CROWDFUNDING AS A SOURCE FOR SOCIAL ENTERPRISE FINANCING

Advantages and Disadvantages Experienced by Social Entrepreneurs

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Abstract

Social Enterprises face funding challenges. As investors focus too narrowly on risk and return, social enterprises may struggle to compete with commercial enterprises for investment capital. In this context, lending and equity crowdfunding have not been sufficiently examined, and its growing importance for business financing makes it valuable to understand its implications for social enterprises. This study collects qualitative data and uses thematic analysis to identify advantages and disadvantages that social entrepreneurs experience when using lending or equity crowdfunding. By conducting six semi-structured interviews we identified nine major advantages which are Viable funding option, Publicity and marketing, Engagement creation, Access to impact-minded investors, Alignment with company principles, Higher valuation of the company, Tests market viability, Favourable power balance towards investors and Large pool of capital; and five major disadvantages which includes Higher costs, Large number of investors, Inexperienced investors, Public exposure & Efficiency concerns. We discuss that crowdfunding represents values that are attractive for social enterprises. Further, crowdfunding sometimes offer higher valuation or more capital to social enterprises, compared to other funding sources. We see that several advantages are especially important in business’s startup phase. However, crowdfunding can also cause greater stress on the management team, and require time and resources. Entrepreneurs also need to consider factors such as public embarrassment when campaigns fail.
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APPENDIX A: Interview questions to companies
Definitions

**Business Angel:** A wealthy individual who provides capital for early-stage firms, usually in exchange for equity ownership.

**Commercial enterprise:** Businesses existing on commercial base driven by market opportunities, where wealth creation is a central goal of the business. Unlike social enterprises, desire to create social impact is not a fundamental goal, or reason for existence.

**Crowdfunding:** Funding from a large pool of people, also known as the “crowd”.

**Crowd investor:** A person who invests private money through the crowdfunding platform. A crowd investor is often an individual with no professional connection to investment.

**Crowdfunding platform:** Online marketplace that connects initiator seeking funds with investors.

**Donation-based crowdfunding:** A type of crowdfunding where funds are raised through donations, with no monetary returns.

**Equity crowdfunding:** A type of crowdfunding where the “crowd” invests in exchange for shares in the company.

**Lending crowdfunding:** A type of crowdfunding that allows individuals to lend money through a non-bank solution, often with lower interest rates and more flexibility.

**Reward based crowdfunding:** A type of crowdfunding where the initiator gives the backers of a project rewards in return for a donation, but no monetary returns.

**Institutional investors:** Large institutions that holds considerable amount of money to invest, such as banks, pension funds, mutual funds and insurance companies.

**Traditional investors:** All larger investors that traditionally been carrying out main proportion of investment financing, such as venture capitalists, business angels and institutional investors.

**Social enterprise:** Entrepreneurs that combine economic and social values that stimulate sustainable social change.

**Venture capitalist:** Organization of professional investors which provides capital to firms with high growth potential.
1 Introduction

This chapter begins with an introduction on the background of the current research on funding of social enterprises, followed by a presentation of the problem definition and research purpose. Lastly, the delimitations of the study are presented.

1.1 Background

Acquiring capital is a well-known obstacle for any new business (Belleflamme, Lambert & Schwienbacher, 2014) and as Cassar (2004) described, it is one of the most fundamental areas of enterprise research. The ability to attract capital is a major determinant of the business’s possibility to expand, perform and survive (Cassar, 2004). While acquiring financing is a typical challenge for any new business, scholars have acknowledged this as an even greater challenge for social enterprises (Bergamini, Navarro & Hillian, 2015), and some have described it as a major disadvantage for social enterprises in comparison to commercial enterprises (Bugg-Levine, Kogut & Kulatilaka, 2012). To explain this, researchers have pointed out that social enterprises struggle to compete with commercial enterprises in terms of risk and profitability (Brandstetter & Lehner, 2015), which are decisive factors of financing. It has been argued that many social enterprises are not profitable enough to access funding from established financing institutions (Bugg-Levine et al., 2012). This can be related to the focus within social entrepreneurship, which is to optimize positive impact on the society, rather than maximizing profitability (Lyons & Kickul, 2013; Martins, 2015). Social impact can be hard to monetize, where generated impact may benefit society as whole but lack specific customers to charge for these benefits (Lyons & Kickul, 2013). Another aspect is the difficulty of measuring social impact, which leaves the investor uncertain about what value the investment creates (Lyons & Kickul, 2013). Furthermore, traditional investors might have a shorter time horizon for their investment than required for solving social issues, which deviates from a more long-term time horizon possessed by social entrepreneurs (Lyons & Kickul, 2013).

The importance of enabling good qualitative funding alternatives for social enterprises becomes evident when understanding the importance and urgency of social entrepreneurship. In their booklet, Fighting Poverty Through Enterprise (2007), Brian Griffiths and Kim Tan argues that social entrepreneurship is the way forward to tackle the world’s problems with hunger, sanity, lack of education, water and housing. It means that investment based initiatives, where receivers of the funds are equipped with tools and knowledge to become self-sustainable, is the necessary component to address these issues. Aid strategies of the last 50 years, on the contrary, have not
been entirely successful. One reason for this is that aid has been more focused on the act of charitable giving itself, and less on achieving social outcomes (Brandstetter & Lehner, 2015). Another reason is lack of efficiency (Griffith & Tan, 2007). This especially refers to government aid, which has proved to be a very inefficient way to defeat poverty around the world. Griffiths and Tan (2007) claim, by using different sources, that Africa has received $1-$2.3 trillion of aid in roughly 50 years. In comparison to the rather successful Marshall plan, which helped Europe to recover after the second world war, aid equal to six Marshall plans has failed to give the same results for Africa. This, calls for change.

Given previous failure in aid strategies, social entrepreneurship has emerged as a tool to tackle major issues in the world. The importance of social entrepreneurship is often promoted by influential researchers. For example, Porter and Kramer (2011) argues that “businesses acting as businesses, not as charitable donors, are the most powerful force for addressing the pressing issues we face” (Porter & Kramer, 2011, p. 64). The same authors also argue that social enterprises have the ability to rapidly scale its activities, whereas social programs “often suffer from inability to grow and become self-sustaining” (Porter & Kramer, 2011, p. 70). Unlike aid organizations, social enterprises are also argued to be an important job creator and economic engine for society (Harding, 2004).

For social enterprises to be able to reach its full potential to tackle the world’s social and environmental challenges, access to funding is of immense importance. Given social enterprises difficulties to fund their business activities by traditional investment means, they have been largely dependent on donations for their funding (Bugg-Levine et al., 2012), which has constrained their effectiveness and ability to grow (Brandstetter & Lehner, 2015). For social enterprises, it is therefore important to cooperate with investors who understand their vision, and except from financial return also invest to create social and environmental impact (Martin, 2015). Such multi-purpose investment, called impact investment, has been adopted by parts of the existing financing industry, for example sustainable venture capital firms. The amount of capital aimed towards sustainable businesses is however far from enough, and researchers have in recent years called for new ways to fund social enterprises (Bugg-Levine et al., 2012; Kickul & Lyons, 2015; Lehner, 2013).

In this context, crowdfunding has emerged as a potential option for social enterprises to access investment capital, as the whole solution or as part of a mix of financial instruments (Martin, 2015; Bugg-Levine et al., 2012). Crowdfunding has in recent years grown into a significant provider of capital. In 2014, its total volume amounted to $16,2bn (Massolution, 2015) and is
growing 300 percent per year (World Bank, 2015). It is often categorized into four different types, where equity and lending crowdfunding generate financial returns for the contributor, unlike donation-based and reward-based crowdfunding, where the contributor for example receives a thank you in return, or a discount on a future product. Crowdfunding is acknowledged as a resource often used when traditional means of financing are inaccessible (Thomson Reuters Foundation, 2015), and regarded as suitable to fund social projects, where one reason is that crowd investors tend to focus less on the business model and more towards the company’s mission (Meyskens & Bird, 2015). Despite that a study by Bergamini et. al. (2015) suggests that crowdfunding has a high suitability for social enterprises, crowdfunding as a source for social enterprise financing is largely unexplored by academia and its potential to deliver investment capital to social enterprise is unclear.

1.2 Problem

Despite promising indications of that crowdfunding could be a valuable source of investment for social enterprises, little research has been made to investigate this. Existing literature has not fully explored crowdfunding in the context of social enterprise (Bergamini et al., 2015). Furthermore, existing research has focused on temporary projects where funders donate or are incentivized by rewards, which excludes lending or equity crowdfunding where contributors are acting as investors (Lehner, 2013). Researchers have emphasized the importance of social entrepreneurship driven as business and not based on charity, where true sustainability only can be achieved by financial, social and environmental sustainable basis (Porter & Kramer, 2011). Thus, research needs to study crowdfunding as an investment source, comparable with other sources of investment funding. Additionally, crowdfunding remains to be researched from the unique perspective of a social enterprise.

Social projects have historically used the crowd to raise funds in form of donations (Martin, 2015). Through new business models, social enterprises are capable of generating a combination of financial, social and environmental value which opens for a possibility to raise capital in form of investment. Promoted by the emergence and increasing importance of equity and lending crowdfunding for business financing (Massolution, 2015), social entrepreneurs are just in the beginning of discovering a new opportunity to fund their ambitious ideas for a better world.
1.3 Purpose

To address the lack of research on crowdfunding investment in a social enterprise context, we seek to identify the advantages and disadvantages of lending and equity crowdfunding that social enterprises experience. Therefore, our research aims to answer following research questions:

*RQ 1: What are the main advantages of crowdfunding as investment means for social enterprises?*

*RQ 2: What are the main disadvantages of crowdfunding as investment means for social enterprises?*

This study focuses on the crowdfunding experiences of social enterprises from the perspective of social entrepreneurs. Furthermore, research is conducted on crowdfunding that gives investors financial returns, which incorporates lending and equity crowdfunding.

1.4 Delimitations

First, this paper focuses on the perspective of social entrepreneurs. It is important to clarify that the topic of crowdfunding social enterprises can possibly be studied from the perspective of crowd investors, the perspective of society, institutional investors or venture capitalists as a few relevant examples. However, these perspectives are not included in this paper, which for example implies that a possible advantage for a crowd investor is not examined in our paper and should not be confused with advantages for a social entrepreneur.

Secondly, this study focuses on crowdfunding as an investment mean. This means that donation- and reward-based crowdfunding are not a part of our research. Researchers have pointed out the importance of financial sustainability as part of social enterprises business model (Porter & Kramer, 2011), and have emphasized that traditional donation-based aid strategies have not fully succeeded (Brandstetter & Lehner, 2015; Griffith & Tan, 2007). Therefore, this paper aims to study crowdfunding as a source of investment, comparable with traditional investment means such as bank loans, venture capital and capital from investment funds.
2 Literature Review

This chapter examines existing related research. First, social enterprise definition and importance as a key for sustainability is covered, followed by a description of current social enterprise financing. Next, crowdfunding is introduced as an emerging possibility, and its relevance for social enterprise is examined. Lastly, existing research on advantages and disadvantages of both social and commercial entrepreneurship is presented.

