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SHORT ARTICLE



Leveraging regional immigration and immigration diversity for financing crowdfunding projects

Francesca Di Pietro 

ABSTRACT

The study focuses on the role of regional immigration and immigration diversity in influencing entrepreneurs' ability to crowdfund their projects by leveraging the local crowd. Relying on an empirical analysis of 3250 individual investments via three Swiss reward-based crowdfunding platforms, it is found that higher immigration and immigration diversity levels in the region of the project proponent increase his/her ability to fulfil the funding needs by leveraging local backers (as opposed to backers from different regions). Immigration and immigration diversity constitute a cultural milieu that helps the financing of innovation and the development of the local entrepreneurial economy.

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INTRODUCTION

Crowdfunding allows entrepreneurs to raise funds for their business idea via the Internet, leveraging individual contributions from diverse pools of people (Schwienbacher & Larralde, 2010). Specifically, in the context of reward-based crowdfunding, entrepreneurs often launch a campaign with the goal of financing the creation of a new product and introducing it to the market (Butticè & Noonan, 2019).

Despite the benefits of the Internet for reducing distance-related frictions, prior work shows that geography matters for crowdfunding decisions: online transactions are more likely between project proponents and backers in the same geographical area due to lower information asymmetry (Agrawal et al., 2015; Dejean, 2019; Lin & Viswanathan, 2016; Mollick, 2014), and the local context affects proponents' ability to attract external financing (Giudici et al., 2018; Guiso et al., 2004).

Despite the fact that the extant literature highlights the importance of a region's socioeconomic environment for entrepreneurship (Bosma, 2009; Fritsch & Storey, 2014; Sternberg, 2009), so far understanding of the regional conditions that enhance crowdfunding investments has been limited (Di Pietro & Masciarelli, 2021; Giudici et al., 2018).

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Backers residing in the region of the project proponent, having facilitated access to information on the projects and the proponent, represent a suitable crowd to leverage for fundraising. Exploring how regional conditions of the area where proponents reside affect their ability to attract local (versus cross-regional) financial resources for their entrepreneurial projects is an interesting addition to this literature, and the aim of this research.

Regions are heterogeneous along many dimensions that may influence the financing of innovative projects (Fritsch & Storey, 2014). Among them, the literature has proved that immigration and immigration diversity play an important role (Lee et al., 2004; Levie, 2007; Mickiewicz et al., 2019).

Therefore, this study looks at the role of regional *immigration* and *immigration diversity* in influencing the ability of project proponents to leverage the local (versus cross-regional) crowd for financing their projects.

The paper's conjectures are tested in the context of reward-based crowdfunding in Switzerland, using a dataset of 3250 individual contributions to 88 projects via three platforms, from July to December 2016.

The results show that a higher level of regional immigration and immigration diversity favours proponents' ability to leverage the local pool of backers as opposed to backers from different regions for funding their entrepreneurial projects.

This study contributes to the entrepreneurship literature and regional studies by identifying regional characteristics influencing the financing of entrepreneurial projects. The findings suggest that, due to the difficulties for entrepreneurs in attracting cross-regional resources (Lewis, 1999; Lin & Viswanathan, 2016), local heterogeneity can facilitate access to resources for the financing of entrepreneurial projects.

THEORETICAL FRAMEWORK

Geographical proximity and crowdfunding

The literature on crowdfunding has grown rapidly over the last few years (Butticè et al., 2020; Di Pietro, 2020). Scholars have investigated the phenomenon from different perspectives to understand the factors associated with the success of crowdfunding. Among the factors identified, such as project quality (Mollick, 2014), project proponent's personal characteristics (Ahlers et al., 2015) and internal social capital (Butticè et al., 2017), research points to the importance of the geographical proximity (Agrawal et al., 2015; Lin & Viswanathan, 2016) and the characteristics of the local areas of the project proponent (Giudici et al., 2018). Agrawal et al. (2015) show that family and friends tend to be local and invest in the project in the early phases of the funding process, while Lin and Viswanathan (2016) provide evidence of home bias, showing that proponents are more likely to attract resources from local supporters due to lower information asymmetries and transaction costs (Lewis, 1999).

This paper agrees with Giudici et al. (2018, p. 309) 'that residents of the same geographical area as the proponent form a promising pool of potential backers who suffer from limited information asymmetries and thus are, in principle, more keen to support their neighbours' crowdfunding projects'. Therefore, local backers represent a suitable crowd to leverage for fundraising.

