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KICKSTARTING CULTURAL ENTREPRENEURSHIP VIA CROWDFUNDING. DISRUPTING FROM BOTTOM UP.

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ABSTRACT | Crowdfunding is most probably the best go-to-market strategy for the entrepreneurs or creators in the cultural and creative industries (CCIs), as it unfolds, leverages and innovates the network effect easily by unlocking fan-, trust-, and social capital to establish the new brand. As often emphasized, it democratizes access to resources, innovates processes, reinvents, and pivots business models. The somewhat unusual “Prologue” is motivated by personal experiences, but it extracts 25+ years across capital markets and findings from academia and industry. Illustrating Hungarian and international cases, this study adds further depth to the phenomenon of how creative power that implies innovation and spillovers can unlock economic growth by measurably building an interconnected ecosystem for small- and medium-sized enterprises (SMEs) to overtake shortcomings of monetary policy. This study is built on three propositions: on the micro level, it presents crowdfunding as a simple, innovative service pivotal for validating, fundraising, marketing, and community building for creators, on the meso level, as a marketplace or project webshop, on a macro level, the uprise of ecosystems versus economies. Considering recent regulations that render crowdfunded equity a secure, cross-border, disintermediated investment asset class, this study adds further to how crowdfunding can function for CCI entrepreneurs, ecosystem participants, and policymakers.

1. The king is naked. Prologue

On June 21, 1990, as a first-year student hostess, I witnessed the reopening of the first stock exchange of the communist block after its 42 years of imprisonment. The five-day-long mesmerizing ceremony of the Budapest Stock Exchange (BSE), from now on referred to as the Ceremony, paid tribute to the regime change. The launch of the trading of one single share, IBUSZ, which would hardly reach the headlines today, captivated a global audience. This momentum, combined with the incomparably rich bourse history of 85 years under the Monarchy (1864-1948) –50 years during which the Budapest Commodity and Stock Exchange's yields outperformed (!) that of London and New York (Radnai & Szatmári, 2024; Korányi, 2014) – should have secured an everlasting competitive advantage.

But Hungary did not succeed in winning the game. Despite echoing the 'We are the first' slogan for decades, it de facto lost all its competitive advantage within a few years (Reininger & Walko 2020; Szeles, 2000).

What went wrong?

This question has been the central focus of my research in the past twenty years, but since I have been deep diving into the startup subculture, newer and newer layers seem to be unfolding. Still researching the answer since, even after my first books on the history of the stock exchange (Szeles, 2004; 2015), an opaque factor seems to be crystallizing that *one of the fatal reasons for this failure is negligence of the unsupported innovation ecosystem that led to the underperformance the pre-IPO pipeline.*

During the 34 years since the Ceremony, the lack of innovative, long-term-minded governmental policy (except for a few periodic or sporadic top-down economic policy successes) has led to a definite economic lag (Jaksity et al., 2023; AFME, 2023; Balogh & Langmar 2024). Stuck in the middle-income trap (Karsai, 2022) rounds up the drama of this small, export-oriented, traditional (aka non-digital) economy with its systematic global exposure¹. This period of economic transition attracted significant academic attention (Reininger & Walko, 2020; Lucey & Voronkova, 2006) that detected underlying factors that hindered competitiveness. Thus, the rise of successful ventures and sociological patterns like paternalism (Kornai, 1995) have also been studied that withheld the accumulation of social capital that could enable and even finance organic, bottom-up initiatives ecosystems to outperform the old economy.

Now, it's time to disrupt this legacy digitally.

2. Introduction

Inspired by the central themes of the Cumulus conference, first of all by “bridging design and economics” but including “centers and peripheries,” “converging bodies of knowledge,” “systemic complexities,” and “challenging societal structures,” I attempt to present how crowdfunding resonates with these concepts. Considering the concise format of the conference paper, and as a professional in capital markets and crowdfunding, I have opted to present a pragmatic approach grounded in empirical experience. One major impact of internet-based digitalization is that, on a gross scale and at an accelerating rate, it ensures increasingly easier access to information and services for mankind. This progress leads to the mass decentralization of services, which have been overwhelmingly dominated by intermediaries. Disintermediation poses a significant competitive challenge for traditional institutions, such as banks: non-institutional, competitive service providers threaten their century-old market positions (Parker et al., 2016).

¹ The scope of this paper precludes a detailed inclusion of Wallerstein's world-systems theory, a notable concept in mainstream social science. However, it is pertinent to briefly mention the semi-periphery phenomenon within the centre-periphery model (Wallerstein, 1974). This model articulates the division of labor and resource exchange between core and peripheral nations, underscoring how 'emerging' semi-peripheral economies continually evolve. This paper aims to contribute to the hypothesis that if ecosystems can supersede economies, it might alter this semi-peripheral dynamic as well.

This change opens up new opportunities in design, particularly in interaction design, as it is a crucial element in the user journey and a key aspect of digital competitiveness. Digital growth and scalability largely depend on software, while user acquisition ultimately hinges on the user experience, which is shaped by design (Norman, 2014). This relationship creates a spillover effect that influences digital competitiveness and entrepreneurship, leading to the emergence of novel “alternative economic frameworks” such as the “sharing economy” and “peer-to-peer networks,” which can be viewed as ecosystems. In contrast to an economy, which is organized and institutionalized from the top down, an ecosystem employs a bottom-up approach, characterized by having interconnectedness and “fluid borders” – as opposed to being institutionalized or regulated (Tiwana, 2013). This concept paper argues that crowdfunding, as a digital fundraising tool, has the natural capacity to connect, catalyze, and bridge the previously mentioned domains by disintermediation and reconnection and fuel interconnectedness, the major characteristics of an ecosystem.

I believe that contrary to the misconception that crowdfunding is merely a fallback option for cultural entrepreneurs who have failed to secure an industry leader’s support, it should be recognized as a first choice. This paper shall introduce crowdfunding’s unrecognized potential as an ecosystem driver.

As described by the entire mainstream literature, crowdfunding democratizes access to resources for creators on a mass scale, such as information, services, communication, marketing, and capital. It empowers creators to connect to their target audiences, yet in the critical early phase of a venture called Death Valley (see Figure 3), it ensures abundant independence and enables self-sustainable, innovative, efficient strategies, which in a critical mass can empower the cultural entrepreneurs to breakthrough and leverage their effect on micro-, meso- and macroeconomic competitiveness. This has been recognized. However, as a renewed approach, this article argues that crowdfunding is not only a tool but a driver that liberates creators from the constraints of a conservative industry structure. As ecosystems are to be fueled with capital, ultimately, crowdfunding is an organic ecosystem builder. This third type of ecosystem driver can change the traditional CCI ecosystem landscape that is yet dominated by i) a monopoly (state) or ii) monopolistic (dominant market player)-driven ecosystems. Crowdfunding is the most organic or bottom-up driver and, therefore, the most sustainable. This proposition, which I actively advocate in my role as a capital market professional, will hereafter be referred to as the 1st proposition.