2.1 Defining the Concept of Social Enterprise

Social entrepreneurship has gained increased attention from the general public and researchers in recent years (Renko, 2012). Different perceptions of social entrepreneurs have led to a variety of definitions (Abu-Saifan, 2012), which has stimulated scholars to find the defining elements of social entrepreneurship (Christie & Honig, 2006). The most debated element of the concept is the emphasis on social goals in comparison to financial goals. Some scholars stress the significance of social mission and argue that the main mission of a social entrepreneur is to fulfill their social purpose (Abu Saifan, 2012) and improve the wellbeing of society (Zahra, Rawhouser, Bhawe, Neubaum & Hayton, 2008). Dorado (2006), on the other hand, argues that social entrepreneurs are driven by market opportunities where the real reason for adopting a social orientation is financial gains. Finally, Thompson and Doherty (2006) see business orientation as necessity for social enterprise, rather than its main purpose. Like commercial enterprises, social enterprises must seek business solutions to social issues and act in an entrepreneurial way to ensure sustainability (Thompson & Doherty, 2006). Nevertheless, the social enterprise differs significantly from commercial enterprise, and its aim is still to create social value rather than to personal wealth (Chell 2007; Martin & Osberg, 2007; Keohane, 2013).

The balance between financial and social goals is already pinpointed in an early definition by Dees (1998), a prominent researcher in the field of social entrepreneurship, who argues that a social enterprise should not be entirely philanthropic or commercial to acquire a productive balance (Dees, 1998). Instead, the importance lies in understanding the spirit of the term and the outcome rather than searching for an “idealized” definition (Dees, 1998). On this base, we view social entrepreneurship as a practice that combines economic and social value creation. Thus, it
is those activities involving efficient combination of resources that stimulate sustainable social change.

2.2 Social Entrepreneurship as the Key for Sustainability

With the primary goal to improve social wellbeing, it could be argued that social enterprises were created to meet the need for solutions of today’s social and environmental challenges. According to the authors Griffiths and Tan (2007), traditional efforts to fight poverty, through aid programs are proved to be inefficient. Instead, the solution is one where economic and social values are integrated and created simultaneously. This argument is further pointed out by the authors Porter and Kramer (2011) who state that “Businesses acting as businesses, not as charitable donors, are the most powerful force for addressing the pressing issues we face.” (Porter & Kramer, 2011, p. 64). Charitable organizations alone cannot deal with the social and environmental challenges faced today and fail to innovate and act effectively (Brandstetter & Lehner, 2015). Furthermore, focus lies too much on the act of charitable giving rather than on achieving social outcomes (Brandstetter & Lehner, 2015). The major reason of inefficiency in aid programs is the lack of effectiveness in maximizing the social outcomes (Griffiths & Tan, 2007). Hence, the authors’ stress the fact that the world needs a different approach to tackle today’s challenges, where financial and social goals are equally pursued. Therefore, Prieto (2011,) believes that disadvantaged communities need social entrepreneurs to generate innovative solutions. Warwick and Polak (2013) emphasize that is the unique characteristics of social enterprises, which makes them more suited to innovate new solutions. Another distinctive character pointed out by Porter and Kramer (2011) is their commitment to achieve positive social impact, which does not lock them into traditional business thinking, and thus makes them especially suited to tackle problems in the world (Porter & Kramer, 2011). Finally, Griffiths and Tan (2007) point out that it is their talents and resources that make social enterprises suitable to tackle these issues.

As seen from various sources above, social enterprising is expected to have an increasing importance for the world and an important role to cope with the social and environmental challenges that the world is facing in the 21st century. This, however, requires a significant upscale of the activities of social enterprises, where one of the most important components is accessible capital for funding and scaling social enterprises.
2.3 Social Enterprise Financing

2.3.1 Issues Faced by Social Enterprises

Not much research has specifically focused on social enterprise funding. Recently, it was described as “an exciting new frontier in an already trail-blazing field” (Lyons & Kickul, 2013, p. 157). The importance of funding is evident and a vital determinant of the business possibility to survive and expand (Cassar, 2004), but is also a major obstacle for social entrepreneurs (Lehner, 2013). Lack of funding for social enterprises is described as one of its major disadvantages towards commercial enterprises (Bugg-Levine et al., 2012). Additionally, social enterprises can throughout their whole existence expect resource scarcity similar to what conventional entrepreneurship would experience only in the beginning of its life cycle (Gundry, Kickul, Griffiths & Bacq, 2011). These problems constrain social enterprise creation and growth, which makes it one of the most urgent issues for social enterprises (Calic & Mosakowski, 2016; Clarkin & Cangioni, 2016).

To understand the underlying problems around social enterprise funding, a starting point is to acknowledge that the purpose of a social enterprise is not primarily profit maximization (Martin, 2015). It has been argued that many social enterprises are not profitable enough to get investors on board (Bugg-Levine et al. 2012). Social enterprises can succeed to generate social and environmental impact of great value, but still face problems to cover expenses that come with obtaining funding (Bugg-Levine et al., 2012). The start-up phase carries extra high risk, which means that requirements of risk-adjusted returns from investors can be difficult to meet, given that social enterprises focus on social impact and not wealth creation (Lyons & Kickul, 2013). Thus, the so-called valley of death, which for social enterprises commonly is between initial grant funding and investment capital, is a significant barrier (Martin, 2015). It is, however, necessary to point out that being a social enterprise does not automatically imply uncompetitive financial results. A study by Harding (2004) has for example shown its importance for job creation and economic growth.

Explanation of why some social enterprises fail to generate enough income can to some extent be related to challenges of monetizing social impact, which refers to the ability to generate economic income from social value creation (Lyons & Kickul, 2013). In such case, social enterprises may not find individuals to charge for their services, since the value is created for the society as a whole, rather than just a certain group of customers (Lyons & Kickul, 2013). These challenges create unique problems for both investors and the social entrepreneurs themselves (Lyons & Kickul, 2013). Social enterprises may be forced to compromise their
social mission to achieve profitability objectives, to attract necessary funding (Dacin, Dacin & Matear, 2010). This can lead to a trade-off between social mission and profits, which compromises the mission to achieve social impact (Lyons & Kickul, 2013).

Another aspect related to funding challenges is the problem of measuring social impact (Kickul & Lyons, 2015). In other words, investors get no appropriate measurement of what the social return on investment is (Dacin et al., 2010). This is a big problem for investors, who naturally want a clear idea of the impact of their investments (Kickul & Lyons, 2015). On the other hand, it has also been pointed out by Lyons and Kickul (2013) that investors themselves have to understand that social and financial value cannot be entirely separated, as expressed by Jed Emerson, CEO of Blended Value: “there is an idea that values are divided between the financial and the societal, but this is a fundamentally wrong way to view how we create value. Value is whole.” (World Economic Forum, 2005, p.28).

Finally, it has been argued that funding difficulties for social enterprises can be explained by differences in time perspective. Social enterprises typically try to maximize the long-term value and establish effects in the long run, while investors commonly have a shorter time perspective (Lyons & Kickul, 2013).

2.3.2 Common Funding Sources for Social Enterprises

Despite the problem for social enterprises to get funded, capital is received from various sources. A simple division can be made into commercial investments and funding without requirement of financial returns. The latter one can come in form of grants from the government and charitable foundations, or as donations from individuals or corporations (Lyons & Kickul, 2013; Clarkin & Cangioni, 2015). Commercial funding comes commonly as loans and equity from venture capitalists, business angels, lending institutions, or crowdfunding (Lyons & Kickul, 2013). During early phases of a social enterprise, self-financing from the entrepreneur’s own resources or investment from people closely related to the entrepreneur is common, which however is a quite limiting approach from a growth perspective (Bergamini et al., 2015). The Internet has played an increasingly important role for social enterprise funding, especially through crowdfunding (Lyons & Kickul, 2013). As mentioned before, however, charity has traditionally been the major funder of social enterprise (Meyskens & Bird, 2015; Bugg-Levine et al. 2012).
Donations have traditionally been the largest source for funding social initiatives (Martin, 2015), but they come with a degree of unpredictability, which can limit the growth and effectiveness of social enterprises (Brandstetter & Lehner, 2015). Another issue is that charity and grants tend to be focused on providing startup capital, but not capital for scaling (Lyons & Kickul, 2013). The Great Recession has however prompted a greater move towards other financing options than donations, following a decrease of charity budgets that the recession brought (Lyons & Kickul, 2013). Despite the important role of donations for social enterprise funding, difficulty lie in that it is a source of funds that is much competed for (Lehner, 2013). Furthermore, the size of charitable funds is limited in comparison to the deeper pool of capital from investment sources (Bugg-Levine et al., 2012).

Venture capital can provide several benefits apart from capital, for example contribute with experience and knowledge and give access to a wider network (Bocken, 2015). This commonly comes with a requirement of substantial growth and monetary returns, which can be hard for social enterprises to provide (Bergamini et al., 2015). In a study by Bocken (2015), entrepreneurs stated that most venture capitalists had a short-term mindset, requiring an investment payback time of 2-3 years. Sustainable enterprises, often developed with a long-term business plan, therefore struggled to find suitable investors, which led to a failure among these businesses (Bocken, 2015). Instead money flows to the highest and quickest returns, e.g. tech industry (Bocken, 2015).

Receiving bank loans is often difficult, since social enterprises struggle with providing guarantees for the loan (Bergamini et al., 2015). An underlying problem is also that the bank and the entrepreneur fail to create mutual understanding (Lehner, 2013). Cultural distance and different terminology create a situation where entrepreneurs fail to express themselves in financial terms, whereas banks fail to understand the social vision of the entrepreneur (Lehner, 2013).

2.3.3 Summary of Current Financing of Social Enterprise
As we have seen, social enterprises face challenges related to financing. Given that the focus is to optimize social impact rather the profitability, competing with commercial enterprise in terms of profitability and risk can appear difficult. This is sometimes caused by problems to monetize social impact. Also, lack of efficient measurement of social impact makes it difficult for investors to know what they receive in return for their investment. When it comes to how social enterprises are currently financed, we have specified several sources. While donations
traditionally have funded a majority of social initiatives, it is a limitation for social enterprises. Venture capital, however, looks for business with high growth potential and has a short-term mindset, which can be unsuitable for social enterprises. In the case of banks, loan guarantees and differences in mindset can be barriers. Consequently, social enterprises pursue new financing strategies, since traditional forms of funding are inadequate to fully meet the needs of social enterprises (Kickul & Lyons, 2015).

2.4 New Funding Strategies

To achieve change, investors’ ideas about the purpose of the investment itself might have to change. Changed consumer preferences, globalization and long-term demographic changes have contributed to a thinking where care for social and environmental impact is fundamental when investing (Martin, 2015). Impact investment has appeared as a new idea, questioning that financial returns is the only aim for investment. Impact investment introduces social and environmental returns as goals for investment along with profits (Kickul and Lyons, 2015), and investors strive to create social and environmental impact through their investments (Clarkin & Cangioni, 2015). While impact investing is changing the traditional financing industry, for example leading to creation of social venture capitalist firms, social enterprises are still struggling to find investors that share their commitment to make the world better. Some social enterprises therefore have found like-minded individuals among the crowd, who are ready to invest their savings to realize ambitious ideas. The opportunity to use crowdfunding is also recognized by recent studies, for example by Calic and Mosakowski: “With the needs of social entrepreneurs being unmet or underserved by traditional capital markets, crowdfunding offers a distinct avenue for acquiring resources” (Calic & Mosakowski, 2016, p. 739).

2.5 Crowdfunding as a New Possibility

In simple terms, crowdfunding stands for tapping a large audience, where a large number of people, named “crowd”, contribute to fund projects and/or businesses (Belleflamme et al. 2014). Commonly, the Internet is used to connect individual investors with the investment opportunity, without any intervention of intermediaries (Schwienbacher & Larralde, 2010). Thus, enterprises that normally would rely on a few highly sophisticated investment institutions for their funding, instead can tap into a wider pool of backers, with each person contributing by relatively small amounts (Belleflamme et al. 2014). Three parties are generally involved in crowdfunding. The initiator is the party who seeks funding, the investor is the party who provides the funding, and lastly the technological platform, which links the initiator and the investors (Ordanini, Miceli,
Pizzetti & Parasuraman, 2011; Quero, Ventura & Kelleher 2014). The crowdfunding platform allows ventures to create financing opportunities for individuals, who invest with a relatively small sum which adds up to a possible high combined impact (Belleflamme et al. 2014).

