Crowdfunding Social Entrepreneurship

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Abstract: In crowdfunding, funders often have very little or no information about the social entrepreneur and the venture. This asymmetric information hinders funding in that potential funders only make a pledge if they can trust the entrepreneur and the seriousness of the project. Thus entrepreneurs have to signal information to potential funders. In the case of conventional ventures, this means showing that the company is committed to the financial returns or the quality of the product, for instance. However, in the case of social enterprises, entrepreneurs can signal their commitment to a social or an environmental challenge. The information that entrepreneurs want to convey to potential funders depends very much on the type of crowdfunding. The type of crowdfunding determines whether the entrepreneur is pitching to potential investors, lenders or potential consumers and general supporters of the project. While investors tend to be more concerned with the financial returns, the quality of the product or service tends to be the variable that matters most to the potential consumer. This thesis examines the crowdfunding campaigns of social ventures in order to understand how to crowdfund social enterprises. It identifies the signals with which, social entrepreneurs try to attract funding through different types of crowdfunding, mainly reward-based. It finds that reward-based crowdfunding offers a good basis for social entrepreneurs to attract funding by advertising and signaling their commitment to social or environmental issues. This is all the more true when the social enterprise seeking to be crowdfunded only aims to be financially autonomous and thus cannot offer attractive financial returns to potential investors.

Keywords: Crowdfunding, Social entrepreneurship, Social enterprise, Social venture, reward-based crowdfunding, Sustainable development.
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Popular Summary: This thesis examines the question of how to crowdfund a social enterprise. A social enterprise is a company that aims to create social or environmental returns as well as pursuing financial returns so as to maintain financial autonomy. Crowdfunding is a financial instrument that is developing fast and is an interesting financial alternative for social entrepreneurs. Crowd funders are more likely to be receptive of the ideas put forward by a social enterprise than conventional investors who tend to be mainly concerned by the financial returns an investment could offer. This means that, with crowdfunding, social entrepreneurs can sell their good image as social actors in order to attract funds. However, crowdfunding implies that many potential funders are strangers to the entrepreneur and thus have very little information about the reliability of the latter and their venture. Thus entrepreneurs have to advertise their project during their crowdfunding campaign and furthermore, they should signal their commitment to the success of the business and to achieving social or environmental returns. Signals demonstrate to the potential funder that the social entrepreneur is committed. This thesis proceeds in analysing cases of crowdfunded social enterprises in order to examine the signals that have been put forward. Based on the results from the case study, it is suggested that reward-based crowdfunding is better suited to social entrepreneurship as social entrepreneurs can better exploit their beneficial social or environmental impact to raise funds with the reward-based service.

Keywords: Crowdfunding, Social entrepreneurship, Social enterprise, Social venture, reward-based crowdfunding, Sustainable development.
1. Introduction

Social enterprises may face difficulties in obtaining funding through conventional financial options. Crowdfunding offers a financial alternative for social entrepreneurship. Crowdfunding platforms enable an entrepreneur to access funding from many different funders, that is, the crowd. Thus in order to attract funding from these potential funders, the entrepreneur must advertise the social venture so as to overcome the lack of information that potential funders may have. This thesis is concerned with the issue of financing social entrepreneurship and looks into how social entrepreneurs can exploit the resources of the crowd so as to finance their enterprise.

Social entrepreneurship is an important factor for sustainable development. Social enterprises aim above all to contribute to society by having a positive impact on social or environmental problems. However, they aim to do this whilst also generating income from their activity in order to be financially independent. If a social enterprise can generate enough revenue from its activity so as to cover its costs then it can sustain its activity. Furthermore, this means that it is a sector that has the potential to create employment. Therefore, social entrepreneurship has the potential to contribute to economic, social and environmental sustainability which are the three pillars of sustainable development from the Brundtland report (Brundtland, 1987). Thus social entrepreneurship is an impulse for sustainable development from within the private sector.

The prime ambition of a social enterprise is to accomplish a social or environmental goal but it also sets out to be financially independent by generating enough income to sustain its activity (Lehner, 2013). Thus social entrepreneurship distinguishes itself from for-profit and nonprofit institutions in that it has the double ambition of both social and financial returns (Achleitner et al., 2014). In theory, social enterprises may have access to the conventional financing methods within the for-profit sector as they pursue financial returns but as they have a social purpose, they may also be awarded public funding and other financing instruments which are normally reserved for nonprofit organisations (Achleitner et al., 2014).

In diversifying one’s financial structure, one can achieve stable cash flows. Yet despite Achleitner et al. (2014) arguing that social entrepreneurship has access to a wide variety of financial solutions, the empirical evidence demonstrates a tendency for social enterprises to opt for few sources of capital. Achleitner et al. (2014) argue that this can be explained by the idea that having many capital providers can result in conflicting expectations and requirements in terms of both social and financial returns.