If policymakers recognized crowdfunding as a vital cog in innovation, if they could support, accommodate, and take advantage of it, then they could speed up the dynamics of creative and innovative production at lower costs. If incumbent capital market service providers, including stock market operators and institutional investors, recognized and supported this renewed approach as an innovation funnel, that could lead to more IPO-ready ventures, whose founders as alumni startup founders would be best recognized upon their reinvestments into early phase ventures. Taking this alumni factor into account, in concluding with Figure 7, I will summarize by presenting how to develop the famous bell curve (World Bank, 2013) into a circle.

Within the framework of the track Bridging Design and Economics and the format limits, I consciously simplify the model to focus on the primary purpose of this paper, which is to demonstrate the power of crowdfunding as a relatively new tool rather than the products funded through crowdfunding or borderline financial products such as NFTs. As the cited literature elaborates on many aspects of economic history to contextualize the Prologue and extensively on crowdfunding, I narrow the scope to focus on demonstrating the potential of crowdfunding as an instrumental and creative tool for CCI entrepreneurs in their go-to-market strategies. Additionally, I aim to show how ecosystems with high interconnectedness and “fluid borders”—though less visible—could function more effectively than traditional institutional economics. As always, I cannot resist including some healthy sarcasm or humor. As a startup founder myself, who takes risks on my account to kick bricks off walls to make things happen, I mean it well.

3. Reframing core paradigms: innovation = ecosystem + investments

The United Nations Conference on Trade and Development (UNCTAD) defines the creative economy as “activities centered on fostering development by combining cultural, social, and tourism goals with the application of technology and the exploitation of intellectual property” (UNCTAD, 2022). To add more dynamics and to distill this approach further, in this paper, we would call these “activities” power and regard **creative power as an innovative, aesthetical, efficient, diffusive, spillover-generating, sustainable progress**. (As a distinction from art, which can be described as more self-oriented). This long-term progress can be efficiently financed by short-term crowdfunding campaigns. This study aims to capture the essence of this phenomenon rather than delving into the extensively discussed factors of campaign success.

In this short paper, the following factors of CCIs are considered:

- **The value added** of CCIs represents approximately 3.95% of EU value added and employs around 8 million people, including around 1.2 million firms, over 99.9% of which are small and medium-sized enterprises (SMEs) (EU, 2024). Besides this ratio, CCI, taking advantage of its social dimension, plays a great part in driving innovation and creativity across other industries. This cultural impact element or power is measurable. The Creative Economy Outlook 2022 report by UNCTAD highlights that the creative economy is one of the world's fastest-growing sectors, creating employment and income, promoting innovation, and contributing to societies' well-being;
- **the resilience** of the creative economy also translates to economic security in the form of **soft power**. The UNCTAD report also notes that creative industries were more resilient during the COVID-19 pandemic than other service sectors, with creative services exports only falling by 1.8% in 2020 compared to a 20% fall in exports of all services. For example, the French creative economy includes over 300,000 businesses and generates twice the revenue of the automotive industry (Runde et al., 2020). The pandemic had a significant negative impact on these industries, with substantial job losses and revenue declines. Governments, in response, initiated recovery plans and provided support to stimulate the revival of the cultural and creative sectors. The United Nations designated 2021 as the International Year of the Creative Economy for Sustainable Development, emphasizing the role of creative industries in enabling global economic growth and social and cultural development. This recognition extends to G20 leaders who have identified culture and creative industries as drivers for sustainable development and economic resilience (UNCTAD, 2021);
- **the innovative impact of CCIs** on the growth of other sectors and innovation is a measurable effect. CCIs stimulate business, technology, and society, driving innovations and knowledge transfer (Klein & Szychalska-Wojtkiewicz, 2020). Although most CCI projects are not innovations as determined by the Oslo Manual (OECD 2018), CCIs play a strategic role in bridging art, business, and technology, thus affecting external industries. The creative sector is defined by its dynamic nature and its focus on producing original or unique goods, often organized online. Design-based innovation creates new markets and facilitates the adoption of new meanings, highlighting the sector's potential to address further societal challenges like climate change and demographic shifts. As a solution to the traditional center-periphery problem that describes the gap as a social product between regions, today, digitalization and communication can help solve and enhance the growth of social capital and participation (Horányi, 2006).

Rykkja elaborates on the broad and complex concept of creative and cultural innovation as follows (Rykkja 2023, p.2).

„A rationale for studying the use of crowdfunding within the creative economy is that the CCI drives innovation and generates spillovers across the wider economy (Cunningham & Potts 2015; Potts & Cunningham 2008). It has been argued in the management literature that studying managerial innovation and experimentation in the creative economy (Bonet & González-Piñero 2021; Lampel & Germain 2016) may provide templates for the coordination of economic activity in other sectors (Bakhshi & McVittie 2009; Boix-Domènech & Rausell-Köster 2018). Crowdfunding adoption in the CCI is one such example because it was within the CCI that crowdfunding as a practice first emerged (Agrawal et al., 2013; Dalla Chiesa & Handke, 2020). This process of diffusion from the CCI towards the wider economy is also acknowledged in the general literature on crowdfunding. Contributions highlight the usefulness of empirical findings of 'early-stage creative projects' (Agrawal et al. 2015) for a better understanding of the adoption and use of crowdfunding in '... other, non-artistic projects and business ventures' (Macht & Weatherston 2015, p. 193). In other words, there is a vetted tradition for utilising findings from studies that use the CCI as an empirical context for understanding the adoption and development of crowdfunding as a business model in general.”

- **Alumni culture is key:** Provided that the ecosystem develops and nourishes an alumni culture where successful entrepreneurs give back to prospective entrepreneurs and newcomers can access the experiences of alumni (for example, through mentorship), then sustainability is ensured. In Chapter 3, the “startup mafia model” is introduced. Notably, but not detailed further herein, education and communication are the pillars of its sustainability. This key concept is visualized in **Figure 7**.

And here comes the 2nd proposition, or the vision of the concept: by viewing digital economic ecosystems as informal yet transparent networks with low barriers to entry but with high added value through inclusive and efficient participation and innovative culture, ecosystems can transcend traditional economies based on regionalism, traditional culture, and physical resources, generating sustainable growth to bridge the gap between centers and peripheries, or between inefficient economies.