Crowdfunding is commonly categorized as being donation-, reward, lending and equity- based. Shortly described, donation-based and reward-based crowdfunding do not involve the crowd as investors. Donation based crowdfunding is based on a charitable foundation, which is not far from how aid organizations traditionally have been funded to a significant degree. Rewards-based crowdfunding is a very common way for small businesses to attract funds for new products and projects, and has been popularized through crowdfunding sites such as kickstarter.com and indiegogo.com. The reward can be anything from a thank you-card to a finished product from the company, and is thus used to pay for future production of products. However, to engage the crowd as investors, lending or equity crowdfunding is used, where the investor acts as a lender to the company, or acquires an equity stake in the company as an owner. In the case of lending or “peer-to-peer” lending, individuals lend money in return for interest payments over time (Kirkby & Worner, 2014). In equity crowdfunding, investors invest directly or indirectly in a new or established business and expect shares of future profits (Belleflamme, et al. 2014).

2.6 Potential of Crowdfunding for the Social Enterprise Sector

Crowdfunding for social enterprises is an emergent subfield in the literature. Lehner (2013) claims that academic research in this area is virtually non-existent and among alternative funding for social enterprise, crowdfunding in particular is not researched (Bergamini et al., 2015).

Aid organizations have traditionally used a form of donation based “crowdfunding”, but recent years crowdfunding has emerged as a source of investment capital for social initiatives and thus, significantly expanded its usage and impact. Along with the development of internet technology, crowdfunding has reached a breakthrough in the 21st century (Bergamini et al., 2015). Crowdfunding has in recent years grown into a significant provider of capital. As of 2014, its total volume amounted to $16.2bn (Massolution, 2015) and is growing 300% per year (World Bank, 2015). The notion that anyone and everyone can be responsible for change and impact has also been recognized as a trend in media (Newbery, 2017). In an acknowledgement of the potential of crowdfunding to fund social enterprises, the Jumpstart Our Business Startups (JOBS) Act by the Obama administration was introduced in the U.S. 2012. This enabled the
crowd to invest in businesses, and the social enterprises to find impact-minded investors (Doug Rand, 2012). Part of the background of this initiative was tighter governmental budgets and decreased donations, as well as the recognition of crowdfunding as a new strategy with “tremendous promise” (Doug Rand, 2012).

Potential of crowdfunding for social enterprises has also gained scholarly attention. Lehner (2013) states that crowdfunding offers “one especially suited answer to the financing needs of social ventures, as crowd investors typically do not look much at collaterals or business plans, but at the ideas and core values of the firm’ (Lehner, 2013, p. 2). A study by Bergamini et al. (2015) concluded by asking 15 experts in the area, that there is a belief that crowdfunding has a high suitability for social ventures. Another study by Calic and Mosakowski (2016) finds that projects with a social and environmental orientation have greater chances to be successfully crowdfunded. The study was made on a reward-based platform Kickstarter.com, which means that results cannot automatically be generalized for equity and lending-based crowdfunding, with a potential chance that the social and environmental orientation can be less impactful where crowd investors also have monetary incentives (Calic & Mosakowski, 2016). Nevertheless, it indicates that having a social orientation can enhance the possibility to get funded through crowdfunding, which is the opposite of what research has shown for traditional investment institutions (Calic & Mosakowski, 2016).

Despite the promising indications that crowdfunding could be a valuable source of investment for social enterprises, little research has been made to investigate this. A step towards greater understanding of crowdfunding in the social enterprise context is taken by Bergamini et al. (2015). According to the study, two main reasons for using crowdfunding is absence of access to other financial sources, and guarantee to maintain control of the company. The study suggests that crowdfunding has a high suitability for social projects (Bergamini et al., 2015). On the other hand, the study results also reveal expectations of difficulty to reach funding goals, even though this result could not be stated with certainty (Bergamini et al., 2015). Through its usage of a quantitative method with predetermined questions, the study by no means cover a broader range of aspects, for example a broader set of reasons for using crowdfunding. Furthermore, the study does not examine equity and lending crowdfunding in particular. Somewhat contradicting results of that crowdfunding is viewed as a last option, and arguably difficult to obtain funds through, but at the same time highly suitable, supports the notion that more research is needed to increase the understanding of crowdfunding and its potential for social enterprise.
2.7 Research on Crowdfunding Advantages for Commercial Enterprises

A deeper look at existing research of commercial enterprise funding reveals factors that could be important in the assessment of crowdfunding as investment source also for social enterprises. For example, research has shown that entrepreneurs generally seek to avoid financing that implies giving up control (Cosh, Cumming & Hughes, 2009), which is a potential advantage of crowdfunding since it eliminates the influence of a few powerful investors. Furthermore, crowdfunding can make startups more appealing to venture capitalists, since the crowdfunding process helps to prove that there is a customer base (Bocken, 2015). It has also briefly been pointed out that crowdfunding represents a democratization of access to financial resources, meaning that it is accessible for anyone (Dushnitsky, Guerini, Piva & Rossi-Lamastra, 2016).

A study by Gerber and Hui (2013), concluded from research of projects on reward-based crowdfunding platforms, five different categories of motivation for commercial entrepreneurs to use crowdfunding. First, creator of the project was motivated by the possibility to raise funds, which was not always available from other sources such as banks, angel investors and venture capitalists (Gerber & Hui, 2013). Second, crowdfunding gave an opportunity to create awareness, and thus served as a way to market the business. Third, it offered a possibility to form deeper connection with people in a long-term interaction, with extended network as a result. Fourth, crowdfunding could be used as a test of the real interest from the market, and thus obtain approval. Fifth, in line with a study by Cosh, Cumming & Hughes (2009) entrepreneurs were motivated by the possibility to maintain control, to avoid the risk of being controlled by powerful investors. The last benefit that motivated businesses to use crowdfunding was to learn new fundraising skills, where skills such as marketing, communication and financial planning could be learnt during the process. The study of Gerber and Hui (2013) gives guidance in probable benefits for social enterprises, but factors specific to social enterprises remains to discover. Also, it is important to emphasize that a study on reward-based crowdfunding such as Gerber and Hui’s (2013), cannot fully explain the case of lending and equity crowdfunding. Also important, reward-based crowdfunding cannot be fully compared to investment means such as bank and venture capital, since reward-based crowdfunding is not categorized as investment.
2.8 Research on Disadvantage of Crowdfunding for Commercial Enterprises

A possible disadvantage for social enterprises is that a wide and diverse pool of investors make the relationship between funders and entrepreneurs anonymous (Mollick, 2014). Gerber and Hui (2013), also draw conclusions of negative aspects that demotivated initiators of projects on reward-based crowdfunding platforms to use crowdfunding. First, inability to raise funds was one factor, where initiators believed that they could not raise enough funds since they believed the right backers for their project would not be using these platforms. Second factor is risk of public failure and exposure, which could lead to public embarrassment or stealing of their business idea. The third and final demotivating factor in the study by Gerber and Hui (2013) was time and resource commitment, where crowdfunding could take more time than for example applying for grants.

2.9 Reflection on Literature Review

As we have seen in our literature review, addressing existing issues of social enterprise funding is essential to enable social entrepreneurship to fully take on the great challenges of the 21st century. Crowdfunding as a rising phenomenon could be particularly suitable funding option for social enterprises, connecting impact minded individuals with social enterprises. On the other hand, scholars also express doubt in crowdfunding’s capacity to address these issues (Kickul & Lyons, 2015). The potential of crowdfunding is however not fully explored by existing literature, especially not in the context of social enterprise (Bergamini et al., 2015). Crowdfunding literature is also focusing on project based funding, implying reward or donations-based funding, which excludes crowdfunding investment that imply long term commitment in form of lending or equity (Lehner, 2013). Thus, literature lacks understanding of crowdfunding as an investment source for social enterprises, and its advantages and disadvantages as a financing means for social enterprise is unclear.
3 Methodology and Method

The first section of this chapter presents the methodology and discusses the research purpose, approach, philosophy and strategy of the study. The next section discusses the method of the study, covering the data collection, secondary data, primary data and data quality. The final section of this chapter introduces the data analysis followed by a short description of the participants of the study.

3.1 Methodology

3.1.1 Research Purpose
The purpose of this study is to examine the advantages and disadvantages of crowdfunding as a source of investment funding for social enterprises. Due to the domain having limited research a descriptive approach is used to increase the understanding of crowdfunding in a social enterprise context (Saunders, Lewis & Thornhill, 2012). As the research aims at answering specific research questions that have not previously been studied in chosen context, descriptive research is suitable (Saunders et al., 2012). This study aims to examine a fairly recent topic and create a basis for further research through gathering information, describing and summarizing. (Saunders, et al., 2012). We try to cast light on current issues of crowdfunding through a process of data collection that enables a more complete description of the situation (Fox & Bayat, 2007).

3.1.2 Research Approach
Research approach connects theory and research. If the research conducted is based on existing theory the approach is deductive. Otherwise, if theory is an outcome of research then it is inductive (Bryman & Bell, 2011). This paper has an inductive research approach since it does not base its research on theory. Instead, data is collected from interviews and later connected to relevant theory in the analysis. The aim of an inductive approach is to understand and find connections between the different views, which is the main objective of this paper. Inductive approach is open-ended and exploratory which provides opportunity to fulfill the research purpose, in contrast to deductive approach, which is narrow and limiting (Saunders et al., 2012).
3.1.3 Research Philosophy

The research philosophy of this paper is interpretivism, because we aim to gain a deeper understanding through thoughts and reflections. Interpretivism involves feelings and emotions in order to understand behaviors of others (Saunders et al., 2012). Our main objective is understanding and connecting different views of advantages and disadvantages of crowdfunding. We believe that a firm structure would act as a constraint and big samples are not the key aspect to collect the desired information of this study. The aim is to go deeper into the concept of crowdfunding for social enterprises. The interpretivist approach has qualities most suitable for given research, including small samples and qualitative approach (Saunders et al., 2012). When it comes to the qualitative nature of this paper, this approach examines and reflects on perceptions concerning understanding human and social activities. The aim of quantitative research however is to operationalize variables and a process of generalization results from larger population groups (Saunders et al., 2012). As quantitative method is mostly used within descriptive research, qualitative method is preferred in exploratory research to understand underlying tendencies and behavior of humans (Bryman & Bell, 2011). This study aims to explain and examine experiences of entrepreneurs. A quantitative approach would not provide the right data, and statistical data would not be able to fully explain these experiences. Since the aim of this paper is to try to understand and analyze human behavior and views, qualitative approach gives the most opportunity in receiving more information and explicit answers that can give broad in-depth answers where views and angles can be analyzed (Saunders et al., 2012).

3.1.4 Research Strategy

The qualitative research strategy chosen for this research is thematic analysis. This method helps us identify, analyze and report patterns or themes within data. The pinpointing of themes helps the research examine our phenomenon of advantages and disadvantages of crowdfunding in social enterprises and answer our specific research questions. Themes extracted from our data become categories for analysis. Thematic analysis allows flexibility regarding the choice of theoretical framework. Such flexibility allowed us rich, detailed and complex description of our data (Braun & Clarke, 2006).
3.2 Method

3.2.1 Data Collection

The data collection in this paper is both secondary and primary. The secondary data used in this paper is represented by the literature review and the primary data is represented by the empirical study. As mentioned in the methodology section, due to following a inductive research approach the research questions are going to be answered with the help of primary data through the conducted interviews (Gill & Johnson, 2010).