In reality, social enterprises do not have such easy access to capital from conventional for-profit investors and lenders. This difficulty in attracting capital through the conventional for-profit channels stems primarily from the cultural barriers that stand between such investors and social entrepreneurs. Organisational structures are not necessarily the same as in for-profit enterprises and it is easy enough to see why the tendency for social entrepreneurs to focus on the social aspects of their activity rather than the managerial side would fail to gain conventional investors’ and lenders’ trust (Lehner, 2013). Additionally, banks are rather reticent to lend in these times of economic turmoil and public money is hard to come by within the current context of fear surrounding governmental debt (Lehner, 2013).

Crowdfunding may be a good match for social entrepreneurship as the former
challenges the assumption of the capital asset pricing model (CAPM) that investors will base their investment decisions on risk comparison. The empirical evidence shows that crowd funders are more attracted to the products, ideas or values that an enterprise offers rather than monetary considerations (Lehner, 2013). On the other hand, one could argue that the large amounts of investors or lenders that are inherent to crowdfunding lead to ever more conflicting requirements and expectations (Achleitner et al., 2014).

Crowdfunding platforms allow entrepreneurs to pitch an idea to people beyond their immediate network consisting mainly of family and friends. Crowdfunding has advantages besides its obvious financial value. It enables the entrepreneur to test the market, to attract skills and experience as well as to create brand awareness (Ingram & Teigland, 2013). The phenomenon is recent in its modern internet-based form. In Sweden, between March 2011 and April 2013, Ingram & Teigland (2013) estimate that there have been approximately 7 million SEK raised through donation-based crowdfunding and around 19 million SEK raised through equity crowdfunding.

Crowdfunding is thus a recent alternative to conventional financial instruments that is developing fast. It provides a fitting solution to social ventures as crowdfunders tend to want to fund an idea or a project rather than seek financial returns. Furthermore, it offers different types of financial instruments. There are four different types of crowdfunding. These are donation-based, reward-based (this usually consists in the funders pre-purchasing the product to be produced by the funded activity), debt-based and equity-based crowdfunding (Ingram & Teigland, 2013). As mentioned above, because social entrepreneurship has social goals as well as aiming to be financially autonomous, social entrepreneurs should, in theory, be able to raise funds through any of these four crowdfunding instruments. Donation-based crowdfunding is an option in that funders may perceive “intangible benefits” from the social aspirations of these activities (Ingram & Teigland, 2013). And, as social enterprises have financial objectives on top of their social ambitions, equity- and debt-based crowdfunding are also an option. Thus crowdfunding offers a variety of options to social entrepreneurs in need of new financial alternatives.

2. Research Question
Despite social entrepreneurship theoretically having access to a wide range of financial instruments which are usually reserved for either for-profit or nonprofit enterprises (Achleitner et al., 2014), obtaining funding is not an easy endeavour for social entrepreneurship (Lehner, 2013). Crowdfunding is a new financial alternative which presents some compatible characteristics with social entrepreneurship such as the fact that crowd funders tend to be less concerned with the financial performance than with the social goals of the enterprise (Lehner, 2013). Because it is a recent phenomenon, there is little existing literature on crowdfunding and even less on whether it is a suitable financial option for social entrepreneurs (Lehner, 2013). This thesis thus attempts to address the relatively scarce literature regarding crowdfunding as a financial alternative for social entrepreneurship. More specifically, the overarching research question of this thesis is: how to crowdfund a social enterprise? This can be broken down into the following questions:

RQ 1: Is there a type of crowdfunding that is better suited to social ventures?

RQ 2: What are the obstacles that a social entrepreneur faces when using crowdfunding as a financial
alternative, and how are these overcome?

RQ 3: What is the course of action that should be taken in order to crowdfund a social enterprise?

3. Thesis Structure
This thesis is structured as follows. It begins with part 4, by drawing up a review of the existing literature on crowdfunding social ventures so as to determine whether there is an existing gap in the literature. Part 5 consists in creating a theoretical framework to guide the research process of this thesis. This is followed by part 6 which elaborates on the method used to carry out the research. The method part describes the research design which follows the theoretical underpinnings so as to conduct a comparative case study. The results of the case studies are exposed in part 7 wherein a process framework for crowdfunding a social venture is also developed. Finally, before proceeding to a conclusion, a discussion develops an answer to the research question and explores the limitations of this thesis in part 8.

4. Review of the Literature
It is important to review the existing literature around the topic in order to find any gap in the literature on the topic and in order to enable this thesis to build on past research. This literary review will examine the existing literature on crowdfunding social enterprises. As is discussed below, there are very few existing articles which discuss the topic of crowdfunding social ventures. This is partly because crowdfunding as a phenomenon is so recent. This section thus reviews relevant literature on crowdfunding. It also reviews literature on the financing and capital structure of social enterprises. This is because reviewing all the literature on social entrepreneurship is not necessarily relevant as this thesis is concerned with providing an answer to the question of how to crowdfund a social venture.