The real question is how to make it work. The 2nd proposition suggests that venture capital shall fuel the ecosystem to produce innovative products and services and argues that crowdfunding is the most accessible and, therefore, the most efficient and resilient form of capital “to do the job” (Christensen, 2015). Being a relatively new digital tool, it will not instantly create impact, but in the long term, it can certainly reach the critical, resilient mass from the bottom up. First, a short overview is presented about the venture capital industry.

4. Innovation as a function of venture capital investments: a short overview of the institutional, the private and the crowd capitalists

Innovative and creative ventures, often lacking collateral for traditional bank loans, have historically relied on alternative funding sources if bootstrapping or using personal capital and revenues does not suffice for competitive growth. This is where institutional venture capital comes into play, offering capital in exchange for equity. The concept of venture capital has been around since the Renaissance (Gompers, 1994), but its prominence surged with the advent of the Internet. This technological revolution particularly benefited businesses focused on technology or software (e.g., Software-as-a-Service, SaaS) by enabling them to scale rapidly while reducing unit costs. For the sake of growth, startups sacrifice profitability in their early years, and robust growth must be financed with external capital (Karsai, 2020). The relevance of venture capital in this context is not just to illustrate how thousands of companies, including CCIs, have utilized venture capital for growth: “Without significant venture capital investments in the risky early stages of a project's lifecycle, innovation in the economy would be stifled” (Khan et al., 2021). The rule is very simple: if there are no risk-takers, then there is no innovation. Banks aren't risk-takers. The state, on a mass and democratic scale, only temporarily takes risks. Thus, the accessibility to venture capital is crucial.

For a standalone but comprehensive conclusion, the following section will shortly summarize the well-known advantages and disadvantages of each financial service in the context of the discussion.

4.1 Non-institutional investors: clubs and mafias

The distinction between institutional and non-institutional investors is not based on whether they are incorporated but rather on whether they manage their assets or those of clients. The latter is always regulated. Non-institutional venture capital is available from business angels and family offices that decide over their own money, most usually within their business domains, building up portfolios with smaller ticket sizes and actively mentoring the investees.

- **Business angels** are usually solo entrepreneurs who earn their wealth from exiting successfully from former companies. Their cheque is much lower than that of the VCs but referred to as smart money: their mentorship is usually worth as much as the money that they offer. Angels voluntarily join semi-public clubs, known as BAN's (business angel networks), that collect and curate inbound funding requests in the form of pitches and where they can syndicate investments with fellow angels.
- **Family offices** are incorporated private wealth management companies that manage single or multiple portfolios as a cross-generational heritage and often use a fraction of their wealth to start investments. Their visibility is even less, and accessibility is even harder than that of the VCs: if they handle only their private capital, then they do not fall under regulation.
- So-called **Startup Mafias** (Deep Ecosystem, 2022) are excellent examples of alumni-based ecosystems. Undoubtedly, the most known example of that is the outlier success of Skype in 2011, when – 20 years after the Ceremony – it was bought up by Microsoft (earlier by eBay), making the six founders, including Estonian developers, billionaires, and they all reinvested a large part of this capital in local startups. The world learned that Estonia is a country. Seeding this fertile ground, Estonia today – despite, or independently from, its little physical size and without almost any tradition in capital markets – is per capita and GDP one of the leading digital economies, marked by the largest number of unicorns². These types of ecosystems also rely on fandom and need, using tools of communication, leadership, marketing, and branding. Another good example is the Paypal story. But even the birthplace of Paypal, Silicon Valley's flourishing started with Hewlett and Packard's legacy. Spotify and Pixar built up an ecosystem as well.

Twenty years after the Ceremony, a former communist Baltic culture succeeded in accommodating the ecosystem concept of the 1st proposition. Well, daring to oversimplify the question, why couldn't IBUSZ, or the first Hungarian tech prospect unicorns, LogMeIn, and Prezi³ catalyze the growth?

4.2 Institutional investors: rare venture capital in CCI

Venture capital investment in the CCI is a challenging issue. CCI entrepreneurs often struggle to attract venture capital due to factors like a lack of investible and scalable business models, limited tangible assets, and difficulties in assessing and protecting intellectual property. Monopol or monopolistic ecosystems dominate most segments of the industry. Foundations, grants, collectors, philanthropists, and crowdfunding are available for the arts. Industrial design in branded serial production, e.g., fashion and luxury goods, lifestyle companies have better access to venture capital as

² See the full list: <https://investinestonia.com/the-full-list-of-estonian-unicorns/>

³ [LogMeIn](#) and [Prezi](#) are very successful, now US-based, Budapest-born tech companies.

- Computer-aided design (CAD) and streaming-based music platforms are investable: among the 1000+ startups that are priced above a billion USD⁴, aka unicorns, among the strongest brands, there are a few from the CCI: Canva, Design, PicArt, and Pixar. (Spotify is often referred to, but shall not counted herein; that is a tech company.)
 - Extra profit from love brands and celebrity brands is also appreciated by venture capitalists. Mejuri, a direct-to-consumer jewelry company, secured \$28 million. Depop, a platform for fashion items, received \$105.6 million. Skims, founded by Jens Grede and Kim Kardashian, raised \$399 million. Allbirds, a sustainable shoe brand, secured \$202.5 million in several rounds.
1. **Non-transparent and not accountable decision-making:** just as in the case of each institutional investor, VC's investment policy is regulated therefore, it easily excludes targets due to strategic reasons, but that can be better forecasted based on their public profiles than their opaque decision-making processes that makes it inefficient for project owners to count on VC funding. For example, the now-billionaire CEO of Canva, Melanie Perkins, was turned down over 100 times by VCs.
 2. **Geographic gaps:** Venture capitalists typically invest in nearby companies, leading startups to gravitate toward investors. This pattern affects the global distribution of VCs, creating distinct regional disparities, as shown in Figure 1. This distribution perpetuates a divide between central and peripheral areas. Post-1990, Central and Eastern Europe, previously viewed as a homogeneous region, no longer fits this description due to new digital divides. Countries benefiting from "digital territorial expansion" and the influence of alumni ecosystems and growth-focused VCs are on the successful side of this divide.

Estonia has raised the most investment per capita of any country in Europe.