3.2.2 Secondary Data

Secondary data was gathered through a literature review to provide an overall view of existing research in the field. This enabled mapping and identification of research gaps (Saunders et al., 2012). The most used databases were Web of Science, Google Scholar and JIBS Library during the collection of peer-reviewed articles. These keywords were used, separately or mixed in the same search: crowdfunding, social entrepreneurship, social enterprise, social ventures impact investment, funding, financing, capital, equity crowdfunding, lending crowdfunding, sustainability. In addition to this, interesting references within articles was a base to further explore the topic. Articles cited highest number of times were chosen over articles cited less times in an attempt at finding most credible data. However, due to the recency of the topic as well as being rather niche, many chosen articles were low cited. Moreover, most recent articles were prioritized to the greatest extent in an attempt to include research with less risk of being outdated, especially considering the fast development of the research field.

3.2.3 Primary Data

Primary data was collected through individual semi-structured interviews. Interviewing as a research method for primary data collection retrieves insight of participant’ actions, thoughts and feelings, which this paper aims to do (Collis & Hussey, 2014). Semi-structured interviews are defined as non-standardized and belong to qualitative research interviews (King, 2004). Such structure means that the researcher follows a list of themes and key questions that are aimed to be covered, however certain changes could be made from interview to interview. Some questions could be excluded in certain interviews if considered unsuitable to specific organizational context in relation to the research topic. Furthermore, depending on the flow of the conversation during the interview the order of the questions could be changed. Also,
additional questions could be added if the exploration of research question or nature of events with a particular company requires it. This enabled the possibility to adapt the process of the interviews that were conducted and retrieve information that is intended disregarding a strict structure. However, having key questions and an overall layout was also useful in order to not retrieve irrelevant information, which can happen when the interviewee is allowed to speak freely. Due to the nature of such interview and discussion, most suitable data capturer was considered to be audio-recording or at particular events note taking (Saunders et al., 2012).

3.2.4 Data Quality
The process of preparation and conducting the interviews had to avoid certain issues (Saunders et al., 2012). Due to interpretivism as chosen philosophy and qualitative research in general it is important to consider issues like reliability, bias, validity, generalizability and ethical issues. Taking part in an interview is an intrusive process and the interviewee can therefore be sensitive to unstructured exploration of some themes. (Easterby-Smith, Thorpe & Jackson, 2008; Silverman, 2007).

3.2.4.1 Reliability
Reliability covers the amount of times research has been conducted and the consistency of the results. However, it is not necessary for the derived findings to be repeatable, since they reflect reality at the time they were derived. Semi-structured interviews are assumed to be complex and dynamic. The flexibility provided by such interviews is valuable (Marshall and Rossman, 2006). Transcripts that were done act as process quality that helps increase the reliability of this paper. Another threat to reliability is bias, which is addressed in the next section (Saunders et al., 2012).

3.2.4.2 Bias
To avoid interviewer and interviewee bias, preparation for the interviews has been done in advance. This includes being knowledgeable about the organization the interviewee is representing. Information that could be found online was derived, which provided an overall understanding before the interview took place. The chosen location for the interview was set with consideration to interviewees and interviewers suitability, where notes and audio-recordings could be done. The scheduling was done with high consideration to the interviewee to reduce participant error, considering the tight and stressful schedules of the participants. Furthermore, appropriate appearance during the interview was discussed in advance. The dress
code decided upon was business casual and neutral colors to avoid distractions. The opening comments during the interviews included an explanation of the theme of the research as well as a summary of our understanding of the company, in case of interviewee clarification needed, before beginning the questioning. The interviewer was highly aware of avoiding leading questions, which could lead the answers into what could be perceived as more favored. Furthermore, each interview had only one interviewer with the role of asking questions, to avoid researcher bias. The interview was held in a very calm manner, considering the impact of interviewers behavior that could affect the interviewee’s answers. To demonstrate attentive listening skills the interviewer would not interrupt the interviewee when giving answers, further when suitable ask questions on provided answer. When receiving a long or complicated answer the interviewer would summarize the answer to the interviewee in order to ensure correct understanding and reduce researcher error. At some occasions as often the case with managers passionate about their projects answers could be long and going outside the scope of the questions asked. In this case the interviewer aimed to in a graceful way lead the interviewee back to the question. Lastly, each interview had a minimum of two audio-recordings as well as notes taken to ensure accurate and full data collection (Saunders et al., 2012).

3.2.4.3 Validity

Validity is further an issue referring to the extent that the researcher has gained access to the interviewees experience and knowledge and has the capacity to infer meaning. Validity can be achieved through usage of multiple data sources (Saunders et al., 2012). In order to increase validity this paper uses primary and secondary data. A review of existing research has provided insight into crowdfunding in the context of social enterprise. This was helpful in developing a framework for the interviews and later added more substance and perspective to the analysis of our findings. Furthermore, if considered necessary, to ensure answers and results received at the interviews follow-up questions were used to ensure the answer given was fully connected to the question, which Creswell (2009) suggests. Moreover, as suggested by the same author opponents and tutor provided comments on the findings objectively, being an important step to achieve valid results.

3.2.4.4 Generalizability

Generalizability is an issue often raised within qualitative research interviews. This concerns whether the findings are applicable to other settings or not. Due to small samples, in comparison to quantitative studies this issue is raised more often. The interpretation of this that follows should not be that qualitative studies are less generalizable than quantitative studies. This
depends solely on the nature of the sample the research is based upon (Saunders et al., 2012). This research held six interviews despite a limited reach to suitable participants, aiming to provide more reliable results and have the qualities to be generalized to a wider extent. The social enterprises cover different markets/industries, which generates a wider research result providing generalization opportunity.

3.2.4.5 Ethical issues

It is important to be truthful and fair in conducting research. In line with (Adams, Khan, Raeside & White, 2007) all participants were informed about the interview purpose and gave their consent to use their answers in the paper. To not affect the participant’s answers, only the theme and general overview of the topic was given beforehand. Confidentiality of participants and companies is important for privacy (Adams et al., 2007), especially when the results could affect reputation and the brand of a company. However, since that the research is not connected to any controversial qualities and no participants expressed issues, the participants’ privacy was not considered as necessary. Lastly, ethical presentation of information is important (Adams et al., 2007) and issues like fabricating, falsifying and deleting information have been carefully considered. Data retrieved from interviews has been communicated to our fullest ability, to correctly picture the answers of our interviewees.

3.2.5 Data Analysis

This paper applied thematic analysis, where the data was analyzed in six different steps. First step enabled familiarization with the data through examination of our transcripts. This was followed by step two, where initial coding was made. All data was examined systematically to ensure that all potential codes were included and not overlooked. The data was then arranged according to their specific codes. In the third stage the subset of codes were examined, and from these, themes were created. In the fourth step a review of these themes were made, where some themes were joined together and some divided into separate themes. When all themes were reviewed, they were defined and explained and subsequently given names in stage five. The goal of this stage was to capture the essence of each theme itself, and also its relation to the narrative of the paper as a whole. Names were created to deliver a clear and concise message. Further, an introduction sentence was developed for each theme. Lastly, stage six involved a final analysis to present the results in a concise, coherent, logical, non-repetitive and interesting way. To illustrate the findings, quotes from interviews were included. Analysis of findings was made, were further context and insights was enabled through comparison with previous relevant research from literature (Braun & Clarke, 2006).
3.2.6 Population and Sampling

Two main criteria’s were set for participants in the study. The first criterion was that the company they represent would be categorized as a social enterprise. To ensure this, candidates were evaluated towards the definition of social enterprise outlined in the literature review of this paper. Second, these social enterprises had to have experience of either lending or equity crowdfunding. Initial attempts revealed great difficulties in finding companies with these two criteria. Extensive research was made to secure participants with which a face to face interview could be conducted, but was later extended to also include candidates where geographic reasons left interview via internet as only option.

The strategy to find participants included examination of relevant media, contacting well-connected individuals, investment firms and foundations, reading related academic articles and search through databases of crowdfunding platforms. Furthermore, an attempt at snowball sampling was made, by asking companies that were interviewed for recommendations. Crowdfunding platforms databases searched were: Pepins, Fundedbyme, Toborrow. Our six participating companies were found in following ways: One was known from start, two were found through media, one was found through a recommendation from a well connected person, one was found through the database of Fundedbyme and one was found by reviewing an academic article.

3.2.7 Procedure

Primary data was collected through semi-structured interviews from a sample group of six social enterprises with confirmed experience of equity or lending crowdfunding. Interviews started with a brief explanation of research theme and method, and participants were informed that interviews were going to be recorded. The interview structure had four sections. The first section included introductory questions about the company history and the interviewee’s role in the company to provide a context. Second section examined the financing of the company, with a subsection allocated for each financing source used by the company, for example bank or venture capital. Third section focused on the characteristics of crowd investors themselves and their differences towards traditional investors. Fourth section included a broader perspective with questions about the interviewee’s thoughts on the potential and obstacles for crowdfunding. Average length of the interviews was 30-40 minutes. One interview exceeded the average time due to explicit answers and higher amount of irrelevant data, related to that it was the first interview and greater focus was achieved in later interviews. Four of the interviews
were conducted face to face and two were conducted through Skype, due to geographical location. Audio-recording and coding was done for all the interviews.

<table>
<thead>
<tr>
<th>Company</th>
<th>Abundance</th>
<th>Ari.Farm</th>
<th>BIGHEART</th>
<th>Röstånga Utvecklings AB</th>
<th>TRINE</th>
<th>Uniti</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interview duration (min)</td>
<td>33.05</td>
<td>42.32</td>
<td>40.38</td>
<td>46.14</td>
<td>1.21.37</td>
<td>25.45</td>
</tr>
</tbody>
</table>

3.2.8  Question Design and Formulation

Three types of questions suitable for semi-structured interviews are presented by the researchers and are divided into open, probing, specific and closed questions (Saunders et al., 2012). All of these were used in the interviews conducted, however a big emphasis was made on open ended questions, since the aim of the research was to let the interviewee express their beliefs and thoughts in an in-depth manner and bring richer answers in general. Specific questions were used rarely when a short defining answers was required. Probing questions have similarities to open question because they begin with the same words, however are more directed and aim at revealing further information (Dale, Arber & Procter, 1988). These questions have occasionally been used when the interviewer had some difficulty understanding the answer.

3.2.9  Participants

Five of the participants were Sweden-based and one UK-based. The interviews were conducted over a one-month period. The creators launched activities from the categories of Renewable energy (3), Livestock (1), Advertisement (1) and Real Estate (1), which are the main categories observed in this paper. Participants did not receive any compensation for their participation in this research.

3.2.10  Participating Companies and Interviewees

3.2.10.1  Abundance Investment
Abundance launched in 2012, to help fund renewable projects in the UK. Abundance provides a platform (www.abundanceinvestment.com) that enables private investors to fund these projects. Abundance is currently focused on renewable energy projects, initiated by medium scale developers or local government bodies. Their future scope will include a wider range of projects with socially useful purposes. By spring 2017, Abundance lending crowdfunding platform has raised a total of around 40 million pounds from the crowd, funding 24 different projects.

Operations Manager Tom Harwood was interviewed. Tom manages day to day operations of the online platform, customer service, money flows and other different things that are connected to the day to day operations of the business. He joined the company 2012, and has thus been part of the company since the earliest stages.

3.2.10.2 Ari.Farm

Ari.Farm is a startup that has developed a crowdfunding platform that enables anyone anywhere in the world to easily invest in livestock in Somalia. The investor can buy one or several goats or sheep and track their life’s and progress through Ari.Farm’s application. The investor is guaranteed return on investment through selling the offspring of the animals. The company aims to make a social impact among farmers in Somalia, who benefit from the capital inflow into their community which stabilizes their income. The crowdfunding platform www.ari.farm can be categorized as variant of equity crowdfunding, according to CEO, Mohamed Jimale. As of May 2017, investment in around 500 animals has been made.