Despite the fact that the extant literature highlights the importance of a region's socioeconomic environment for entrepreneurship (Bosma, 2009; Fritsch & Storey, 2014; Sternberg, 2009), there is yet a limited understanding of the regional conditions that enhance local crowdfunding investment (Di Pietro & Masciarelli, 2021; Giudici et al., 2018).

To address this gap, this study investigates the role of regional immigration and immigration diversity in influencing the ability of proponents to rely on local backers (as opposed to backers from different regions) for funding their projects via reward crowdfunding. A growing literature has proved that immigration and immigration diversity in a region have a positive effect on entrepreneurial activities and innovation (Levie, 2007; Mickiewicz et al., 2019). Therefore, it

was investigated whether the heterogeneity of the region in which the entrepreneurs launch their project enables them to satisfy their financing needs by leveraging the local crowd rather than seeking funds across regional boundaries.

Research hypotheses

It is argued here that seeking funding from local backers is easier in regions characterized by high heterogeneity in terms of immigration and immigration diversity, which may favour the support of entrepreneurial opportunity in different ways (Lee et al., 2004; Mickiewicz et al., 2019).

Immigrants are individuals who have the capacity to identify opportunities, and have higher entrepreneurial propensity (Levie, 2007; Mickiewicz et al., 2019): ‘they see the world differently to life-long residents and as a result see a wider set of opportunities in their local area’ (Bolívar-Cruz et al., 2014, p. 32). Additionally, they bring to the local context an original pool of knowledge and worldviews (Lee et al., 2004) resulting to spillover effects (Audretsch & Keilbach, 2007). Locals when exposed to immigration in their region may also be capable of sourcing new knowledge and networks, combining it with their own. Therefore, it was expected that a higher share of the immigrant population in the region – indicating a wider knowledge base within the community (Mickiewicz et al., 2019) – would have a positive effect on an individual’s likelihood to engage and financially support local entrepreneurial activities. Therefore, the following hypothesis is posited:

Hypothesis 1: Higher levels of immigrations in a region favour the support of local entrepreneurial projects via crowdfunding.

Regarding immigration diversity, the literature highlights both its negative and positive effects on entrepreneurship and innovation. Some studies suggest that greater diversity may hinder knowledge spillovers, particularly where there is cultural distance. Cultural differences can create problems for integration due to linguistic distance and lower communication skills (Strøm et al., 2018) – and thus also affect the capability of knowledge transfer (Sarala & Vaara, 2010). Cultural differences may also increase communication costs and lower trust, hampering innovation and new firm creation (Beugelsdijk et al., 2019; Churchill, 2017; Sobel et al., 2010).

However, the coexistence of cultures residing in the region may also have beneficial external effects, increasing local diversity. Local diversity enhances a local climate characterized by respect for diversity and open-mindedness (Hansen & Niedomysl, 2008). Tolerance and inclusiveness become embedded (Pettigrew, 1998), which makes a region more attractive for talented individuals with diverse cultural backgrounds, that in turn contributes to increasing diversity, creating a virtuous circle (Mickiewicz et al., 2019). ‘Diversity implies that there are more opportunities to combine elements of knowledge to create new insights’ (p. 83). Thus, different perspectives, abilities and ways of thinking linked to diverse cultures contribute to the growth of an environment where innovative entrepreneurial ideas are more easily accepted and supported (Alesina & La Ferrara, 2005; Florida, 2002; Lee et al., 2004; Smallbone et al., 2010). Therefore, the learning effect may act as a multiplier effect, emerging due to the presence of diversity, that potentially further expands the open-mindedness and supportiveness of the region (Tubadji & Nijkamp, 2014, 2015). Additionally, people from different countries and regions with diverse needs may generate demands for diverse goods and services, which offers a fertile ground for new businesses (Rodríguez-Pose & Hardy, 2015).

Therefore, the following hypothesis is posited:

Hypothesis 2: Higher levels of immigration diversity in a region favour the support of local entrepreneurial projects via crowdfunding.

METHODOLOGY

Sample and data

The paper studied reward-based crowdfunding projects in Switzerland. In reward-based crowdfunding, project proponents offer non-financial benefits to backers in return for the investment, including public acknowledgment, the possibility to pre-order the products or personalized gifts (Belleflamme et al., 2013). The Swiss context is well suited to this study, as Swiss cantons (Territorial Level 3 (TL3) in the Organisation for Economic Co-operation and Development's (OECD) classification of regions) are highly heterogeneous in terms of immigration,¹ while presenting economic homogeneity (OECD, 2016). Therefore, due to its regional and local diversity, Switzerland offers a fertile ground to assess how regional characteristics influence local fundraising via crowdfunding.