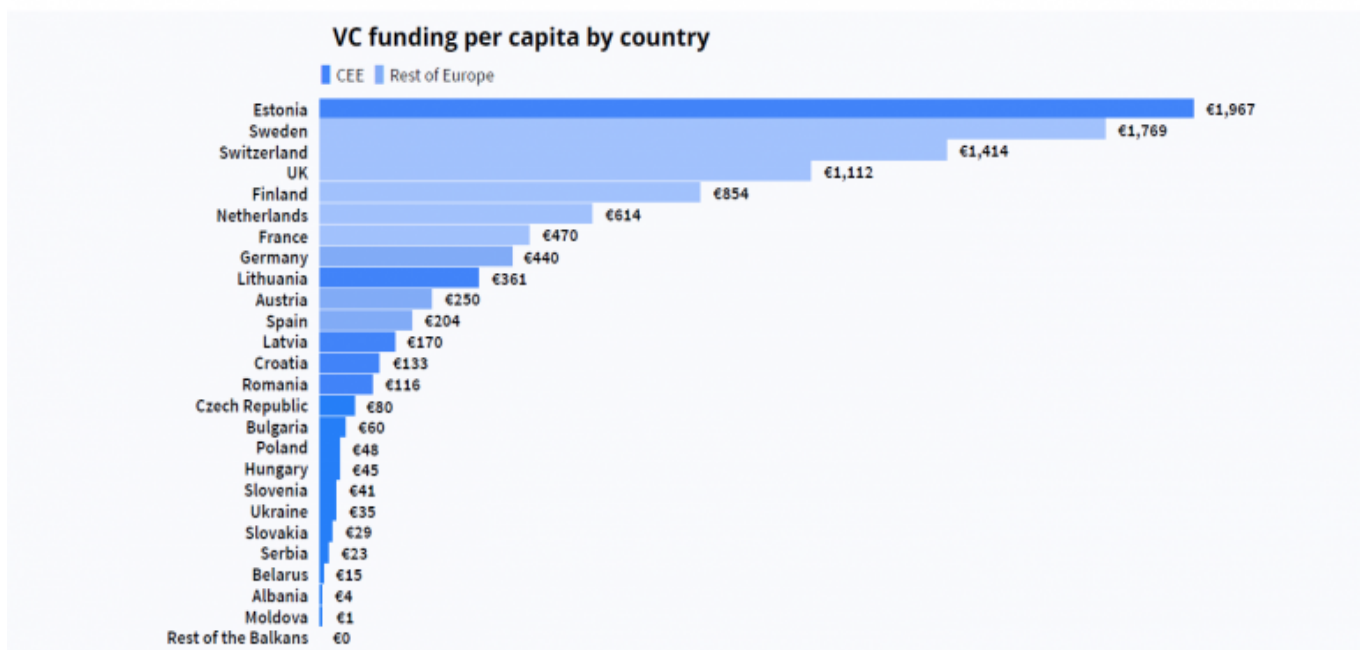


Figure 1: Venture funding per capita by country until 2021 [Source: Dealroom](https://www.dealroom.com).

⁴ See the full list here: <https://www.cbinsights.com/research-unicorn-companies>

3. **Cyclicity:** the significant risk of institutional investors, such as those from venture capital firms, lies within their cyclical nature. Their investment activity, just exactly like bank loans, can be dramatically affected by economic cycles. In an economic downturn, deal flows can halt abruptly. In times of crisis, they generally prefer holding cash and sustaining their existing portfolio by follow-on or bridge finance. This is what exactly happened in the 2008 financial crisis, exemplified on September 15, 2008,⁵, which took the US Congress under pressure to invent a tool to stimulate the economy and halt the downturn (Szeles, 2022).
4. **Regulation:** Realizing the rise of the internet and motivated by the early successes of digital crowdfunding marketplaces such as Artistshare and Kickstarter, or – today’s largest reward-based crowdfunding platform of creators⁶ –, in 2012, Congress passed a landmark regulation, the JOBS Act, that legitimized investment crowdfunding, a potential natural choice for even a CCI entrepreneur in a more mature phase – perhaps, after having completed a reward-based crowdfunding campaign.

4.3 Let’s go crowd: platform-based communities and platform economics.

The Regulation Crowdfunding provision within the Jumpstart Our Business Startups (JOBS) Act – deliberately named to emphasize its goal of job creation – eased the requirements for costly prospectus authorization within specified limits. Among the first equity crowdfunding platforms established in response to this change was Wefunder, founded “to address the funding gap left by institutional investors’ rejections” – as referred thereto earlier. Since then, Wefunder, along with other equity U.S. platforms, has collectively raised over \$ 700 million from more than 3 million individuals (Wefunder, 2023).

The European Crowdfunding Service Providers Regulation (ECSPR) came into effect in 2022. Since November 10, 2023, only licensed platforms are permitted to offer investment-based crowdfunding. Reward-based and donation-based crowdfunding remains unregulated, as these fundraising methods do not involve regulatory risk and information asymmetry, those factors that necessitate regulated investor protection. With the JOBS Act and ECSPR, the last regulated physical investment asset class is born, that of the pre-IPO companies, but crypto assets are also being regulated (Tokeportal.com, 2023). With the introduction of new regulations, for the first time in history, so-called non-sophisticated or everyday investors are safeguarded when investing in startups or early-phase companies. For creators who plan to develop alongside the alternative finance lifecycle, as exhibited in **Figure 3**, these regulations not only enhance safety and transparency in planning the financial strategy but reduce costs and risks in cross-border strategies and allow crowdfunding up to € 5M per year without further, costly legal arrangements. This ticket size is very much competitive with any other form of institutional capital, not to speak of the secondary market service that enhances the liquidity of the crowdfunded securities, thus reducing investors’ risks. (Without stressing too much vision into this short paper, blockchain-based tech trends like tokenization will most probably soon compete even with traditional IPO markets such as stock exchanges.)

⁵ The collapse of Lehman Brothers led to widespread panic in the financial markets, significantly impacting the availability of venture capital as well: many VC firms faced reduced funding from Limited Partners (LPs), which drastically limited their ability to support SMEs and startups. This situation was exacerbated by the near freeze of the entire banking system, leaving the economy in a dire state without finance. The aftermath saw a surge in bankruptcies and unemployment reaching unprecedented levels. It took global economies more than five years just to stabilize from this shock. Venture capital funding, according to data from the National Venture Capital Association, dropped from \$28.3 billion in 2008 to \$17.7 billion in 2009. Unemployment rate more than doubled, peaking above 10% in late 2009, reaching a high not seen in over 20 years. Early-stage companies and SMEs were cut off from traditional bank financing. High costs of public offering of shares, including the need for an authorized prospectus disabled them to sell shares. The JOBS Act made a significant mark in financial history by enabling early-stage companies to be investable by the public, effectively regulating, thus creating the last segment of physical asset classes (Epstein 2016).

⁶ To clarify, while Kickstarter remains unregulated, it, along with other existing platforms at the time, demonstrated the online platform-based mechanism of directly connecting creators with clients.