The founder Mohamed Jimale was interviewed. Mohamed has previously lived in Somalia, and when he saw that the nomad community in Somalia struggled to find food for their animals during drought periods, he was the crowd investments in livestock could solve this problems.

3.2.10.3 Big Heart Sweden

BigHeart (www.bghrt.se) enables individuals to contribute to charity without having to spend their private money. Instead, BigHeart has developed an application for phones where the user allows the app to show advertisement on the lock screen, which generates income. Part of this income from the ads is then distributed to social projects. The company’s calculations project a 100 SEK per month generated for charity per user, which is double the average monthly contribution to charity by Swedish people. BigHeart is still in startup phase, and recently (2017, beginning) executed a successful equity crowdfunding campaign on the Swedish crowdfunding site fundedbyme.org, where they raised 2 million SEK for a 20% stake in the company.
Jacob Gelberg is Co-founder and CEO of the company and was interviewed for this study.

3.2.10.4 Röstånga Utvecklings AB

Röstånga Utvecklings AB (www.ruab.org) is a limited company founded in 2011. The company aims to develop Röstånga, a village located south of Sweden, with the help of a commercial platform. The activities are intended to be profitable and a gain to the community and the shareholders. Röstånga Utvecklings AB use equity crowdfunding to fund their real estate development projects. 51% of the company is owned by Röstånga Utvecklings AB and the rest is owned by their slightly more than 400 crowdfunded shareholders.

We interviewed Anna Haraldson Jensen, Board member of the company, for the interview. Anna is among the ones who have been part of the board longest time.

3.2.10.5 TRINE

TRINE is a company based in Göteborg, Sweden, and was launched 2015. TRINE provides a crowdfunding platform (jointrine.com) where individuals can invest in solar panel installations projects in communities in Africa. Every project is focusing on a certain village where solar panels are installed to provide electricity for families. The families can replace their existing fossil fuel energy source (kerosene) with solar power, and by doing this decrease both costs as well as decrease harmful impact on the environment. The core of TRINE: s business model is their lending crowdfunding platform, which makes it possible to finance solar panel installation costs. Families pay back their loans including interest over time, enabled by decreased energy costs. Investors typically receives and yearly return on investment of 5-8%, depending in risk level. TRINE uses the motto “Profit with purpose”. Social impact is created by bringing electricity to communities and replacing unhealthy kerosene, as well as creating jobs in Africa and Sweden. Environmental impact is created by replacing kerosene with solar power. As of May 2017, 107 000 people is empowered with electricity according to website jointrine.com.

Hanna Lindquist, communications manager, was interviewed for our study. She has been part of the company since 2015, and focuses on investor user experience and growth.

3.2.10.6 Uniti Sweden
Uniti (www.unitisweden.com), based in south of Sweden, intends to transform the car industry by developing electric vehicles that are reinvented at its core. Uniti differentiates itself from traditional car manufacturers in many ways, but in terms of technology Uniti focuses on optimizing the car for the battery, as well as usage patterns of today. Uniti aims for a sustainable approach that benefits society and environment. For example, Uniti intends to use organic or recyclable material for all parts of its cars, and abandon the combustion engine, which uses the environmentally harmful fossil fuel, and rely fully on electricity. First car release estimated within three years (From April 2017). Uniti performed an equity crowdfunding campaign in 2016 to fund initial development phases, and raised 1.2 million Euro for a 10% stake of the company (which implies a total company valuation of 12 million euro).

Lewis Horne was interviewed for the study. Lewis is founder of Uniti and CEO.
4 Crowdfunding Advantages and Disadvantages for Social Enterprises

In this chapter, the empirical data results are presented. The findings of the research are first presented in a summary according to their type of advantage, disadvantage, and exemplified by direct quotes from interviewees. First, a summary is provided. Second, a section with advantages found is presented, followed by a section of disadvantages. Findings are summarized in figure 4.1 and 4.2. The order in which findings are presented is not related to significance or prevalence in the data.

4.1 Summary of Advantages and Disadvantages and their Frequency

Figure 4.1 and 4.2 show the identified major advantages and disadvantages to provide an overall view of findings and their respective frequency of appearance in the interviews. Nine different advantages and six disadvantages were identified. The identified advantages of crowdfunding for social entrepreneurs are Viable funding option, Publicity and marketing, Engagement creation, Access to impact-minded investors, Alignment with company principles, Higher valuation of the company, Tests market viability, Favourable power balance towards investors and Large pool of capital.

The identified disadvantages of crowdfunding for social entrepreneurs are Higher costs, Large number of investors, Inexperienced investors, Public exposure & Efficiency concerns.
Figure 4.1 Frequency of appearance for each theme of advantages

Figure 4.2 Frequency of appearance for each theme of disadvantages

4.2 Advantages of Crowdfunding

4.2.1 Access to Impact-Minded Investors
Crowdfunding enables access to individual investors who care about the purpose and aim of a business. In a comparison with traditional investors, crowd investors have a broader value focus:
"Comparing to traditional investors it is more the ability to see more different values, not to be so narrow-minded towards that it is all about profit”

When social enterprises raise funds using crowdfunding, on the other hand, they meet investors that are dominated by a desire to realize good ideas. One entrepreneur described his investors in this way:

“everybody has more or less joined because it has a good cause, and most of them also because it can generate a profit”.

Our findings suggest that social enterprises’ business model transformed into a purely financial version would not succeed in a crowdfunding campaign. A pure financial investment case with only monetary returns, would not be an easy sell. This is how one entrepreneur put it:

“if we didn’t offer social investments, the customers we have would put their money elsewhere”.

Social orientation, however, helps to attract funds from the crowd. Opportunity to help people makes crowd investors more willing to take higher risks. This is different from traditional investors which was described by one entrepreneur:

“Professional investors are only concerned about the return on investment. Cause people are more interested in the impact also, of their investment. So, they maybe are willing to take a higher risk than a professional investor who is only making some calculations”

Due to the desire among some crowd investors to invest to create impact, they find crowdfunding suitable because they can control where the money goes:

“Rather than putting it into a bank where they don’t know where that money is invested, this gives them direct control. They get to choose which projects they support and how much, but also they want projects that are doing good at the same time”

The decision to invest to create impact is not parted from a desire to make a financial gain, as expressed by a company enabling crowd investments into social entrepreneurs in Africa:

“Our crowd investors have the understanding that to make an impact does not mean to leave out the other parts”.
4.2.2 Alignment with Company Principles

Our research suggests that crowdfunding as an idea and concept appeals to social enterprises. As expressed by one entrepreneur:

“[The company] builds actually upon a lot of people that make a small contribution but achieves a big result together. That is the actually the exact same principles as crowdfunding is based upon”

Another company expressed that companies using their crowdfunding platform believed crowdfunding was a good fit with the brand, since it invited to a greater engagement among the local community. Crowdfunding also represents globalization, since investors all over the world can be part of it, which one entrepreneur felt connected well to his company. Furthermore, making investment available for anyone appealed to one entrepreneur:

“then there is also some kind of democratization thought behind. We are usually saying that literally anyone should be able to invest”

Another finding is that large number of investors can also push the company to be more transparent, which is perceived as a benefit by the social enterprise.

4.2.3 Engagement Creation

Crowdfunding can enable social enterprises to create engagement among a greater number of people. One entrepreneur from a crowdfunding platform in UK gave an example where local authorities were initiators of renewable energy projects:

“They like the idea of not going to a bank, but going to private individuals because they want better engagement with their local residents”

One entrepreneur found that crowdfunding has proven to be a convenient tool to engage people that are interested in the cause:

“It is a way to create a united controlled evolution”
4.2.4  Favourable Power Balance Towards Investors

Through crowdfunding entrepreneurs can get a more favourable position towards investors, compared to the existing hierarchy that enterprises often find themselves in when seeking funding, thus bringing a more “democratic approach” to startup financing. The unequal power balance was illustrated as rich individuals with money, and “small” entrepreneurs pitching to them. One entrepreneur expressed concern for how the financing industry traditionally works:

“You got rich guys with all the money on the top, then you have funds that sell them an idea like “we think that the next big thing is fintech in the medical industry” then they give money just for that and they can invest just in that cause that’s the thing they do.”

Consequently, entrepreneurs are often forced to design their business as the investor tells them to, instead of what they believe is right. This leads to a uniformity of the companies that gets funded. One entrepreneur describe how crowdfunding is different:

“What happens is that startups don’t design their companies for anything other than what the investor wants. But if you do crowdfunding you design your company for what’s good for everybody. You design it for solving a problem or for some grand ambition. And you just being authentic of what you are, and if people do not invest in it you just accept it, that’s how it is, it’s a democratic approach. There is a difference in one, you’re designing for some rich guy, and in the other one you’re designing for solving the problem or what you ambition is.”

Our study finds that crowdfunding enables social enterprises to set the terms for financing, instead of accepting unfavourable terms set by the traditional investors, or being exposed to their hidden agendas. Crowdfunding investors are less powerful, which means that entrepreneurs can avoid the risk of being controlled in a way they do not want by using crowdfunding, and create a favourable power balance from start.

Similarly, crowdfunding creates freedom for social enterprises to act in their interests as a perk of not reaching out to a bank for their initial funding source. It provides a great start capital, which provides the company the choice of direction.

4.2.5  Higher Valuation of the Company

Crowdfunding can result in higher valuation, compared to what traditional investors would have offered. One company were able to reach a valuation of 10 MSEK through the crowdfunding
campaign, which was higher than valuation they would have reached through negotiations with business angels. The company estimated this negotiated valuation would be 8 MSEK.

Another company believed that their valuation, which they got through crowdfunding, would not have been higher through traditional investment means:

“we wouldn’t have taken a dime less than the valuation we got. And I don’t think the investors would wanna give any more because there are not so generous people normally, if they are institutional normal investors.”

One reason that crowdfunding can give a good valuation is that the company sets the terms:

“the differences are, with crowdfunding you set the terms but with the traditional investors, they set the terms.”

4.2.6 Large Pool of Capital
One company pointed out the fact that individuals around the world possess savings that amounts to enormous sums altogether, which constitutes great potential for crowdfunding. Combined with that there are also many people that would like to make the world a better place, this combination provides great potential and therefore was expressed as a significant advantage.

One entrepreneur was surprised about the funding eagerness among some investors and saw that as a proof that there is a lot of capital available. Even though there might be risks involved, private individuals are willing to contribute with quite substantial amounts.

4.2.7 Publicity and Marketing
Apart from being able to fund companies and projects that struggle with raising funds from traditional investors, our data suggests that crowdfunding provides important marketing benefits. As expressed by one entrepreneur from the livestock market:

“I have a massive reach with a lot of people. It’s kind of a marketing benefit also for me, that the more people I involve, the more people can help me reach. This is actually how it has developed”
Another entrepreneur noticed that the crowdfunding campaign resulted in a lot of publicity and good spread of the company’s messages. The entrepreneur further hoped that their investors would act as ambassadors, and due to their large numbers increase the network for the company.

4.2.8 Tests Market Viability
Using crowdfunding as investment means presents an opportunity to get validation from the market. One company in the electric car industry described how this works:

“Now we are in an era where that power shifts into the hands of many people. The people decide market and the people decide what companies should live or die, or succeed or start.”

A successful crowdfunding campaign gives “a stamp of approval”, a validation from the market. This validation attracts venture capitalists:

“eventually it's gonna be normal for startups to first get the crowd validating, before they get any other kind of funding. The main investor will want that because that will de-risk a lot. We already see that a lot of venture capitalists earmark, you know they look for companies that are crowdfunded, because it’s a big de-risker and a big validation.”

For example, one company experienced how banks have shown higher willingness to invest, after seeing individuals investing, engaging and believing in the project.