4.1. Method for the literary review
The method for reviewing the literature is composed of two stages. The first stage consists in searching relevant keywords in the academic search engines that are Scopus, Web of Science and the Social Science Research Network (SSRN). Table 1 shows the number of results for each set of keywords in each of the three academic databases. When searching the words “crowdfunding social entrepreneurship” on these three databases, very few articles appear in the results (see Table 1). The next step consists in searching “crowdfunding” and “social entrepreneurship” separately. Table 1 shows that these yield considerably more results, especially for “social entrepreneurship.” The topic of social entrepreneurship is very broad (Doherty et al., 2014) and thus it is important to narrow down the search so as obtain more relevant results. As this thesis is concerned with crowdfunding social enterprises, the financing and the capital structure of social enterprises is of particular interest. The words “financing social entrepreneurship” yield fewer and more pertinent results than with “social entrepreneurship.” The results from the keywords “capital structure social entrepreneurship” are not worth considering as the words get mixed up in the search. Indeed, far too many results are concerned with the concept of social capital as opposed to capital structure and/or social entrepreneurship. From within these results, the literature deemed pertinent to the background of this study is selected.
<table>
<thead>
<tr>
<th>Social entrepreneurship + crowdfunding</th>
<th>Scopus</th>
<th>Web of Science</th>
<th>SSRN</th>
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<td>Crowdfunding</td>
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<td>Financing + Social entrepreneurship</td>
<td>100</td>
<td>212</td>
<td>84</td>
</tr>
</tbody>
</table>

Table 1: Search results for literature.

The next stage consists in examining the literature reviews as well as the references of the selected articles and books for more pertinent literature. The latter enables the author to familiarise himself further with the prominent authors from the recurring names in the lists of references.

4.2. The Literature hitherto

The topic of crowdfunding social entrepreneurship has been explored by Balboni et al. (2014) and Lehner (2013; 2014). As can be seen in both Lehner’s (2013) literary review and the number of results when searching the words “crowdfunding social entrepreneurship,” very little appears in academic literature on the matter of crowdfunding social entrepreneurship. Lehner (2013) addresses this problem by drawing up a research agenda for future studies on the topic. He also argues that crowdfunding is suited to social entrepreneurship in that crowd funders tend to be more attracted by the idea and the values of a social venture than by its financial returns. Lehner (2014) analyses more specifically the role of social capital when crowdfunding social ventures and shows strong evidence from case studies to support the idea that social capital is a crucial stepping stone for successfully crowdfunding a social venture.

A considerable amount of literature on crowdfunding shows the importance of entrepreneurs possessing social capital when crowdfunding a venture (Agrawal et al., 2011; Colombo et al., 2014; Giudici et al., 2013; Lehner, 2014; Mollick, 2013). Agrawal et al. (2011), with means of an econometric model, argue that the geographic location of crowd funders is less determinant in their decision to invest. However, they find that the distant investment is heavily influenced by the prior decision of others to invest in the venture. Their speculation behind this is that there are greater information asymmetries for distant potential investors than there is for local investors who tend to be friends and family. The entrepreneur's personal network will have known him for longer and will usually have knowledge of his commitment to the project. The distant investment is sensitive to these early investments in that the lack of information about the entrepreneur is compensated by the trust displayed by the investments made by others. This highlights the importance of social capital in launching a crowdfunding campaign. Agrawal et al.'s (2011) speculation is backed by Colombo et al. (2014) who elaborate an econometric model that demonstrates the importance of “early backers” and “early capital” for the success of the crowdfunding campaign. They define as “early” the first sixth of the campaign’s total duration. The number of contributors and the percentage of the target capital raised within these first few days of a campaign are significantly positively correlated with the successful reaching of the target capital by the end of the campaign. Hence, Agrawal et al. (2011) and Colombo et al. (2014) provide strong evidence to support the idea that possessing social capital will help with acquiring early funders, and that by showing their support for the venture, these early backers will send out a strong signal to other potential investors that the enterprise is worth investing in.
Giudici et al. (2013) distinguish between individual social capital and territorial social capital or “collective geolocalized capital”. The former refers to an individual’s personal networks whereas the latter describes social capital as a “diffused asset” which is shared by a collectivity and can be considered as an environment which fosters economic activity. On the one hand, they find that the individual social capital has a positive effect on a crowdfunding project in that it acts as a positive signal. On the other hand, they also find that the territorial social capital can have the opposite effect in that it suggests to potential crowd funders that the project has had difficulty raising funds despite possessing a favourable environment for doing so. This means that although their findings support the arguments put forward by Agrawal et al. (2011) and Colombo et al. (2014), they also find that poor support for a venture despite a favorable environment sends out a negative signal. This highlights how crucial it is for entrepreneurs to exploit their personal networks when carrying out a crowdfunding campaign.