So, what is crowdfunding exactly? In itself, it is as old as mankind: an open call for friends, family, and unknown prospective investors/donors to finance something. People with an idea but without money always went around the corner to ask for money. Mozart sought funding for three piano concertos by proposing a subscription model to potential investors. The Liberty statue was financed by newspaper advertisements. But that was local. With the rise of the internet, crowdfunding experienced a digital reincarnation, expanding its reach on a global scale. The key to success in these projects lies in **their internet-based, computer-mediated, asynchronous communication campaigns** (Demattos & Maehle, 2023), **with the addition of efficient targeting of the audience in social media**. This mechanism has now become a prominent subject in communication theory research. In this paper, we add further developments as also observed in a survey (Szeles, 2023): the more synchronized the communication between the campaign owner and the potential supporters or investors is on the campaign page, social media, or at online/offline events, the greater the backers' or investors' engagement, and their sense of reaching agreement, which can be called participation (Horányi, 2006). **Successful campaigns are those that have reached an agreement with their audience, an investment agreement.** This is the conversion mechanism of crowdfunding.

While social capital is a macro-level approach, on the meso-and micro level, network capital, including friends, family, fans (or fools, often added sarcastically, but it stands for followers in social media (FFF) is the cornerstone from where a project or startup can kickstart its go-to-market strategy. Using crowdfunding not only as a periodic tool but as a business model (Rykkja, 2023) by converting FFF — also referred to as fan-capital, Direct-to-fans (D2F) (Tosatto et al., 2022), or affective marketing (Hills 2015) — into users and donators/backers/investors; and by uniting audiences with the platform audience, crowdfunders can build a strong brand, a legacy- or a love brand. And as Figure 2 demonstrates, this can spill over into the wider economy.

“Bűvös Kocka ⁷ of Crowdfunding”

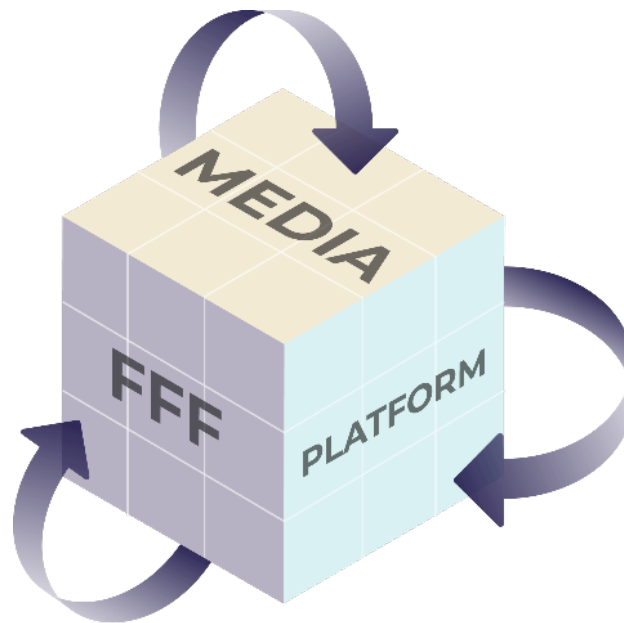


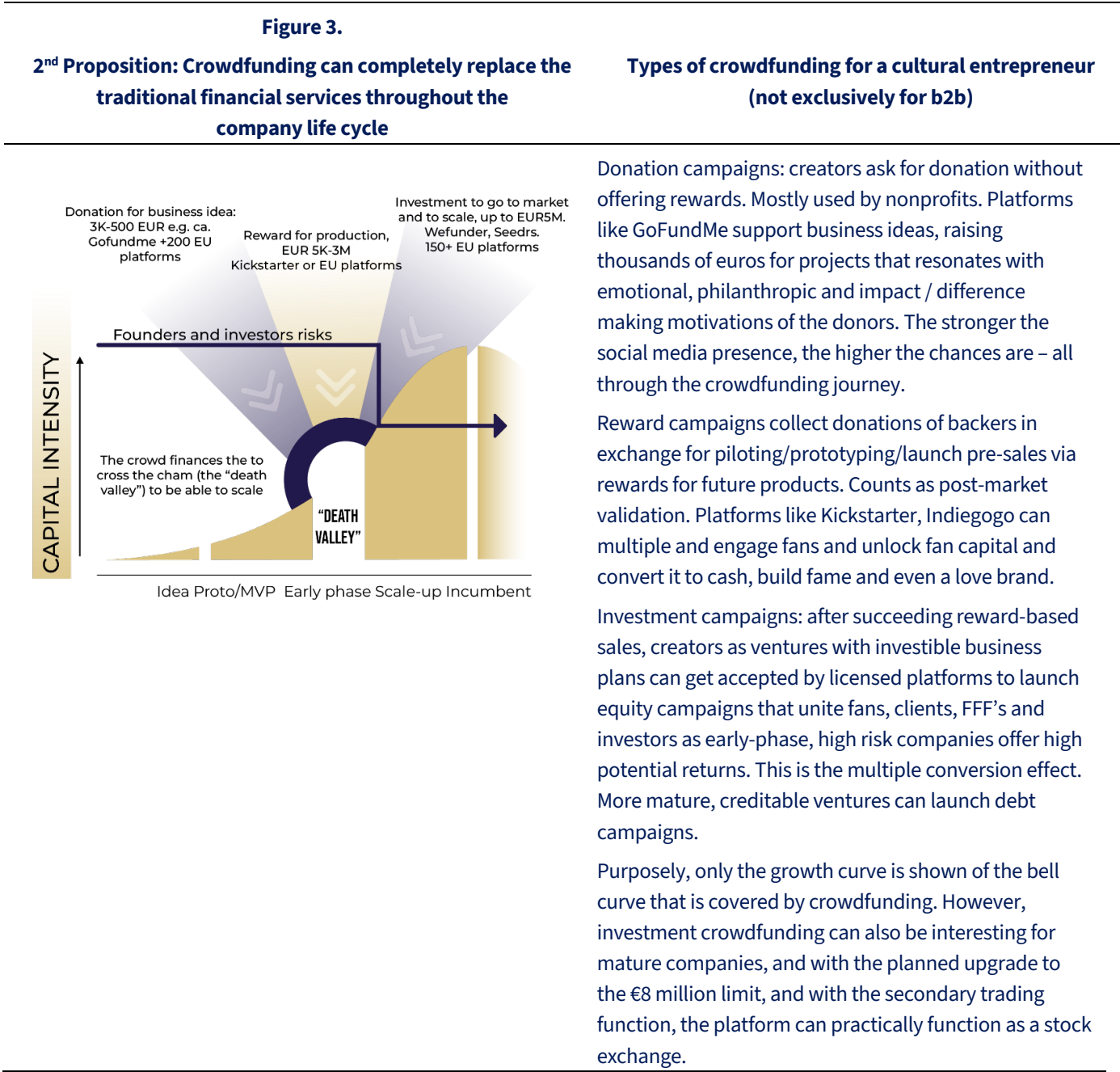
Figure 2: The inception points of the spillover effect of innovation.