4.2.9 Viable Funding Option
Crowdfunding has an advantage as a viable funding option when social enterprises acknowledge difficulties to attract funds from traditional investors. Sometimes loan size can be too small to be interesting from a bank’s perspective, if they do not find the investment size for each project attractive in relation to the amount of work required. It can also be inflexibility in the structure of the financing from banks, where a crowdfunding platform can provide a more “hands-on” approach. The bank may have a set of rules which are unsuitable as a starting point for several social projects, or that a bank cannot provide a long-term financing such as 20 years.

When discussions with investment funds and business angels fail, crowdfunding can be the solution. One mobile application entrepreneur described the reason for failure as caused by that business angels are uncertain of the viability of a social business model, aimed to create both profit and funds for charity:
“they almost always invest with the aim of making a profit. So, when we through our business model aim to at the same time donate some money for charity, they get confused. They do not know how to evaluate it”.

Some initiatives are on the borderline between business and nonprofit organization, and these ones use equity or lending crowdfunding to get off the ground. As found in this study, these projects can often be related to local community development.

4.3 Disadvantages of Crowdfunding

4.3.1 Efficiency Concerns
A financing structure that builds on a large number of investors can lead to efficiency concerns. First, communication must be delivered to a lot of investors, which can be more complicated than just communicating with a few. Especially speaking with investors face to face can be an impossibility. Second, the investors may be very different from one another, and belong to different segments, which requires an understanding of how to approach those different segments. Segmentation can for example be investment size, which varies broadly from small investment amounts to large investments. Third, there is a difference in just convincing ten professional investors to fund the company, in comparison to 10 000 lending crowdfunding investors. Thus, the company needs to be publicly well-known, and could imply harder work than sitting in a room and trying to convince two or three big investors. Finally, the concern that crowdfunding is time consuming was also expressed.

4.3.2 Higher Costs
Lending crowdfunding can be associated with greater costs, if the interest needed to get crowd investors onboard is higher than for example a bank would require. An entrepreneur expressed this, having pension fund as an example:

“If you take a large pension fund, which might buy a solar park because it has very stable returns over the long run, which is what pension funds like, you know they may pay just kind of a 2 or 3 % because they are comfortable with the risk, they got a big portfolio of investments. Whereas an individual, who maybe is putting some of their savings into a solar project, they are not so diversified and they might expect a slightly higher return.”
4.3.3 Inexperienced Investors

Inexperienced investors were expressed as a risk since insufficient understanding of the risks connected to the investment could lead to discontent towards the company’s management team, in case of a failure.

4.3.4 Large Number of Investors

A large number of investors can be a disadvantage for social enterprises. This can be a barrier for entrepreneurs to use equity crowdfunding. The disadvantage was described by a crowdfunding company for livestock investment:

“From an operational perspective it would be easier to have 5 investors, then you just communicate with those five, but when you have 5000 it’s harder. but I would say the benefits outweigh the disadvantages”.

The problem of a large number of investors is sometimes not a problem from the social enterprise perspective, but instead opposed from stakeholders in the finance industry:

“People in the industry always say, “ohh but it’s such headache with so many investors in the company” no it’s not.. it’s not. It’s wonderful. I don’t see any problem with that at all”

It can be a concern for venture capitalists that want to invest in a later stage, since they prefer to not have a “complicated cap table”. Ability to easily cut of crowd investors, was expressed a reason as well:

“you’ve got 500 people that really wanna help you get you going, it’s awesome. Nothing could be better. Initially everyone advices us to do a structure where investors would be in an outside company, so we could just cut them off if we wanted. And it’s VC: s that come up with this, venture capitalists and stuff saying, “have them out there so there is no in there when we wanna get the company” and I am saying “fuck you, how about we just keep them in there””.

Our findings also suggest that having lots of small investors can also be a problem with uncertainty of something new, rather than being an actual problem.
4.3.5 Public Exposure

A crowdfunding campaign leads to open exposure of the company, which can put an amount of stress on the management team. The stress could be related to anxiety that any incorrect information is given out to investors, expressed by one entrepreneur:

“Let imagine that you would like...a very very basic mistake such as you unintentionally add an extra zero into a calculation somewhere, and discover it when the campaign is over. And then you realize, shit, now I have given misinformation to 95 people that invested in my company. And this also builds up stress”

The stress is also related to that the campaign opens up for anyone to see the status of the company. One entrepreneur expressed concern for embarrassment, if the campaign would have failed.

“if we would in fact have after 45 days only raised 250 000 (Swedish currency), I personally would have felt a little bit embarrassed. And this stress was a little bit difficult”
5 Analysis

This chapter begins with a brief analysis of the empirical findings and connects them to the findings found in the literature review. It further presents a deeper analysis of the main advantages and disadvantages, followed by elaboration on the implications for crowdfunding as a financing source for social entrepreneurs.

To increase understanding of advantages and disadvantages of crowdfunding financing in a social enterprise context, a qualitative study with social entrepreneurs was conducted. This revealed a set of nine different advantages and five disadvantages. Evidence presented extends the existing understanding of this topic, and provides a picture of crowdfunding as a unique source of funding, with advantages which social entrepreneurs can tap into, and disadvantages that social entrepreneurs can be aware of.

5.1 Brief Analysis of our Findings

We validate the claim by Lehner (2013), that crowd investor’s interest to a large extent lies in the idea and purpose of a business, which is found to be an advantage for social enterprises described as Access to impact-minded investors. Our data is also in accordance with what Calic and Mosakowski (2016) found for donation and rewards-based projects, that a social orientation enhances the ability to raise funds from the crowd.

Additionally, several advantages and disadvantages have similarities to findings for commercial enterprises, found in existing research. Our advantages labelled as viable funding option, publicity/marketing, engagement creation, tests market viability, are leveraged in a similar way by commercial enterprises. Literature on crowdfunding for commercial enterprises also suggests that crowdfunding represents a democratization of access to financial resources (Dushnitsky et al., 2016), which our data suggests is an advantage for social enterprises, presented as aligned with company principles. In terms of disadvantages, issues related to Public exposure, such as public embarrassment of public failure is, seem to be issues both for commercial (Gerber & Huy, 2013) and social enterprises in our study. Similarities in the literature for commercial enterprises, our data can also be seen for Efficiency concerns, meaning that crowdfunding is time consuming and require resource commitment.

Interestingly, our data suggest that crowdfunding can lead to higher company valuation, and access to large pool of capital, which can be an advantage towards other financial means. This
is something that existing literature has not emphasized, but can indicate a bright future for crowdfunding in social enterprise investment. Furthermore, existing literature has not covered, to our best knowledge, that Inexperienced investors can lead to anger against management team in case of business failure, since inexperienced investors might not understand the risks involved in startup financing.

Table 5.1 and 5.2 briefly compare findings of this study and previous findings in literature, mainly conducted on commercial enterprises.

Table 5.1. Disadvantages

<table>
<thead>
<tr>
<th>Disadvantage name</th>
<th>Analysis towards previous literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large number of investors</td>
<td>Commercial enterprises believe that large number of investors lead to anonymous relationships between investors and initiators (Mollick, 2014). This can also cause problems for social enterprises, for example communication difficulties.</td>
</tr>
<tr>
<td>Higher costs</td>
<td>Higher costs can be related to unique characteristics of a project, but it is not addressed in the literature review of this study.</td>
</tr>
<tr>
<td>Inexperienced investors</td>
<td>Insufficient understanding of the investment risks involved can lead to discontent towards the management team in case of failure. Existing literature mainly focuses on this problem from the investor perspective, in terms of losing money, fraud etc.</td>
</tr>
<tr>
<td>Public exposure</td>
<td>Public exposure causes stress and possible embarrassment if a campaign fails, which is applicable for both commercial (Gerber &amp; Hui, 2013) and social enterprises. However, theory additionally suggests that commercial enterprises fear that their business idea might be stolen (Gerber &amp; Hui, 2013).</td>
</tr>
<tr>
<td>Efficiency concerns</td>
<td>Time and resource commitment is a problem for both commercial (Gerber &amp; Hui, 2013) and social enterprises in connection to crowdfunding.</td>
</tr>
</tbody>
</table>
## Table 5.2. Advantages

<table>
<thead>
<tr>
<th>Advantage name</th>
<th>Brief analysis towards previous literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Viable funding option</td>
<td>Commercial (Gerber and Hui, 2013) as well as social enterprises use crowdfunding in some cases as a viable funding option when traditional means are unattainable.</td>
</tr>
<tr>
<td>Publicity and Marketing</td>
<td>Marketing benefits from crowdfunding are expected by commercial enterprises (Gerber &amp; Hui, 2013). Social enterprises use crowdfunding to leverage investors as ambassadors for the company and to get media publicity.</td>
</tr>
<tr>
<td>Tests Market Viability</td>
<td>Crowdfunding is used by commercial enterprises to test market interest for a product (Gerber &amp; Hui, 2013). Social enterprises get a stamp of approval from the market through a successful crowdfunding campaign.</td>
</tr>
<tr>
<td>Favourable power balance towards investors</td>
<td>Literature suggests that entrepreneurs generally prefer to not give up control while obtaining financing (Cosh et al., 2009) and crowdfunding enables social entrepreneurs to set their own terms and remain in control.</td>
</tr>
<tr>
<td>Large pool of capital</td>
<td>Crowdfunding enables social and commercial enterprises to tap into an almost unlimited pool of capital from individuals around the world. World Bank predicts total crowdfunding market potential to US$ 90-96 billion by 2025 (World Bank, 2013).</td>
</tr>
<tr>
<td>Engagement creation</td>
<td>Commercial enterprises create an extended network through crowdfunding (Gerber &amp; Hui, 2013), and social enterprises use crowdfunding to create engaged communities and extended networks.</td>
</tr>
<tr>
<td>Access to impact-minded investors</td>
<td>A social orientation can enhance a project's ability to be successfully crowdfunded (Calic &amp; Mosakowski, 2016). Social enterprises attract crowd investors that share their values and want to contribute to a good cause, while simultaneously making profit.</td>
</tr>
<tr>
<td>Alignment with company principles</td>
<td>Crowdfunding represents values that are attractive for social enterprises. The democratic thought behind crowdfunding (Dushnitsky et al. 2016) is important, but this study also finds that crowdfunding promotes transparency and diversity.</td>
</tr>
<tr>
<td>Higher valuation of the company</td>
<td>Social enterprises use equity and lending crowdfunding to attain investment terms that outcompetes traditional funding if the idea appeals to the crowd. This is not discussed in existing literature, to the best knowledge of the authors.</td>
</tr>
</tbody>
</table>
5.2  Deeper Analysis of Main Advantages

5.2.1  Access to Impact-Minded Investors

A major emphasis in our literature review was that literature points toward a suitability between social enterprises and crowdfunding, partly since crowdfunding is an opportunity to raise funds from private investors who actually care about the cause. Traditional investors may focus on parameters such as risk and return (Lyons & Kickul, 2013), which can make other companies rather than social enterprises more attractive for investors, especially if the impact a social enterprise generates is difficult to monetize (Lyons & Kickul, 2013). Evidence from our interviewees, on the other hand, suggests that opportunity to create good impact makes the crowd investor more risk tolerant. Lehner (2013) argue that crowdfunding is especially suitable for social enterprises since crowd investors look at the idea itself, and the values of the company, and this is also in accordance with our findings, where the social enterprises were able to attract investors through attractive ideas and values, rather than a competitive balance between of risk and return. However, our data also suggests that a tradeoff between profits and impact is not necessary, both can be achieved simultaneously.