Additionally, the crowdfunding market in Switzerland has grown substantially during the past years, representing an important opportunity for local entrepreneurs (Swiss Fintech Report, 2016). The total volume of crowdfunding investment grew from €16 million in 2015 to €30 million in 2016 (+81%), reaching €77 million in 2017 (+161%) (Ziegler et al., 2019).

Data on 88 projects from three different platforms, to increase the generalizability of the results, were collected between July and December 2016..²

The three platforms were suitable since they display investors' names and locations for each project, which were needed to identify local versus cross-regional transactions. Among the projects fundraising during July–December 2016, only successful projects were selected, since our interest was how regional diversity favours the flow of resources, this occurs only if the campaign achieves its target.

Through the platforms' websites, data on (1) project proponents – city and home region; (2) backers – city, home region and seriality; and (3) the project – amount sought, funds raised and project category were collected. The dataset contains 3250 observations representing individuals' pledges in the crowdfunding projects. For each project, only individuals who reported their names and location were included. The database was integrated with regional-level variables on immigration and immigration diversity, and macroeconomic information, gathered from the Swiss Federal Statistical Databases.³

Variables and measures

Local investment, the main dependent variable, is a dummy variable taking value 1 if the project proponent received funds from backers residing in his/her region, 0 from backers residing outside the region.

The main independent variables are *Immigration*, such as the share of foreign residents in the region of the project proponent, and *Immigration diversity*, calculated as 1 – Herfindahl index of the population share of each immigrant nationality residing in the region of the project proponent. This measure of diversity has been widely used in regional studies (Alesina & La Ferrara, 2005; Mickiewicz et al., 2019). Data refer to the year 2015.

The characteristics of the region of the proponent (*Per capita income*, *Digital literacy*, *New companies*, *Internal migration*), the project (*Project category*, *Overfunding*), and backers (*Seriality*) were controlled for. Table 1 describes the variables used. Table 2 presents the summary statistics and the correlation matrix.

Of the 88 projects in the sample, 35 are technology oriented (57.42% of observations), 29 socially oriented (19.54% of observations), 21 sport/community oriented (20.22% of observations), and three non-tech oriented (2.82% of observations), according to each project's crowdfunding campaign webpage.

Table 1. Variables included in the estimation.

Variable	Description
Local investment	Dummy equal to 1 if the pledge is received from backers from the project proponent's region, 0 outside the region
Immigration	Share (%) of non-Swiss nationals (log) residing in the region of the project proponent
Immigration diversity	1 – Herfindahl index of the population share of each nationality residing in the region of the project proponent
Internal migration	Share (%) of Swiss nationals resident in a region different from their region of origin in 2016
Per capita income	Amount (log) of income per capita (in CHF) in 2013 in the region of the project proponent
Digital literacy	Percentage of people using the Internet daily from a sample of individuals aged over 14 years old in 2015 in the region of the project proponent
New companies	Percentage of new companies opened in 2016 over the total number of companies in the region of the project proponent
Project category	Categorical variable for technology-oriented, social-oriented, sport/community-oriented and other non-technology-oriented projects (e.g., fashion) according to the crowdfunding campaign webpage
Overfunding	Difference between the funding amount raised and initially sought by the project proponents
Seriality	Dummy variable equal to 1 for backers who invested in more than one project within the platform, and 0 otherwise

The average amount raised by project proponents is CHF28,600 from 161 investors. The proponents reside in 19 different Swiss regions, mostly in the Berne, Zurich and Lucerne regions. A total of 28.5% of the backers are from the region of Zurich, 20.5% from Berne region and the remaining 51% of backers are distributed across all the other regions.

Considering immigration and immigration diversity, the regions of the project proponents have on average 24% of resident immigrant population, from different countries. On average, 11% of the foreign residents are from Germany, 5.6% from France, 5% from Italy, 3% from Portugal, 2.4% from Poland, 1.9% from the United States, 1.8% from Spain, 1.6% from China and 1.6% from the UK. [Figure 1](#) maps the level of immigration (in 2015) across the Swiss regions considered in this study.

Lastly, considering the local versus cross-regional pledges, on average 59.88% of the funders were from the same region as the project proponent, and the remaining 40.12% from outside the region.

RESULTS

A logit estimator was applied to predict the probability of project proponents to receive funds from local backers versus backers from outside his/her region. The estimation results are presented in [Table 3](#). Model I reports the marginal effect of the control variables on the dependent variable *Local investment*. The results are robust across all specifications. In model II, the dependent variable *Immigration* is introduced. In line with expectations (Hypothesis 1), a positive and significant association between *Immigration* and the support of local crowdfunding projects from local backers was found ($p = 0.000$, $b = 0.257$). In Model III, *Immigration diversity* was introduced. In line with expectations (Hypothesis 2), a positive and significant association was found ($p = 0.000$, $b = 9.781$) between immigration diversity in a region and the probability

Table 2. Summary statistics and correlation matrix.