Communicating and advertising the crowdfunding campaign is also an important factor in reaching out to both the entrepreneur’s social capital and potential distant investors. Part of the literature on crowdfunding explores the importance of social media when crowdfunding a venture (Balboni et al., 2014; Moisseyev, 2013; Mollick, 2013). Balboni et al. (2014) analyse the success of crowdfunded social enterprises in relation to the related activity on social media. Using data on crowdfunded social ventures in Italy, and by means of a regression, they demonstrate the importance of the social media Twitter when carrying out a crowdfunding campaign. They find that the number of updates, the number of retweets, and the number of people supporting the campaign on Twitter without pledges all have a positive and statistically significant relationship with the success of the crowdfunding campaign. Hence the use of social media is important when undertaking a crowdfunding campaign in that it may be used to demonstrate support (which acts as a positive signal to potential funders) and advertise the project.

Belleflamme et al. (2010), Lehner (2013) and Wojciechowski (2009) discuss the idea that by restricting the emphasis on the monetary incentive of the project, the entrepreneur signals the priority he or she is giving to the quality of the resulting product or service. In Belleflamme et al. (2010), this is referred to as the “contract failure” theory. Thus Wojciechowski (2009) argues that charity organisations and non-governmental organisations should benefit from the crowdfunding model. Lehner (2013) places this argument within the context of crowdfunding as social enterprises are defined to have primarily social or environmental ambitions, whilst these activities tend to perceive financial gains simply as a means to persist and remain autonomous. Thus monetary gains are relegated to the background as objectives go whereas the social or environmental desired outcomes of the enterprise are emphasised and placed in the foreground. In light of this perception of financial gains that is inherent to social entrepreneurship, the contract failure theory would thus apply to the latter.

As made evident by the number of results in Table 1, there is considerably more literature on the topic of social entrepreneurship than there is for crowdfunding. The literature on social entrepreneurship has settled on the definition of the concept and has now matured into analysing both its management and performance (Doherty et al., 2014). As discussed above, for the purpose of this thesis, this review of the literature focuses more specifically on
those published articles which have examined the financial instruments available to social entrepreneurs as well as those that take a look at the capital structure of social enterprises. A recurrent topic that appears in the literature is the conflicts that stem from the different financing instruments that social entrepreneurs can combine. Despite the concept of social entrepreneurship being so promising, it does combine social goals with financial goals which are traditionally perceived as contradictory. This issue is better expressed by Doherty et al. (2014: 431): “The hybrid form both creates tension and allows the space to cope with competing logics.” Achleitner et al. (2014) examine the conflicts that arise within the financing structure of social entrepreneurship. On the basis that social enterprises theoretically have access to a wide range of financing options, conflicting interests can emerge from diversified financing structures which encompass both private and public types of funding. As most private funders tend to have expectations in terms of the financial returns and public funding usually comes with expectations concerning the social returns.

The literature concerned with the financial issue of social entrepreneurship has explored the mainstream financial options for social entrepreneurship but very little has focused on crowdfunding as an option. For instance, Scarlata et al. (2012) examine the potential of philanthropic venture capital. Achleitner et al. (2011) draw up a social entrepreneur’s guide to obtaining funding entitled the ‘Social Investment Manual.’ The authors elaborate a framework so that social enterprises can decide as to whether a prospective social investor may be right for the project. They present the various financing instruments that are usually available to social entrepreneurs, however, crowdfunding does not figure in this manual. Thus, crowdfunding is clearly missing from the literature on social entrepreneurship.

Yunus (2006) highlights the fact that social enterprises do not necessarily seek profit maximisation but rather try to maximise their social impact. On this basis, he argues that social enterprises should not distribute dividends. This creates an obvious problem regarding financing through equity. However, this involves the ethics behind social entrepreneurship and does not prevent equity funding altogether within the realm of social ventures. There are limits to social ventures financing themselves by issuing equity. However it should not be ruled out altogether. This is of interest when considering crowdfunding as a financial alternative for social entrepreneurship as there are four different types of crowdfunding to choose from including equity-based crowdfunding.

4.3. Summary of Literary Review
The review of the literature is summarised as follows:

- The general lack of literature addressing the issue of crowdfunding social ventures justifies the conducting of research for this thesis. This is shown by the number of results when searching the words “crowdfunding social entrepreneurship,” and backed by Lehner’s (2013) literary review.
- Lehner (2013) provides a strong conjecture to suggest that crowdfunding is suited for social entrepreneurship. This is because crowd funders tend to be keener to invest in an idea they like than in a company that will generate financial returns. This fits well with social entrepreneurship in that social enterprises have above of all a social or environmental goal while also aiming to be financially autonomous, that is, to generate at
least enough money so as to cover their costs.