Research has not only suggested that crowdfunding is a way for social enterprises to attract impact-minded investors, but Calic & Mosakowski (2016) find that a social orientation enhances the possibility to get funded for reward-based crowdfunded projects. Our data confirms that this holds also for equity and lending crowdfunding, since several entrepreneurs believed that people would not invest in their businesses if they would not aim for a good impact. This does not mean that projects and businesses without a social mission cannot be crowdfunded. Rather, it means that the social orientation positively affects the ability to raise money, and that it for some business models is a necessary element to be able to raise money from the crowd.

Impact investment has emerged as a new way of investing, exemplified by social venture capitalists and impact minded business angels, where social and environmental impact is pursued along with profits (Clarkin & Cangioni, 2015). Even though impact investors exist, evidence from this study suggest that there are either not enough of them or they are still not pursuing social impact to a level that satisfies social entrepreneurs. Almost without exception, social entrepreneurs do not see that traditional investors have a great ability in seeing different values in an investment, or investing “with the heart”. The traditional perception that investors only look for financial return on investment is persistent among interviewees.
5.2.2 Alignment with Company Principles

One thing that scholars have not emphasized is that crowdfunding as an approach can be aligned with a social enterprise's own values. The thought that anyone should be able to invest in something increases the accessibility to investment opportunities for ordinary people, which could be seen as a social impact in itself. As one of the social entrepreneurs in the study expressed, it leads to democratization of the opportunity to participate in investment, which is also reflected in the literature by Dushnitsky et al. (2016). Our evidence supports this and further suggests that this leads to a greater diversity among the business ideas that are funded. The power to decide which companies to be created and funded shifts from only a limited number of people in the financing industry, to the crowd, consisting of a great diversity of individuals. This also implies a new situation for the entrepreneur. Instead of convincing larger investors, possibly with a predefined idea what an attractive investment is, entrepreneurs can choose to convince people from a broader spectrum of backgrounds, ages and nationalities.

Having a large number of investors is also found to incentivize transparency, which arguably should be very suitable part of a social business. Furthermore, if the company’s values are cultural diversity, crowdfunding presents a great opportunity to involve investors from all kinds of cultural and societal backgrounds as well as nationalities. Crowdfunding enables and represents something that is closely aligned to the values of many social enterprises.

5.2.3 Engagement Creation

Possibility to create an extended network through crowdfunding is showed to be a benefit for commercial enterprises (Gerber & Hui, 2013), which is similar to findings for social enterprises. Social enterprises can use crowdfunding to connect to a large number of investors and engage them around the project or business itself. For example, engaging the local community in a project initiated by the local authorities, such as renewable energy projects. Equity crowdfunding can also be used to engage village inhabitants in community development.

5.2.4 Favourable Power Balance towards Investors

Literature suggests that entrepreneurs generally prefer to not give up control while obtaining financing (Cosh, Cumming & Hughes, 2009), and our literature review suggested that this could be a potential advantage of crowdfunding. Our study finds that an unfavourable power balance towards investors is common in startup financing, and that crowdfunding can be a tool for entrepreneurs to remain in control. Powerful investors have a tendency of using their excessive power to control social entrepreneurs, sometimes in a way that is unfavourable for the
entrepreneur. Through crowdfunding, entrepreneurs can set the terms, and avoids the risk of accepting unfavorable deals with more powerful investors.

5.2.5 Higher Company Valuation
The study finds that social enterprises can reach a higher valuation through crowdfunding than through traditional investors, which is a finding not discussed in existing literature. This arguably provides a new perspective of crowdfunding, and new expectation of crowdfunding as a competitive investment mean. Possibly, crowdfunding will be perceived as an important and established source of investment over time, and not mainly perceived as a funding option available when other funding sources are unattainable, as in the study of Bergamini et al. (2015). Our study suggests that equity and lending crowdfunding can be a gateway to attract large investments that outcompetes traditional funding, if the idea appeals to the crowd. The key lies in that the business itself sets the terms, with a fixed valuation from start. Thus, this is not negotiated to a smaller valuation during the funding process, which is often the case with other investors like venture capitalists and institutional investors. To set a suitable valuation of the company before the campaign starts, can be difficult. Experience from companies reveals an underestimation of the company value, where campaigns had to be closed in one or a few days, due to that too many crowd investors were interested in investing at the preset valuation.

5.2.6 Large Pool of Capital
A similar finding to higher valuation is the advantages of larger pool of capital which provides great potential for lending crowdfunding. Crowdfunding enables companies to attract investors from all over the world, which potentially can generate big funding amounts from individual’s savings. Technically, the world is a target group, which is an exciting element of globalization. As the total crowdfunding market potential is estimated to be up to US$ 90-96 billion by 2025, it is indeed a large pool of capital to tap into, equal to 1.8 times the venture capital globally deployed 2012 (World Bank, 2013).

5.2.7 Publicity and Marketing
A further implication of the study, that social enterprises should be aware of, is that crowdfunding not only is an opportunity for financing but also for marketing and publicity. Marketing benefits are reasons for commercial enterprises to use crowdfunding to fund specific products (Gerber & Hui, 2013), but is also in line with the results for social enterprises. The same effect is hardly achieved through traditional financing forms, since the funding process is
constrained to involve a few people. For social enterprises, this means for example that they more efficiently can spread awareness about the problem their business aims to solve, through their investors acting as a form of ambassadors for the business, or through publicity in media. This sort of “free” marketing could attract customers and give other network benefits for the company.

5.2.8 Tests Market Viability
Previous research show that crowdfunding is used by commercial enterprises to test market interest for a product (Gerber & Hui, 2013). Our data from social enterprises using equity crowdfunding reveals a similar result. If the market approves the business by investing in it, it is a stamp of approval for the company and its business model. This results in a greater belief in the company, also from large investors. As Bocken (2015) described, crowdfunding can make social startups more appealing to venture capitalists by proving the existence of a customer base. Our study reflects this view as well, but also that getting validation through crowdfunding eventually will be a normal first step for any new business.

5.2.9 Viable Funding Option
Results show that crowdfunding has the ability to step in as a funding source for social enterprises, when traditional sources fail to offer appropriate funding, which makes it a viable funding option for social enterprises. This is an important implication, since existing literature points out funding as a major challenge for social enterprises (Bugg-Levine et al., 2012; Calic & Mosakowski, 2016; Gundry et al., 2011). The results are in accordance with the findings by Gerber and Hui (2013) on reward based crowdfunding for commercial enterprises, where funding for these companies were not always available through other sources than crowdfunding. Our study finds financing struggles related to banks, business angels and investment funds, where crowdfunding turned out to be the preferred and viable option. Lehner (2013) discusses that social enterprises and banks fail to create mutual understanding, where differences in terminology and cultural distance creates difficulties. This is something we did not find through our study, where reasons for failure mentioned were more technical. Our data suggests that the bank’s approach can be too inflexible to suit the companies, for example in terms of size or length of the loan.
5.3 Deeper Analysis of Main Disadvantages

5.3.1 Efficiency Concerns
Existing literature has found that time and resource commitment can be a potential disadvantage for commercial enterprises (Gerber and Hui, 2013), which is aligned with findings of this research. Concerns about time consumption is related to communication with a large number of investors, which is more complicated than with a few. There is also a risk that convincing ten thousand crowd investors can be more time consuming than ten larger investors, even though the same amount of money is raised. Interestingly, the crowd investors as a whole carry characteristics closer of that of a consumer market, with different market segments and demographics. This is a new dimension that entrepreneurs need to handle, which appears to be quite different from the process of raising money from a few business angels or institutional investors. Our data suggests that the fundraising process can resemble that of a market segmentation process, where the company needs to understand the investor segments and how to approach them.

5.3.2 Higher Costs
Higher costs can appear in cases where crowd investors require higher returns than institutional investors. Due to institutional investors’ diversified portfolios, they can accept low returns if the risk is perceived as very low. Crowd investors are probably less diversified than for example a pension fund and might require higher returns, which means that the social entrepreneur can end up with higher interest costs. However, our data suggests that this can vary very much between projects and vary over time, as crowd investors become more comfortable with the risk. Our data also suggests that this applies to lending crowdfunding and low risk projects.

5.3.3 Inexperienced Investors
Inexperienced investors are a frequently discussed problem in relation to the risk of losing money as unprofessional crowd investor, due to insufficient knowledge, experience and possibility for fraud. However, inexperienced investors can also be a problem for the social enterprise itself, if the business isn't successful and the management team receives anger from investors that had insufficient understanding of the risks involved. This is different from venture capitalists, banks and other professional investors who are aware of the risks involved.
5.3.4 Large Number of Investors
A large number of investors can cause operational problems and uncertainty in the relation to investors. For example, it increases the anonymity of the relationship between funders and entrepreneurs (Mollick, 2014) and the crowd is expected to behave in a disordered and unforeseen manner (Massink et al, 2010). Evidence from this study has a different emphasis, where the problem with a large number of investors was largely related to that it would be more difficult to attract larger investors at a later stage. Thus, it is unclear if this is a disadvantage for external stakeholders like venture capitalists, rather than being an operational problem for the social enterprise itself.

5.3.5 Public Exposure
One major difference between crowdfunding and many other types of funding, is that the crowdfunding process opens up for public exposure to a much larger extent. This means that any type of mistakes and failures becomes amplified, in the sense that more people can observe. Not so surprisingly, this causes stress towards the management team and fear of embarrassment if the fundraising campaign fails to attract the crowd. This is something that has been found for commercial enterprises (Gerber & Hui, 2013), as well as in this study. Evidence for commercial enterprises also suggest that there is a fear that other would steal their business idea, but this cannot be confirmed for social enterprises from our data.

5.3.6 Disadvantage from the Literature Not Found in our Study
Difficulties to raise funds was not mentioned by any participant in the study, thus we cannot confirm findings from (Gerber and Hui, 2013), were difficulties to raise funds was experienced among entrepreneurs.

5.4 Implications for Crowdfunding as a Social Enterprise Financing Source
An important conclusion from our data is that crowdfunding enables social enterprises to stay true to their values, also when it comes to financing. Good examples of social enterprising does not exclude people outside the company itself, but rather invites for participation (Hahn, 2012). Thus, they have a desire to involve everyone to be a part of the solution and achieve change and good impact in the world. Crowdfunding represents an opportunity to involve everyone to contribute to this aim. Involving crowd investors generates financing, but also opportunity to a
deeper engagement with a certain community or a diverse group of people. These people all have in common that they are investors and thus part of the solution, and have every incentive to support the business to success. Crowdfunding therefore supports social enterprises to stay true to their intention to be inclusive, also when it comes to financing of the business. On top of this, our evidence suggests that crowdfunding promotes transparency, which arguably should be an important characteristic of social enterprises.

Our evidence also suggests a renewed idea of crowdfunding, as not only a good complement to traditional funding, but a competitive source of financing. Due to the rapid increase in equity and lending crowdfunding the view of crowdfunding as a legitimate source of investment funding is already evolving (Massolution, 2015). Our evidence contributes to this change in attitude, and suggests that social entrepreneurs can tap into crowdfunding and receive a higher valuation and a deeper pool of capital than accessible from traditional funding. In other words, both the financing industry, universities and social entrepreneurs themselves need to embrace and understand that crowdfunding is a highly valuable source of investment for social enterprises. It is not inferior to other financing means, but different in terms of which advantages and disadvantages it can offer.

There are several advantages that are especially important in the startup phase of an enterprise. Crowdfunding’s ability to give market approval of ideas is important to assess a business viability at an early stage. Furthermore, publicity and marketing generated by a campaign are welcome benefits for social startups, since they naturally do not have financial strength to execute expensive marketing campaigns. Engagement created through a crowdfunding campaign can be an important contribution in the startup phase to get a business idea to develop from a business plan to an established business. Finally, crowdfunding creates a favourable power balance towards larger investors, which is especially needed in the startup phase. Crowdfunding offer social entrepreneurs an alternative, and if used successfully, it brings a much better bargaining power to future negotiations with institutional investors, business angels and venture capitalists.