⁷ The Rubic Cube or Magic Cube is a Hungarian invention (1974)-is applied here just to visualize how to make sense of crowdfunding-as-communication, as a mathematical model.

The magic lies within the sustainable conversion mechanism of crowdfunding: on the meso-and micro level, network capital—including FFF, is the cornerstone from where a project or startup can kickstart its go-to-market strategy. By momentum-building communication strategy, further and further layers can be reached, new audiences can be added, and the wisdom of the crowd can be insourced (World Bank 2013). The original, creative, innovative project idea can, through crowdfunding, diffuse and create spillovers in the wider economy.

Paschen (Paschen, 2016) conceptualized the 2nd proposition eight years ago that the four types of crowdfunding can fill the gap in traditional financial services such as bank loans. Since then, evidence of platform performance and regulation has solidified the concept that I exhibit in Figure 3. Further highlights of the World Bank study (World Bank 2013) and findings from recent studies are added.

Table 1. How crowdfunding covers the financing needs of startups and SMEs. Inspired by the chart of the World Bank (World Bank), 2013.



There are two further key takeaways from Figure 2:

- The World Bank proposed that crowdfunding is a key tool for early-phase companies to bridge the "Death Valley" — the critical phase where they run out of capital and are not yet attractive to institutional investors or banks (World Bank 2013). But the crowd can be a source of capital for them. Therefore, crowdfunding can attract dormant capital into the economy and also serve as a mechanism for crowd diligence, where potential backers collectively assess and comment on the legitimacy of a campaign: if any fraudulent or contradictory information is detected, interest in the campaign can rapidly decline, leaving the untrustworthy founder without support. This crowd-based vetting process, called crowd diligence, is essential in mitigating fraud in crowdfunding platforms.
- The curve exhibits another famous concept, that of the "crossing the chasm," which can be regarded as the Death Valley of growth (Moore 2014). The concept proves that in the above-pictured interdependency with novelty adoption by customers—which begins with early adopters and continues with early majority, late majority, and laggards—the critical chasm lies between the early adopters and the early majority. Most early-phase companies fail with their go-to-market strategy or product-market fit at a mass scale. To conquer this risk, crowdfunding can help innovators validate their concepts with a large amount of feedback during a reward campaign and get better prepared for crossing the chasm.

To conclude, the 2nd proposition to reflect the CCI entrepreneur, major, research, and evident-based advantages follow, related to platform economics.

- Reward- and donation-based crowdfunding practices are most used within the culture sector (Shenor et al. 2020; Rykkja 2023). More and more cultural entrepreneurs utilize this experience in upgrading their crowdfunding experience and launching equity campaigns successfully. Reddit is a famous example.
- Crowdfunding is a process by which new value is added to the process of production, distribution, and creation of exchange and use value) constitute innovation. According to standard OECD/Eurostat definitions and measurement procedures, the use of crowdfunding may create and lead to the diffusion of another potential innovation (Banet-Weiser & Castells 2017).
- Entrepreneurs' dream across sectors is to build a love brand. Due to their fan base, love brands are the most resilient and independent from market shocks due to their domesticated resources. Crowdfunding is the tool to maximize fan capital for financing as it allows a fan to renew their connection to the brand and be part of its journey (Scott 2015). Fashion brands, and for example, new food (e.g., craft beer like Brewdog, lots of beverages, vegan food brands), new industries such as fintech, and impact-driven sustainability projects maximized crowdfunding for this purpose.
- Crowdfunding platforms operate in a webshop model. As online marketplaces, they need to develop both sides of the market and match supply with demand. For campaign owners using crowdfunding as a business model, not merely out of necessity, it's crucial to apply e-commerce-like marketing and communication strategies. Campaign owners need to utilize network effects through effective marketing (Hills 2015), framing (Moradi & Dass 2019; Entmann 1993), and Direct-to-Fan (D2F) mechanisms to foster engagement effectively (Tosatto et al. 2022). The widely applied and researched online marketing strategy includes leveraging social media to build the campaign momentum. Achieving near-synchronous communication, aka participation, is key to creating this momentum. This is the **3rd proposition** that adds further depth to the well-established herding effect that is the other key driver of momentum building (Agrawal et al. 2015; Petit & Wirtz 2021).

- For platform operators or crowdfunding service providers, entry barriers are significant. Typically, these platforms adopt a success-fee-based B2B model and earn 5%-15% of the capital collected, which entails risks, given the success rate is 40%-80% of the campaigns launched. Their revenue increases with the quantity of capital, therefore, with the quality of campaigns they attract, and top campaign creators often favor platforms with larger user bases. Liquidity attracts liquidity, as in all segments of capital markets. This is how Kickstarter corned out the market (Rykkja 2023). While this study does not delve into detailed platform economics, considering the industry's current state and its oligopolistic market structure, this business model in a relatively new market—where intensive education is necessary to evangelize prospective clients across diverse financial cultures—demands substantial capital expenditure (CAPEX). For investment-based platforms, achieving ECSPR license readiness incurs additional costs of €100-150k, besides expenses on application development, marketing, staffing, and legal costs, including user verification tools (Know Your Customer, KYC) and anti-money laundering (AML) measures.

5. Meanwhile in Hungary

Thirty-four years after the Ceremony, one year after the BSE's IPO, the Hungarian economy is now in the latest laggard phase as measured by decisive mainstream capital market-related economic factors, as published by the National Bank of Hungary and AFME as well (MNB 2022; AFME 2023). Within this study, only a few of these are presented, embedding them into a well-elaborated phenomenon and concluding with the current status of venture capital and crowdfunding⁸.