- Agrawal et al. (2011), Colombo et al. (2014), Giudici et al. (2013), Lehner (2014) and Mollick (2013) argue the importance of possessing social capital when conducting a crowdfunding campaign. The logic behind this is that possessing social capital will increase the probability that the entrepreneur receives funds in the initial stage of the crowdfunding campaign from his or her personal networks. This acts as a signal for other investors who do not know they entrepreneur (distant investors) that the latter is reliable and committed to the project. Social capital, then, is an important factor to consider for a successful crowdfunding project.

- Balboni et al. (2014) posit the importance of using social media for communicating and advertising the project which in turn increases the chances of a successful crowdfunding campaign. They show that support from friends on social media even without a pledge will be significantly positively correlated with reaching the target amount of the crowdfunding project. Thus one could speculate that support even without a pledge from personal connections acts as a strong signal to distant potential investors.

- The contract failure theory posits that less emphasis on monetary gains acts as a signal to potential funders that the enterprise or organisation is more committed to the quality of the outcome rather than purely to profit. This would apply to social entrepreneurship in that it puts an emphasis on its social or environmental goals and tends to consider profit as simply a means to pursue the activity.

- Yunus (2006) postulates the existence of possible limits to funding social entrepreneurship by selling off equity. This leads to the question of whether equity crowdfunding is a viable option for social enterprises.

5. Theoretical Framework

This part discusses the theoretical underpinnings for the following research process. It provides some theoretical basis to examine the criteria that is considered important for when social entrepreneurs undertake a crowdfunding project. This part of the thesis first presents a theoretical framework for choosing the right type of crowdfunding i.e. equity, debt or even donation and reward crowdfunding. Then it discusses a theoretical basis for understanding the importance of possessing social capital when carrying out a crowdfunding campaign. Finally, this part presents a theory that discusses the importance of social entrepreneurs emphasising their commitment to their social or environmental goals.

This thesis is concerned with providing an answer to the question of how to crowdfund a social enterprise. Many of the issues that are to be faced by an entrepreneur is this endeavour stem from asymmetric information. Therefore, the theoretical framework for this thesis is based on this asymmetric information that lies between the social entrepreneur and potential funders. Asymmetric information is defined as the following: “A situation in which one side of an economic relationship has better information than the other” (Katz & Rosen, 1998: 553). The asymmetric information between the social entrepreneur and a potential funder resides in the fact that the entrepreneur has knowledge of the social enterprise’s value and potential for growth whereas the vast majority of potential funders does not. In the case of equity funding, this can lead to
adverse selection (Myers & Majluf, 1984; Frank & Goyal, 2007). Section 5.1 presents a theoretical background as to how asymmetric information may create a pecking order in the various forms of funding.

A non-negligible part of the literature on crowdfunding (Agrawal et al., 2011; Belleflamme et al., 2010; Colombo et al., 2014; Giudici et al., 2013; Lehner, 2014 and Mollick, 2013) presented above points to the asymmetric information that stands between the entrepreneur and potential funders. Most potential funders, that is, excluding those that stem from the personal networks of the social entrepreneur, have imperfect information about the social enterprise. The imperfect information that potential funders have of a project will hinder their decision to invest. Social entrepreneurs can overcome some of the issues associated with asymmetric information through signaling. That is, entrepreneurs seeking to crowdfund their project need to convey some information about their enterprise so as to reduce this asymmetry. The above literary review has highlighted two signals that may reduce this information problem. A signal is an “observable indicator of a hidden characteristic” (Katz & Rosen, 1998: 555). The first signal is the backing from early investors that are often mostly the entrepreneur’s family and friends. These early investments will display a strong signal to other potential funders about the value of the enterprise. This demonstrates the importance of the entrepreneur possessing social capital (Agrawal et al., 2011; Colombo et al., 2014; Giudici et al., 2013; Lehner, 2014; Mollick, 2013). The second signal specifically relates to social entrepreneurship. In placing less emphasis on the profitability of the project than on the social or environmental objectives of the enterprise, the entrepreneur signals his or her commitment to the outcome. This tends to be more appealing to crowd funders according to the contract failure theory (Belleflamme et al., 2010; Lehner, 2013; and Wojciechowski, 2009). A theoretical basis for these two signals is laid out in sections 5.2 and 5.3 respectively.

Figure 1: Theoretical framework based on asymmetric information (by author).

5.1. Adverse selection and the pecking order theory of capital structure

According to the pecking order theory of capital structure, asymmetric information leads to a pecking order whereby internal financing is preferred to external financing. It further postulates that if external financing is required, debt is to be preferred to equity (Myers, 1984; Myers & Majluf, 1984; Frank & Goyal, 2007). This pecking order is important to this thesis in that there are four different types of crowdfunding which include debt and equity. In order to understand this theory, it is necessary to start with the adverse selection that arises with asymmetric information on the equity market.