As social entrepreneurs raise money through crowdfunding, they will have to consider some factors that might be new to them. The visibility and great exposure that they are experiencing during a crowdfunding campaign can lead to much stress for the entrepreneur. Also, a public failure in raising funds can be more embarrassing for the entrepreneur, compared to failed negotiations with business angels, banks and venture capitalists, which is a risk the entrepreneur needs to consider. The entrepreneur also needs to handle a large number of investors, which
causes uncertainty, communication problems and an ownership structure that can be perceived as negative both by the entrepreneur and larger investors which are interested to invest in the business. Important to note here is that there are crowdfunding platforms offering innovative approaches for investor structures to deal with these issues, for example the Swedish equity crowdfunding platform Pepins. There is also possibility to have investor buyout clauses that can be specified in investor contracts, which is something one participating company in this study did.

Finally, social entrepreneurs might not be willing to choose crowdfunding if the amount of work is perceived as too much, reflected in their efficiency concerns. On the other hand, crowdfunding platforms are creating solutions that deal with issues of efficiency and time consumption. One social entrepreneur raised concerns about the problems of collecting money from investors of the campaign, which usually is requested from investors one by one after a campaign. Today, platforms like Pepins have solutions for immediate money transfer when investors press the button to invest. Left to see is if these solutions will solve efficiency concerns in a satisfactory way for social entrepreneurs.
6 Conclusion

This chapter presents the conclusions of the empirical study, presenting the most important advantages and disadvantages found in the study.

The purpose of this paper was to identify the major advantages and disadvantages of lending and equity crowdfunding for social entrepreneurship, by drawing from the experiences of social entrepreneurs. Evidence suggests that nine different advantages of crowdfunding are important for social entrepreneurs. Correspondingly, five different disadvantages are revealed as important concerns for social entrepreneurs.

Advantages found offer several benefits for social enterprises to tap into:

- **Access to impact-minded investors** describes that crowdfunding provides access to crowd investors with desire to realize good ideas, and are risk tolerant if the purpose is good. This is different from traditional investment, where evaluation based on levels of risk and return sometimes prevent traditional investors to value great aspects of the business idea itself, and its impact for the society.

- **Alignment with company principles** describes that crowdfunding represents principles that align with the principles of social enterprises, such as transparency and a democratic involvement by anyone who wants to contribute to a better world.

- **Engagement creation** describes that crowdfunding can be a way for social entrepreneurs to engage investors not only to make financially contribution but also to support and contribute to the evolvement of the business in the long term. We saw that this is also a way for local authorities to connect with their citizens and engage them in community development.

- **Favourable power balance towards investors** shows that social entrepreneurs can use crowdfunding to improve its power position in the financing market. Through crowdfunding, the entrepreneur can set the terms of the deal, where the crowd investor must accept it or refrain from investing. This decreases dependency on powerful investors, who might otherwise pressure social entrepreneurs to accept unfavourable terms, sometimes with disastrous consequences for the entrepreneur.

- **Higher company valuation** reflects that crowdfunding can deliver better funding results if their idea is well-received by the crowd, compared to what they would have got from traditional financing sources. To achieve this, their aim for social contribution is of fundamental importance.
• *Large pool of capital* describes the opportunity to reach out to almost unlimited capital from individuals all over the world.

• *Publicity and Marketing* reveals that crowdfunding can generate important marketing benefits to companies during the funding process. This provides additional value, especially in the startup phase.

• *Tests market viability* means that social entrepreneurs use crowdfunding to attain approval of its business idea from the market. This is not only beneficial to confirm that the social entrepreneur is on the right track at an early stage, but also a way to attract institutional and other larger investors at a later stage, since they see a successful crowdfunding campaign as a good validation and de-risker.

• *Viable funding option* shows that crowdfunding has ability to step in as a financing source for social entrepreneurs that fail to convince larger investors.

Additionally, disadvantages identified specifies reasons for caution:

• *Efficiency concerns* reflects that crowdfunding can be time consuming and inefficient.

• *Higher costs* describes that some projects and businesses might experience higher costs through crowdfunding compared to banks and pension funds, since they are able to be more diversified in their portfolio of investments.

• *Inexperienced investors* means that investors that do not understand the risk involved might act in a negative manner towards the management team in case of business failure.

• *Large number of investors* reflects that communication issues may appear because of large number of investors.

• *Public exposure* describes the stress and embarrassment that can be caused by mistakes or failure to raise desired amounts.

We argue that crowdfunding promotes values that are attractive for social enterprises, by representing a democratic approach to investment and inviting anyone to participate in creating good impact. It further triggers transparency throughout the fundraising process. We find that crowdfunding has qualities to emerge into a major financing source for social enterprises which in some cases outcompete traditional investment means in terms of higher valuation and access to more capital. An important factor here is that crowd investors value the social mission of a company, which increases their risk tolerance. Finally, crowdfunding appears to be extra useful in the startup phase by creating publicity, marketing and engagement, validating the business idea, and improving power position towards investors by decreasing dependency on powerful
investors. However, crowdfunding can also cause greater stress on the management team, and require time and resources. Entrepreneurs also need to consider factors such as public embarrassment if campaign fails.
7 Discussion

This chapter begins with implications on the topic, followed by a discussion on further research of crowdfunding for social enterprises. Lastly, limitations of the study are presented.

7.1 Implications

World bank estimates global market potential to be up to US$90-96 billion per year by 2025, which is 1.8 times the total venture capital deployed in the world 2012 (World Bank, 2013). The belief in crowdfunding as an increasingly important funding source for entrepreneurs was shared among the participants in this study. This is maybe not surprising to hear, since these companies have had success with their crowdfunding campaigns. However, this also puts them in a position to see potential. The most overwhelming example from our participants was perhaps the electric car startup Uniti, who managed to raise 1.2 million euro in just one day through fundedbyme.com. Not surprisingly, the CEO Lewis Horne believes that crowdfunding is “gonna get huge” and “completely disrupt that industry”. Just before the last editing of this study (May 2017), Dynamic Code, a startup aiming to transform healthcare, ran a crowdfunding campaign that was fully subscribed within 39 minutes, raising 10 million SEK (Boström, 2017).

There are however obstacles that can prevent or slow down the growth of crowdfunding. Several of our entrepreneurs talked about restrictions and regulations that are limiting crowdfunding in its current version. Crowdfunding platforms like Abundance have been working closely with the UK government for years to develop new regulation of crowdfunding, which appears to have succeeded. Other factors that can limit crowdfunding from reaching full potential is low awareness and wrong perceptions of crowdfunding. Especially in literature, a lot of focus has been towards reward-based crowdfunding (Lehner, 2013), for example kickstarter.com, and crowdfunding is still not commonly associated with financial investment. This is surprising considering that reward-based crowdfunding amounts to 8.2% of total crowdfunding 2014, whereas equity crowdfunding represents 6.8% and lending crowdfunding 68.3% (World Bank, 2015). Due to lack of knowledge about crowdfunding investment, individuals might find it more complicated than investing their money in more traditional ways like stocks and bank funds.

Taking the role of crowdfunding to a broader perspective we have through this research increased our awareness of a few interesting implications of crowdfunding. One such thing is
that crowdfunding might replace the so called “Friends, Families and Fools” in providing initial seed capital for businesses. Instead of getting seed capital from a few people with personal bonds to the entrepreneur, crowdfunding can spread this risk to a larger number of people. Another interesting implication is that the crowd might drive startups towards the social side. Since the business idea and model is designed towards what the crowd think is a good idea, companies that aim to make life better have an advantage. As one interviewee in the study expressed, he hoped that only companies that make life better would be funded and created in the future. This quote from one of our interviewed entrepreneurs can represent this positive view in a nice way:

“I think equity crowdfunding has the biggest opportunity to completely make the world better. Very excited by that”

7.2 Further Research
Crowdfunding’s role for social enterprise investment is still an emergent field within the academia, and future research may focus on several topics. For further understanding of the role of crowdfunding for social enterprises the mutual importance of the different advantages and disadvantages found in this study can be examined. An appropriate measurement of mutual importance would help entrepreneurs and investors understand which factors that actually matter the most, which would increase knowledge of how to optimize the use of crowdfunding. Furthermore, the role of crowdfunding can be studied from different growth stages of social enterprises. The advantages and disadvantages could possibly be different in the startup phase versus a later growth phase, or at least the degree of importance of certain advantages and disadvantages can vary throughout different phases. An increased understanding of this will help entrepreneurs as well as investors to understand crowdfunding’s role as a financing means during different growth stages.

7.3 Limitations of Study
The sample of this study is limited to social enterprises which have experience of successful lending and equity crowdfunding. This means that social enterprises that have rejected crowdfunding as a financing option are not represented in our results, which can have limited the perspectives covered in this study. However, it would also require a special treatment of data from these participants, since their experiences would not be appropriate to fully evaluate the role of crowdfunding due to lack of experience of a crowdfunding campaign. Furthermore,
social enterprises with experience of crowdfunding failure could further add perspective, possibly adding more substance to the disadvantage category. These are also ideas that could be recommendations for future research.

Further limitations can be connected to the number of participants in the study. Crowdfunding as an investment mean for social enterprises is a fairly new concept with a limited spread among entrepreneurs, and few enterprises that fulfilled the requirement to participate in the study were found. This means that the study suffers from a limited number of participants. A larger sample could possibly have added to this study in terms of depth and width of the findings.

A majority of the interviews were conducted in Swedish and used data had to be translated to English. This is done by the authors of this paper, and even though the context and use of words were carefully considered, it is hard to claim that a certain translation is the correct one, which opens for variations.
8 References


Appendix A

Interview questions to companies

Introduction:

- Tell us more about the company's history and its mission or contribution to the society?
- Tell us more about your role in the company?
- Tell us more about which important sources of funding you have used or currently use.
- How is your company funded?

From this we can examine every financing option they used separately:

e.g.

Bank:

- Describe how you use banking today to finance your activities.
- Describe why you are using banking to finance your activities today
- What are the main advantages of getting loans from a bank for you
- What are the main disadvantages of getting loans from a bank for you

Private equity:

- Describe how you use private equity today to finance your activities.
- Describe why you are using private equity to finance your activities today
- What are the main advantages of private equity for you
- What are the main disadvantages of private equity for you

crowdfunding:

- Describe how you use crowdfunding today to finance your activities.
- Describe why you are using crowdfunding finance your activities today. (alternative question if needed- What inspired you to use crowdfunding?)
- What are the main advantages of crowdfunding for you
- What are the main disadvantages of crowdfunding for you
- If previous answer is not fulfilling: What major differences did crowdfunding have on your company?
- What risks where you facing when implementing crowdfunding?
- What ongoing risks are you facing with crowdfunding continuously?
- In what way is it relatively difficult to obtain funding through crowdfunding
- In what way is it relatively easy to obtain funding through crowdfunding
- Did crowdfunding change your internal operations in some way(s)?
Then focusing on the Crowdfunding investor:

- Describe your perception of a crowdfunding investor. How are they different from professional investors?
- Focus on advantages and disadvantages here as well in comparison with professional investors.
- What is your perception of the private investor’s care for your social purpose? Do they care more about the financial return or the social impact?
- If your business activities did not have a social impact, how would that affect crowdfunding investors investments?
- Do you pay a lower, higher or equal interest rate to private crowdfunding investors compared to other financing options? (the target for the funds has to be the same, for example a solar installation in a community in Africa).

Potential for crowdfunding platfform

- What role do you think crowdfunding will play in the future when it comes to fund social enterprises?
- What are the major obstacles for social enterprises that hinders them to use crowdfunding?