Variable	Mean	SD	Minimum	Maximum	1	2	3	4	5	6	7	8	9
1 Local investment	0.595	0.491	0	1	1.00								
2 Immigration	3.248	0.192	2.66	3.70	0.041	1.00							
3 Immigration diversity	0.967	0.012	0.83	0.98	0.035	-0.265	1.00						
4 Internal migration	0.107	0.023	0.08	0.18	0.027	-0.265	0.157	1.00					
5 Per capita income	10.96	0.284	10.54	11.65	-0.041	0.612	-0.169	-0.549	1.00				
6 Digital literacy	0.850	0.006	0.759	0.852	-0.054	-0.198	0.533	0.101	0.174	1.00			
7 New companies	0.056	0.008	0.041	0.079	0.026	0.519	-0.627	-0.501	0.451	-0.261	1.00		
8 Project category	2.132	1.039	0	4	-0.069	0.160	0.228	-0.075	0.105	0.053	-0.053	1.00	
9 Overfunding	10,868	26,732	0	223,765	-0.055	-0.165	0.127	-0.174	0.019	0.098	0.019	-0.043	1.00
10 Seriality	0.326	0.469	0	1	-0.056	0.091	0.028	-0.061	0.147	-0.057	0.020	0.098	0.013

Note: Observations = 3250; SD, standard deviation.

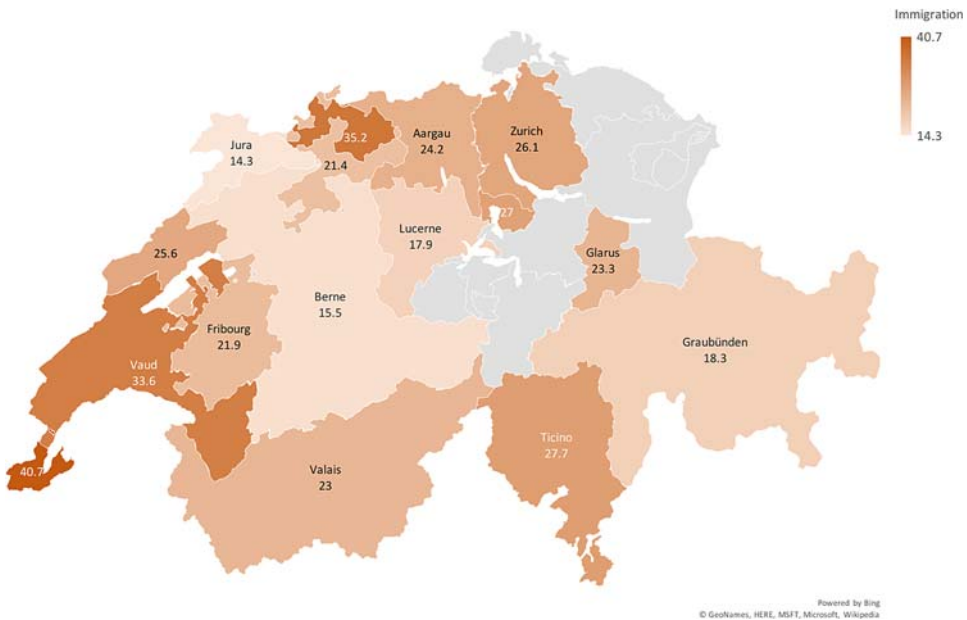


Figure 1. Immigration share (2015) of Swiss regions considered the study.

Table 3. Results from logit models.

Dependent variable: Local investment	Model I	Model II	Model III	Model IV
Immigration		0.257***		0.129 [†]
Immigration diversity			9.781***	9.18***
Internal migration	0.066	-0.008	0.185**	0.148*
Per capita income	-0.038	-0.161**	0.022	-0.050
Digital literacy	-3.319 [†]	-0.959	-11.53***	-9.78***
New companies	2.308	0.646	10.60***	9.35***
Project category	-0.027**	-0.034***	-0.049***	-0.050***
Overfunding	-8.7E-07**	-7.1E-07*	-1.2E-06***	-1.1E-06**
Seriality	-0.049**	-0.047*	-0.065**	-0.063**
Cons	14.31*	7.82	0.624	-3.504
Obs.	3250	3250	3250	3250
R ²	0.010	0.014	0.027	0.027

Notes: Marginal effects are displayed.