Arbitrage by investors keeps a firm’s market value independent from its capital structure. However, there are limits to this independence because of market imperfections such as taxes and bankruptcy
costs (Kraus & Litzenberger, 1973; Frank & Goyal, 2007). Yet, because of the fact that a firm’s market value is more or less independent from its capital structure, a firm may be over- or undervalued (Modigliani & Miller, 1958; Kraus & Litzenberger, 1973; Frank & Goyal, 2007).

As an entrepreneur knows about the true value of his or her firm as well its growth prospects, he or she will be more willing to sell equity if the firm is overvalued and reticent to do so when the firm is undervalued (Myers & Majluf, 1984; Frank & Goyal, 2007). This stems from the problem of adverse selection which is defined as “[t]he phenomenon under which the uninformed side of a deal gets exactly the wrong people trading with it (i.e. it gets adverse selection of the informed parties)” (Katz & Rosen, 1998: 564).

Adverse selection results from the asymmetric information between the entrepreneur and the potential investor.

Asymmetric information lies between the firm and potential investors on the equity market. An entrepreneur knows about the true value of his or her firm as well its growth prospects whereas a potential investor cannot distinguish between a firm that has high growth prospects and one that has low growth prospects. This results in an investor offering the same contractual terms to both types of firms. The firms with better growth prospects see themselves undervalued and thus are unlikely to sell equity on these terms whereas firms with less promise will accept them, being overvalued. Thus the investor has the wrong firms selling her or him equity and is, therefore, subject to the problem of adverse selection. In theory, investors anticipate this issue and thus offer less attractive terms that are unlikely to overvalue any firm. As a result equity funding becomes less attractive to the average firm (Myers & Majluf, 1984; Frank & Goyal, 2007).

Debt issues, on the other hand, do not involve these possible extra costs associated with issuing equity. However when funding through debt, an entrepreneur is to consider both interest rates and bankruptcy penalties in the event of profits not covering the debt. Thus both debt-based and equity-based forms of external funding come at a higher cost than internal funding.

The underlying logic behind the pecking order theory is that companies will only issue equity if they are overpriced or if they have reached their debt capacity which implies that issuing any more debt would come at too high a cost. Investors would be aware of this and thus “force” firms into abiding to this pecking order by undervaluing equity. The pecking order theory of capital structure thus stipulates that internal funding is preferable to external funding. And in cases where internal funding is not an option, debt- is to be preferred to equity-funding. Myers (1984) points out that this model is too extreme and does not reflect the behaviour of firms. However, although the pecking order theory of capital structure does not provide an accurate model for describing the actual behaviour of firms in deciding on their capital structure, it does highlight some of the issues that can arise with asymmetric information. Namely, the fact that equity can be underpriced and in which case, choosing to fund a project by issuing equity can come at a higher cost.

5.2. Social capital and signaling

A way for the entrepreneur to reduce asymmetric information is to convey information about him or herself or about the enterprise. This is also known as signaling whence a signal is put forward by the party in relation with asymmetric information in order to create more transparency with regards to a hidden characteristic. The literature on crowdfunding highlights the importance of
possessing social capital when starting a crowdfunding campaign. Agrawal et al. (2011) propose the conjecture that whether the family and friends of an entrepreneur invest in the project is a strong signal for other potential investors about the commitment of the entrepreneur to his or her project. This is on the basis that potential investors with little or no information about the entrepreneur rely on the investment decision of others so as to determine whether to invest or not. There is strong evidence to support this speculation (Agrawal et al., 2011; Colombo et al., 2014; Giudici et al., 2013; Lehner, 2014; Mollick, 2013). The findings from these articles suggest that a social entrepreneur can increase the chances of a crowdfunding campaign being successful through the display of the funding raised through family and friends.

Social capital is thus a valuable asset in the world of crowdfunding as it may act as a signal for overcoming certain hidden characteristics of the entrepreneur. Bourdieu (1986: 86) defines social capital as “the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition [...] which provides each of its members with the backing of the collectivity-owned capital, a ‘credential’ which entitles them to credit, in the various senses of the word.” It is important to differentiate between one’s actual and potential resources in that the signaling only becomes effective once the entrepreneur has tapped these resources. The actual social capital is understood, here, to mean the social resources that have actually generated credit while the potential social capital refers to those untapped resources that lie within one’s personal networks.

When conducting a crowdfunding campaign, entrepreneurs needs to be able to interact with their personal networks, that is, their social capital. This is both for advertising the campaign and for inciting the people within the entrepreneur’s network to fund the project. The role that the use of social media plays in crowdfunding campaigns is a recurrent theme in the literature on crowdfunding (Balboni et al., 2014; Moisseyev, 2013; Mollick, 2013). Social media may also indicate the social capital that an entrepreneur possesses (Mollick, 2013). However, the latter should be treated with caution. Although Mollick shows a statistically significant positive relationship between the number of facebook friends of an entrepreneur and the chances of reaching the target amount through crowdfunding, Moisseyev’s (2013) results show no evidence to support this. There are caveats to Mollick’s (2013) use of the quantity of facebook friends as a proxy for one’s social capital. The simple number of friends bears no significance in terms of the potential economic resources that lie within this network. Furthermore, it is important to come back to the distinction made between potential social capital and actual social capital. On the one hand, actual social capital means the acquisition of funds through one’s social connections and thus an effective signal to other potential funders outside personal networks. On the other, an entrepreneur’s potential social capital does not necessarily display support for his or her project.

