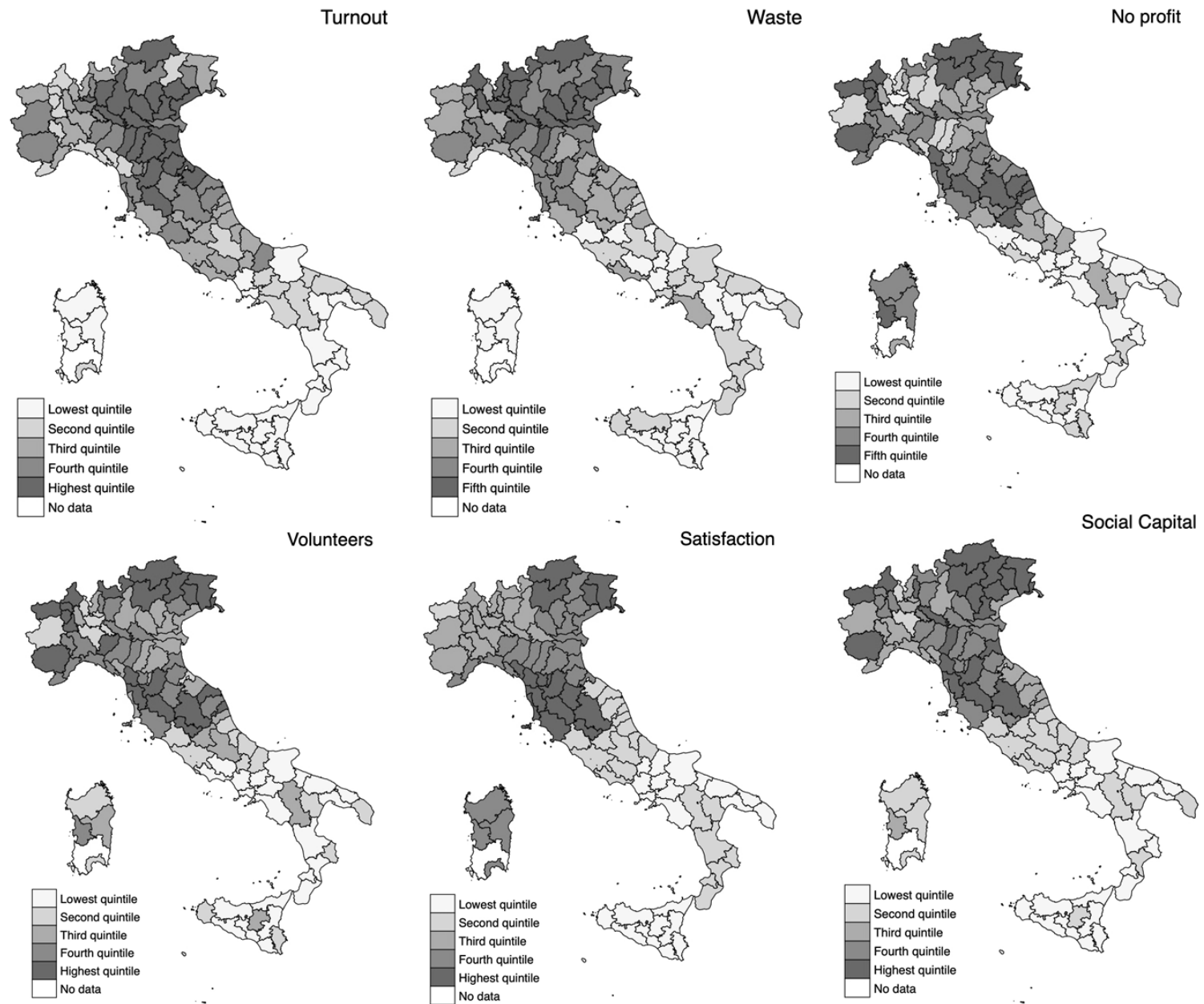
**Table 13 – CSC components and investment in high-risk campaigns.** The table reports the coefficients of a linear regression for the natural logarithm of the amount invested (*Log Amount Invested*). Each model uses a single CSC component, i.e., voter turnout (Model 1), waste recycling (Model 2), number of nonprofit organizations (Model 3), number of volunteers (Model 4), and satisfaction with relationships with others (Model 5). All covariates are defined in Table 2. All regressions include time and platform fixed effects. Heteroscedasticity-robust standard errors clustered at the level of the province of birth of the investor are in parentheses. \*\*\*, \*\*, \*, denote statistical significance at the 1, 5, and 10% level, respectively.



## Appendix - Community-level social capital (CSC) proxies and index

Variable	Variable name	Description	Source	Factor Loadings
Voter turnout	Turnout	Percentage of voters in 2013 National Parliament election in the province.	Italian Ministry of Internal Affairs	0.417
Recycling	Waste	Ratio of the amount of waste collected for recycling to the total amount of waste produced in the province in 2003, weighted by percentage of the population in the province covered by waste sorting services.	ISTAT	0.407
Number of nonprofit organizations	Nonprofit	Ratio of the number of nonprofit organizations to the province population in 2011.	ISTAT	0.450
Volunteers of nonprofit organizations	Volunteers	Ratio of the number of volunteers of nonprofit organizations to the province population in 2011.	ISTAT	0.483
Satisfaction with relationships with friends	Satisfaction	People aged 14 and older satisfied with their relationships with friends in 2011. This datapoint is at the regional level.	ISTAT	0.474

**Table A1** – *Variables included in the Principal Component Analysis and factor loadings.* This Table describes the five proxies of CSC included in the Principal Component Analysis, along with their source. It also reports the factor loadings for the first principal component (CSC). All factors are positively correlated with CSC and are roughly equally weighted in the index.



**Figure A1 – Distribution of CSC constituents.** The Figure shows the geographical distribution of *Turnout*, *Waste*, *Nonprofit*, *Volunteers*, *Satisfaction*, along with *CSC*, by quintiles across Italian provinces. Darker areas correspond to higher levels of CSC (higher quintiles).