

#15 - Lack of transparency & low accountability

Definition

The role and objective of a crowdfunding platform is to support and enhance the creation of integrated financial dynamics to collect resources from the crowd and institutional donors. These funds are in the name of the innovative project's activities and initiatives, in line with specific demands or needs. In this sense, any malpractice or perceived lack of transparency and accountability can result in the stakeholders' disaffection, that mines the success of any proposed crowdfunding campaign.

A platform's reliability and trustworthiness result by mixing clear expressions of transparency and a considerable campaigns' completion rate. In other terms, promoting unfortunate or failing initiatives can also negatively influence the perception on the platform's capacities and credibility. This is also true because investors and supporters do not always have a thorough understanding of alternative finance dynamics and make irrational choices, opting for more-widely-known platforms ("herd mentality").

Mitigation strategy

The platform has to build its accountability taking two main aspects into account: the creation of a transparent profile, and a fair management of campaigns and projects. For the first purpose, it should declare and openly publish its legal information, contractual obligations and details of the implementing/managing bodies of reference (board, person of reference, etc.).

In the same way, transparency can be guaranteed by issuing public calls for the submission of new actions, as well as the rating/references by the crowd. An additional indicator of its reliability consists in selecting projects via specific criteria and publishing score and arguments.

In relation to the practical management of the initiatives, on a preliminary basis it would be good practice for the platform to check on the project owner's capacity, on the project's suitability for their space, and on the users' readiness. This would result in higher success chances for the proposed initiatives and, as a consequence, in a better reputation in overall terms.

Along the campaign, the platform is expected to regularly report about the project's implementation with evidences (photos, videos, interviews, etc.) and supportive materials. At the end of the funding period or initiative, it is also good practice to present the action's results and foreseen developments.

Building and keeping on a regular communication and an open relationship with the community of reference and crowd is fundamental to the extents of an accountable profile. In the medium to long term, in fact, contractual clarity and transparency contribute to maintain a reliable and trustworthy profile also in case of negative contingencies. This is suppose to mitigate the reputational damage in case of failed projects.