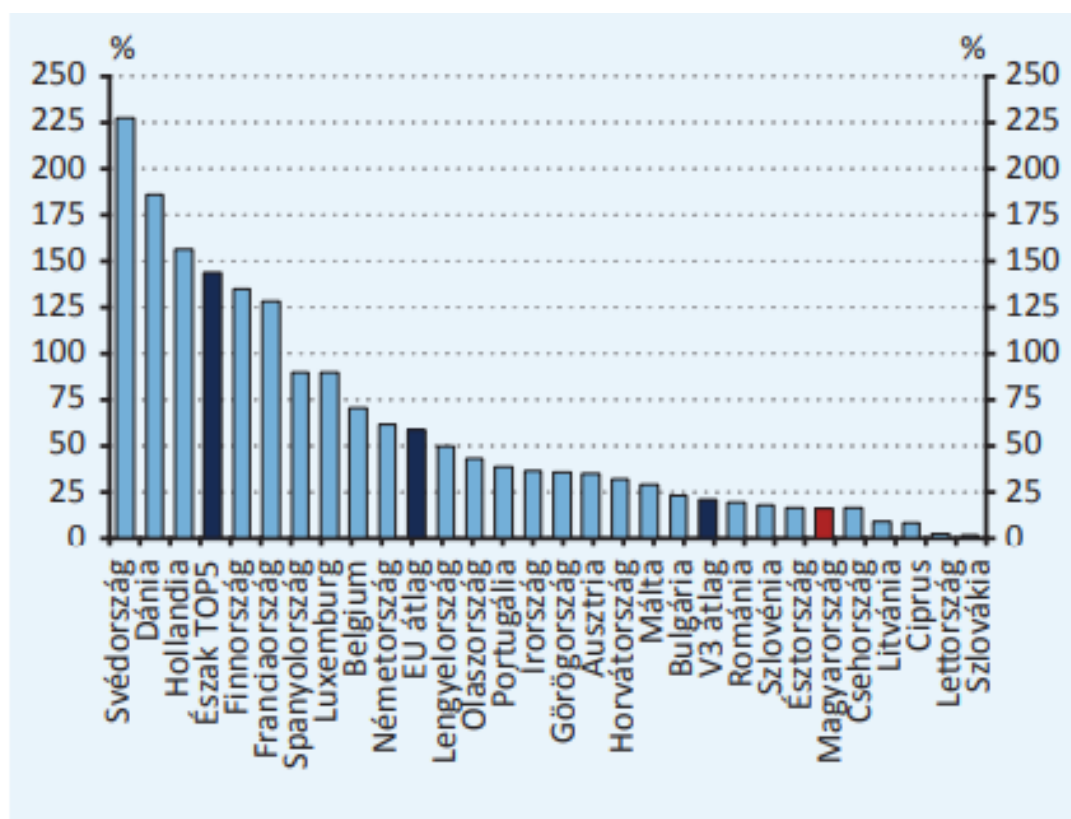


Figure 4: Stock market capitalization in comparison to GDP in 2021

⁸ This late laggard phase is also explained by the BSE's lack of strategy to integrate into the European capital markets in that regulation-driven consolidation (Szeles & Marosi 2000; Szeles et al. 2001). The impact of the missed opportunities is another important factor but would not fit within the scope of this paper.

“In Hungary, stock market capitalization as a percentage of GDP is low in international comparison, at 16.5%. This places Hungary behind Poland in the regional context, but ahead of the Czech Republic and Slovakia. In Western European and Scandinavian countries, market capitalization often exceeds 100%. A diversified financial system underpins competitive economies and sustainable growth. In contrast, financing in Hungary primarily occurs through banking channels, creating significant vulnerabilities, especially during credit crises, as it complicates access to resources for companies. Achieving a 30% capitalization ratio could potentially increase the economy's potential output level by 0.2-0.3 percentage points.”
(Source: MNB, 2022)

The transformation following the Hungarian regime change led to significant societal and economic shifts. Research indicates an increase in risk averseness among the population, a trend often attributed to the uncertainties of the post-regime economy, resulting in a decline in social capital. Traditional networks were disrupted, and new forms of social organization were slow to develop (Sik, 1994). Moreover, the transition period reinforced top-down cultural norms, reflecting a continuity of paternalistic attitudes from the previous regime, which hindered the development of more participatory and democratic organizational cultures (Kornai, 1995). This paternalism, deeply ingrained in the societal fabric, continued to influence both public and private sector dynamics, impacting decision-making processes and leadership styles (Karsai 2020).

According to Dealroom's research (Balogh & Langmar, 2024), Hungary's peak in the stock market was in 2020, supported by European S3 funds and incubators. In 2020, the investment ratio was 45 euros per capita. This figure was five times higher in Austria, ten times in Germany, and 43 times in Estonia. Research also shows a growing reliance of the region on state or EU funds for venture capital, increasing from 25% to 40% from 2016 to 2020 while remaining stable at about 6% in Europe. This suggests these countries are gaining more influence in state funds, unlike Western countries where risk capital is privately funded to the market. The limited availability of venture capital particularly affects the growth of high-potential, young, innovative companies (Karsai, 2020): 31% of startups valued over one billion dollars did not or could not use venture capital, compared to only 7% in the whole of Europe. In the CEE, five countries received 82% of the total investment value: Estonia, Czech Republic, Poland, Hungary, and Romania. Currently, Hungary lags far behind Estonia in terms of startup investments relative to GDP per capita: whereas in Estonia, GDP is €27k / capita and investments are €2k/capita, in Hungary, GDP is €18k/ capita, and investments are as low as €7/capita.

So where is the money? As highlighted by the World Bank, crowdfunding is a tool to unlock dormant (uninvested) capital and make it work. (World Bank 2013). Dormant capital mirrors distrust in the state (which is not contradictory with paternalism) and lack of investment possibilities and preserves the gap. Hungary is recorded in this negative trend: Figure 5. shows that "in the European Union, only Greece, Latvia, Lithuania, Portugal, and Slovakia had a higher GDP ratio of cash in circulation. In the CEE region, only the Slovak value exceeded the Hungarian." (Hungarian Banking Association, 2019).