5.3. Contract failure theory and collective intelligence

Contract failure is another product of asymmetric information. However, this time it plays into the hands of the social entrepreneur. In order to understand the theory, consider the following example based on Young’s (2012) explanation. In an unregulated market wherein profit-maximising firms allocate economic resources in the most efficient way so as to extract their most valued usage in order to produce goods. However, because of
asymmetric information between the consumer and the firms, consumers do not have perfect information about the quality or quantity of these goods. Consumers then become reluctant to purchase these products because they may be sceptical of the quality of the product. This asymmetric information thus leads to a market failure. One solution to this market failure is for consumers to revert to the services provided by nonprofit enterprises. The reason behind this is that nonprofit institutions will not prioritise monetary gains over the quality of the product.

This information asymmetry also occurs between an enterprise and its funders. Indeed, funders have little information about the quality of the product. Lehner (2013) argues that crowd funders tend to be more attracted by the ideas and non-monetary outcomes of the enterprise than with its financial performance. This is especially true for donation-based and reward-based crowdfunding as there are no monetary gains for the investor. In light of this, crowd funders will be less inclined to fund profit-maximising firms who place financial results above all else. Crowd funders will tend to favour enterprises that put an emphasis on the quality of the outcome rather than on any financial performance. This would naturally suit nonprofit organisations, but also social enterprises in that, although they aspire to generate enough income so as to be financially independent, they tend to put an emphasis on their social or environmental goals. This emphasis on its commitment to the social or environmental objectives acts as a strong signal for the social enterprises focus on the quality of the outcome (Lehner, 2013). The contract failure theory thus plays in favour of social enterprises and brings further support to this thesis’s assumption that crowdfunding is a suited option to the financing needs of social enterprises.

As crowdfunding allows entrepreneurs to raise funds from the crowd, this implies that in crowdfunding, it is the crowd funders who, as a whole, decide as to which projects receive funds. This is known as collective intelligence (Levy, 1997). Crowdfunding campaigns are more likely to receive funds from the crowd if they are deemed useful to society. As social enterprises are designed to have a social or environmental impact, the usefulness of their potential social impact can be assessed by collective intelligence. The latter then provides the funding if the activity of the social enterprise is considered to have a purpose in society by the collective intelligence that stems from the crowdfunding community. However, in order for collective intelligence to work, potential funders within the crowdfunding community require information first of all about the actual objectives of the social venture and then need to be certain of the intentness of the social entrepreneur in reaching these objectives. Social entrepreneurs should thus emphasise their purpose during their crowdfunding campaign and signal their commitment to achieving their social or environmental targets.

5.4. Summary
Thus the asymmetric information between the social entrepreneur and potential funders hinders the latter’s decision to fund the project. And according to the argument based on adverse selection, it raises the cost of issuing equity and thus leads to a pecking order within the different types of financing instruments. That is, internal is to be preferred to external financing and debt issues are to be favoured over equity issues if external financing is required. Although, there are in reality limits to the pecking order theory, it remains an option for social entrepreneurs to consider when deciding between the various crowdfunding instruments.
In order to attract funding from the crowd, social entrepreneurs need to overcome the information asymmetry by conveying information about their enterprise. This theoretical part looks at two signals that may aid social entrepreneurs in signaling their worth to funders and, subsequently, help them reach their target funding. The first signal is the backing by early funders who usually, for the most part, stem from the entrepreneur’s social capital. This emphasises the importance and value of the entrepreneur’s social networks. Thus, social entrepreneurs should exploit their personal networks when carrying out a crowdfunding campaign in order to obtain early backing which will then act as a signal to other potential funders that the enterprise is worth investing in.

The second signal is one that social entrepreneurs may exploit. In advertising the fact that they are focusing primarily on the social or environmental objectives rather than on financial performance, social enterprises can display a commitment to the quality of the outcome. This is an important signal to crowd funders who tend to be more sensitive to the quality of the product rather than the potential financial results of a project.

6. Method

This part of the thesis presents and discusses the method that was employed in order to conduct the research for this thesis. The first section defines case studies and provides an explanation of the underlying rationale behind selecting this method of research. The second section gives a description of the way in which the cases were found and selected. Finally, the third section elaborates on the research design, that is to say, how the different cases were analysed.

6.1. Multiple-case Study Analysis

As this thesis uses multiple-case study as its core method of research, this section answers three questions that are: What is a case study?; Why opt for the case study method of research?; and why employ comparative or multiple-case study? The answers to these three questions explain the multiple-case study process and provide a justification of its use in this thesis.

