

# The effect of geographical proximity on the success of crowdfunding campaigns<sup>1</sup>

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## Executive summary

An increasing number of entrepreneurs are trying to find their investors online through crowdfunding. The economic activity of crowdfunding is still small, but there are reasons to believe that crowdfunding will be more commonplace and happen on a greater scale in years to come. In Norway crowdfunding grew 26,5 percent during the first three quarters of 2018, mainly due to an enormous growth of equity crowdfunding which grew 172 percent compared to 2017. Because of this growth, it becomes more interesting for researchers and practitioners to investigate which factors positively influence the success of crowdfunding projects. This report is specifically motivated by the growing number of literature studying the impact of geographical proximity between the entrepreneurs and the backers, leading to the following research question: *“How does geographical proximity influence the success of Norwegian crowdfunding projects?”*

To answer the research question the report explores the following three sub questions: (1) *What does past research show us about the impact of geographical proximity on different crowdfunding projects?* (2) *How do different crowdfunding platforms and projects implement locality?* (3) *How does geographical proximity in crowdfunding differ for Norway (compared to other countries)?*

The report applies a mixed method approach including a literature review and the analysis of 47 projects across 19 crowdfunding platforms. In addition, four semi-structured interviews with Norwegian crowdfunding platforms were conducted.

The analysis shows that the way geographical proximity was analyzed in previous studies differed per platform. For donation-, rewards- and equity-based platforms, previous researchers mainly investigated geographical distance as the distance between cities. It was shown that the effect of geographical proximity on city-level was significant for donation- and reward-based platforms, and not for equity-based platforms. This is in line with the thoughts of the interviewees. For loan-based platforms, geographical proximity was analyzed as the distance between states or countries. It was shown that investors preferred to invest in their own state.

Almost all of the crowdfunding projects analyzed in the report implement locality either through the projects narrative or graphically through pictures or maps of the location where the project would be operationalized. However, the number of local aspects in the project (all narrative-aspects; visualization aspects and the aspects of the design of the platform taken into account) do not have a significant effect on the success of a project, and thus it is expected that accentuation on locality does not affect the success of a project. From the analysis of the implementation of locality aspects at Norwegian crowdfunding platforms, it could be seen that the Norwegian crowdfunding platforms did not focus as much on the implementation of locality aspects as other countries. However, the location was almost

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<sup>1</sup> On request the full public report can be forwarded ([pia.otte@rualis.no](mailto:pia.otte@rualis.no))

always visible in the project narratives. More data on the influence of locality aspects on the success of crowdfunding platforms is needed to draw some final conclusions.

All interviewees involved in this research agreed on the negative relation between geographical proximity and the success of reward- and donation-based crowdfunding platforms. However, some interviewees argued that this relation might not exist for loan- and equity-based platforms. Since those platforms rely on a stable base of investors, trustworthiness might be more important than the geographical location of the project. Some of the interviewees also suggested that Norwegian investors might prefer Norwegian projects over foreign projects because they are perceived as more trustworthy.

So, both researchers and interviewees seem to acknowledge that the effect of geographical proximity differs per type of crowdfunding platform. They both agree on the negative relation between geographical proximity on city-level and the success of a crowdfunding project for donation- and reward-based crowdfunding projects. Furthermore, it can be argued that geographical location plays a role on country-level for loan- and equity-based platforms in Norway.