Significance levels: [†] $p < 0.1$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

of local project proponents to receive funds from local backers. Model IV includes all variables of interest and the results are consistent.

The final model shows that 1 SD (standard deviation) increase in the level of local immigration in the region of the project proponent leads to an 12.9% higher probability for the proponent to fulfil financial needs by leveraging local crowd. Also, a 1 SD increase in the level of immigration diversity in the region of the project proponent leads to a 9.8% higher probability for the proponent to fulfil financial needs by leveraging local crowd.

DISCUSSION

Results suggest that project proponents from regions characterized by a high level of immigration and immigration diversity are more likely to raise funds by leveraging the local pool of backers. As previous studies suggested, the presence of a unique pool of knowledge brought to the local context by immigrants may favour knowledge spillovers (Audretsch & Keilbach, 2007; Lee et al., 2004), thus allowing local crowd to recombine this knowledge with their own. This recombination of knowledge will result in a wider knowledge base within the community (Mickiewicz et al., 2019; Tubadji & Nijkamp, 2014, 2015), which have a positive effect on innovation and entrepreneurship, facilitating the fundraising of local innovative projects. Additionally, it might be that the existence of a diverse cultural milieu in the region has played a role in attracting migrants, therefore contributing to the positive effect of regional diversity on crowd financing.

Results also show that regional immigration diversity enables proponents to satisfy their financing needs by leveraging the local crowd. Higher diversity generates more opportunities to combine diverse knowledge, which contributes to building an environment where innovative and entrepreneurial ideas are more easily supported (Florida, 2002; Lee et al., 2004; Smallbone et al., 2010). Additionally, from the analysis of the composition of the foreign nationalities, is worth noting that the majority of foreign nationals are from countries sharing the same language as the host country,⁴ such as Germany, France and Italy. Language is a principal means of transmitting knowledge and accessing others' thinking, knowledge and beliefs. Therefore, this may also help to explain why greater diversity is found to increase the supply of backers, since, in the present case, the diversity is not typical of cultural distance, and language barriers are low.

CONCLUSIONS

This paper theoretically discusses and empirically shows that regional immigration and immigration diversity positively influence entrepreneurs' ability to crowdfund their projects by leveraging the local crowd, as opposed to seeking resources from outside their region. It adds to entrepreneurship and regional studies that have documented the existence of a home bias for entrepreneurs who seek capital on the Internet (Lin & Viswanathan, 2016) by showing that the characteristics of the region where entrepreneurs reside affect the financing of their ventures.

This work has some limitations that create opportunities for future research. The positive effect of migration in the Swiss context may be influenced by the presence of four official languages in the country, which lowers language barriers. Therefore, future studies could consider other countries in Europe where language barriers are higher. Additionally, due to data restrictions, it could not be identified whether project proponents are immigrants, or control for proponents' human or social capital, which should affect their success in crowdfunding (Ahlers et al., 2015; Mollick, 2014).

Lastly, as mentioned in the discussion, the cultural milieu of the region per se may influence the attraction of migrants and therefore the support of the crowdfunding project. This study was not able to disentangle whether it is the diversity of the region created by the migrants or the existing cultural milieu that attracted the migrants. Future studies could assess the impact of migrations on the financing of entrepreneurial projects, taking into account the local level of social capital.

Despite limitations, this paper has interesting implications for policy and practice. Project proponents should consider promoting their crowdfunding campaign in areas characterized by greater diversity to increase their chances of success. Project proponents residing in areas characterized by low diversity should be aware that they may not be able to get the most

from local potential backers and leverage the characteristics of the local areas, for example, local social capital, religious community and local altruism (Di Pietro & Masciarelli, 2021; Giudici et al., 2018), to attract funding, and the Internet to promote projects nationally or globally. Policymakers can promote diversity to foster regional entrepreneurship in areas where this aspect is lagging. Greater diversity will be positive where policy interventions enhance the integration of migrants and foreign nationals with local communities.

NOTES

¹ The author is aware that there is not a unique definition of immigration. This study employs the definition provided by the Swiss's Federal Statistical Office, which defines 'immigration' as migration from a foreign country to Switzerland. 'Migrant' is defined as a 'foreign national', which includes any person who lives in Switzerland but does not hold Swiss nationality. This definition is used in the Population and Households Statistics (STATPOP).

² The methodology of this paper draws upon the methodology used in our earlier work available here: <https://link.springer.com/article/10.1007%2Fs10551-021-04805-4#citeas>.

³ See www.bfs.admin.ch.

⁴ Switzerland has four national languages: German, French, Italian and Romansh.

DISCLOSURE STATEMENT

No potential conflict of interest was reported by the author.

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