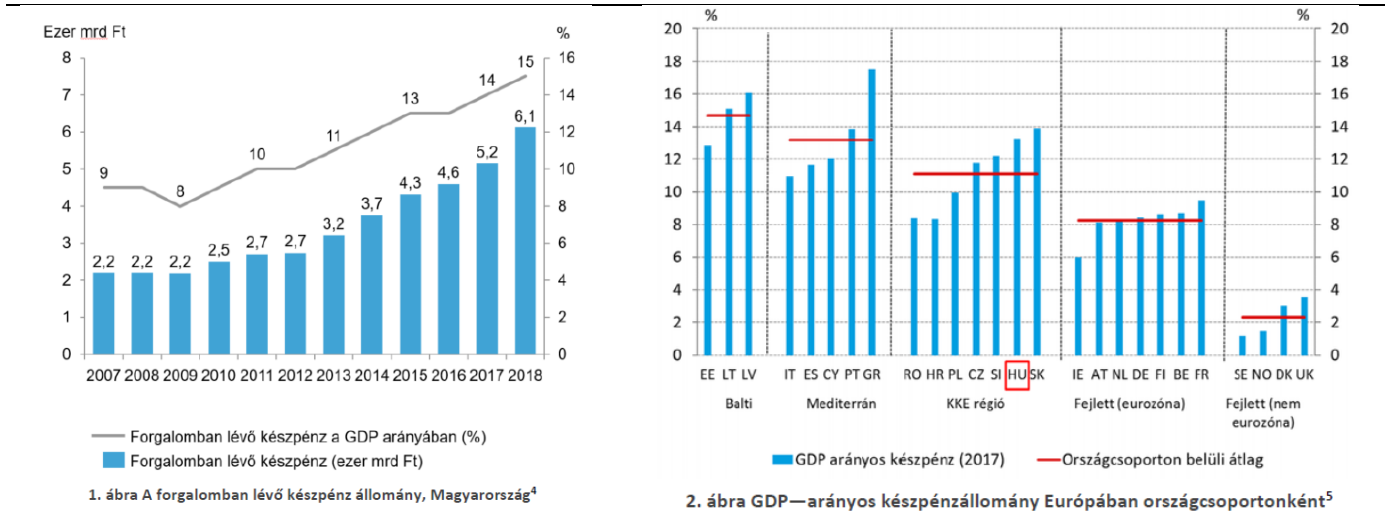


Figure 5: Cash (as non-working, aka dormant capital) versus working capital, Hungary vs the EU (2019).
Source: Association of Hungarian Banks
The left graph shows the cash in HUF billion in proportion to GDP in 2019. The right shows it in regional comparison.

Crowdfunding in Hungary has appeared, but yet underdeveloped. Launching services and breaking grounds as a small startup within an ecosystem-poor environment resulted in its valid yet slow growth. Without further analysis within this article, Figure 6 provides the first published overview of Hungarian platforms.

Table 2: Hungarian crowdfunding platforms.

Crowdfunding Platform (service since)	Type	No. of Campaigns	Capital raised
TokePortal.com (2020)	Equity, donation	25	HUF 1 bn
Adjukossze.hu (2013)	Donation, NGO	260	N/A
Sharity (2020)	Donation, CSR	N/A	N/A
Brancs (2022)	Reward	35	HUF 56,4M
Goood.hu (2015)	Donation	N/A	HUF 95,83M F

Platforms that ceased operation: Creativeselector.hu, Stagehive, Indulj. be, kezdheted.hu.

6. The king is dead, long live the crowd (funding, as a superdiscipline).

Concluding remarks

Access to capital is a global demand. In 2024, private economy participants, from the cultural entrepreneur through SMEs to large incumbent companies, creative and innovative ecosystems are weaponed to reassemble the economy to make it more sustainable and more resilient. In countries where traditional, top-down approaches are prevalent and do not actively promote digital initiatives for the broader economy, bottom-up economic strategies can be energized by tapping into dormant capital directly from the population, a concept that the World Bank has already advocated for since 2013.

Before summarizing why, we should consider crowdfunding as a superdiscipline, Figure 7, an updated, enhanced version of the original diagram from the World Bank, shall be viewed. This revised diagram projects the creative power of the alumni-based ecosystem that ensures the driving power and the circularity of capital that will diffuse over the wider economy.

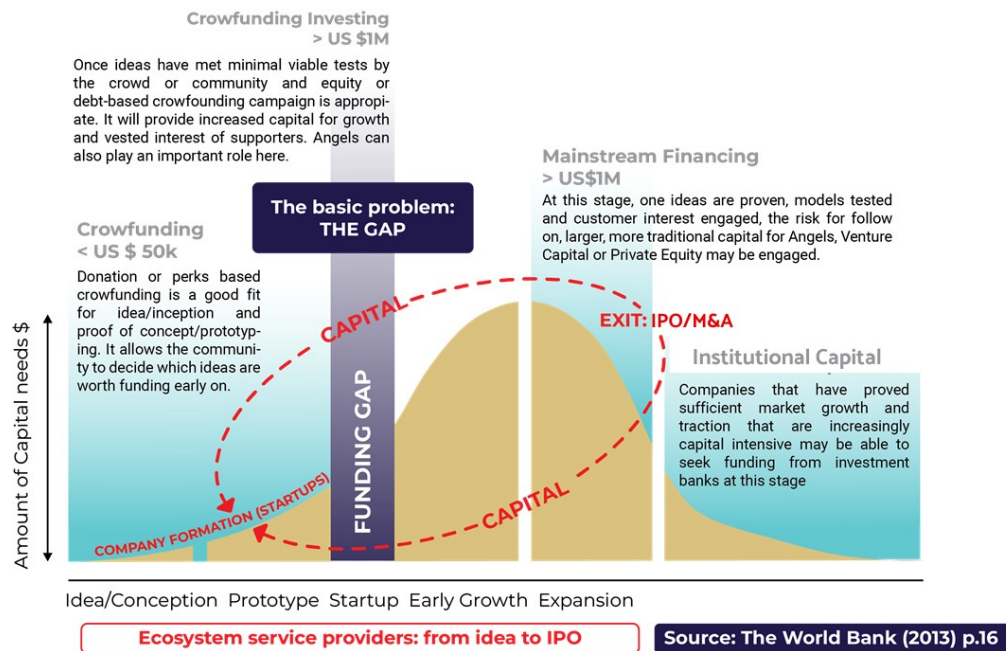


Figure 6: “Crowdfunding fills in the gap” – revised (Source: own figure, based on the World Bank figure).

Crowdfunding can be regarded as a "superdiscipline" because it integrates various elements of economy, culture, and technology. As a conclusion of this paper for the CCI entrepreneur, the value propositions 1-3 are introduced in this paper and are summarized.

1st: the meso-proposition is that crowdfunding is the most sustainable, most democratic funding bottom-up driver and, therefore, the most sustainable. More than a platform: an ecosystem-builder.

2nd: the macro-proposition concludes that ecosystems can transcend traditional economies based on interconnectedness and alumni cultures that contribute to capital circularity

3rd: the micro-proposition relates to participation in creating the campaign momentum and synchronizing the campaign communication with its prospective investors/backers.

Summarizing the multifaceted role of crowdfunding:

1. Interdisciplinary nature: Crowdfunding inherently involves finance, marketing, technology, and social networking.
2. Economic impact: crowdfunding mobilizes dormant capital, allowing it to flow into new and innovative projects. This influx of funding can stimulate economic growth, support new businesses, and create jobs.
3. Cultural impact: crowdfunding can contribute to a new type of ecosystem where crowd capital is fueled into CCI. As the network effect determines that successful platforms act as central marketplaces of capital, social capital, and knowledge capital and distribute these goods more inclusively and democratically, artistic projects might not otherwise receive funding, therefore, crowdfunding influences cultural development. This, in turn, serves as an inception point for spillovers into the wider economy and offers a real choice for the cultural entrepreneur between monopoly-, monopolistic, and democratic ecosystems.
4. Design innovation: crowdfunding allows designers to bypass traditional funding constraints, bringing innovative products directly to the market.
5. Regulatory aspects: Investment-based crowdfunding is regulated and fully passported within the EU, ensuring higher investor protection while raising the barrier of entry, leading to market consolidation and higher efficiency.

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