6.1.1. What is a case study?

Yin (1994: 12-13) draws up a two-part technical definition of case study research. The first part of this definition on the scope of the case study, that is, the frame of the research. “A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.” The second part of the definition focuses on the technical aspect of data gathering and data analysis. “The case study inquiry copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result. [It] relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result. [It] benefits from the prior development of theoretical propositions to guide data collection and analysis.” Thus a case study is a real-life scenario that may be analysed with the help of a research design. The latter is constructed from the theoretical framework. It

6.1.2. Why case study research?

There are many factors that may contribute to the success of a crowdfunding campaign as was highlighted by both the literature review and the theoretical framework of this thesis. The type of crowdfunding, the choice of crowdfunding platform, the importance of social capital and early
backers, the activity and support displayed on social media, and displaying the commitment towards the social or environmental goal rather than profit are all factors that are thought to have an impact on the chances of success of a crowdfunding campaign. The case study method is a research strategy that can support many variables of interest (Yin, 1994: 13). The case study method enables the combination of quantitative variables and qualitative variables. These many variables can then be interpreted as a whole (Yin, 1994).

6.1.3. Why a multiple-case study?
Multiple-case study is the chosen research method for this thesis. First of all, this is because multiple-case study permits a cross-case conclusion which is regarded as more robust evidence than if performing a single case study (Yin, 1994: 45). Secondly, there is a rationale for opting for a multiple-case study. This rationale is that this thesis aims to find out how to crowdfund a social enterprise. Thus the context is the crowdfunding of social entrepreneurship and the phenomena that are to be studied are particular social enterprises having successfully raised money through crowdfunding. Studying a single case of a social enterprise successfully completing a crowdfunding campaign would not necessarily encompass all the elements to consider when undertaking a crowdfunding campaign.

6.2. Selection of the Cases
This section elaborates on how the cases were found and selected. In order to select the crowdfunded social enterprises for this multiple-case study, social enterprises had to be identified within the list of projects up for funding on crowdfunding platforms. It was important to select projects that had successfully completed their campaign in order to be able to analyse the entire campaign process. The crowdfunded projects had to conform to both aspects of the definition of a social enterprise. This means that the crowdfunding projects need to demonstrate a social or environmental purpose whilst also being presented as a startup or a business as financial autonomy is one of the defining characteristics of a social enterprise.

In order to find the cases to study, it is important to select crowdfunding platforms which are likely to support all kinds of social ventures. This excludes all the specialised crowdfunding platforms which focus only on one industry such as ArtistShare and PledgeMusic which specialise in the music industry. Indiegogo and Kickstarter are currently two of the biggest crowdfunding platforms in the world and both allow for a wide range of projects and thus are likely to have funded social ventures. They both, however, only offer reward-based crowdfunding. As the selection of the type of crowdfunding is of importance when answering the present research question (see part 2), another platform that offers the other types of crowdfunding is required. FundedByMe offers allows for a broad range of ventures and projects. Furthermore, it offers not only to support reward-based crowdfunding but also equity-based crowdfunding and has recently launched a debt-based crowdfunding service.

Donation-based crowdfunding does not figure in this thesis. First of all because it usually only raises very small amounts of funding (Ingram & Teigland, 2013). Then, donation-based crowdfunding platforms such as GoFundMe only seem to fund charitable causes. Furthermore, it is possible to receive donations through reward-based crowdfunding. The latter provides a wider range of funding options and it is assumed that social enterprise which not only have a social or an environmental goal but also aim to have a profitable economic activity can make
better use of reward-based crowdfunding than simply donation-based crowdfunding.

<table>
<thead>
<tr>
<th>Platform</th>
<th>AoN or KiA</th>
<th>Types of crowdfunding offered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kickstarter</td>
<td>AoN</td>
<td>Reward-based crowdfunding</td>
</tr>
<tr>
<td>Indiegogo</td>
<td>AoN and KiA</td>
<td>Reward-based crowdfunding</td>
</tr>
<tr>
<td>FundedByMe</td>
<td>AoN</td>
<td>Reward-, debt- and equity-based crowdfunding</td>
</tr>
</tbody>
</table>

Table 2: Crowdfunding platforms used for selection of cases.

6.3. Research Design

A research design may be defined as an action plan whereby the researcher gathers data, analyses and interprets it in order to reach a set of conclusions (Yin, 1994: 19). The purpose of the research design is to analyse the cases in a way that will enable the extraction of the information that will help answer the research question of the thesis. Developing a theoretical framework is essential for the research design when conducting a case study (Yin, 1994: 27). The theoretical framework provides theoretically-constructed underpinnings to the problem at hand. These underpinnings can provide a solid basis on which to construct a method of research.

The theoretical framework of this thesis has shed light on the factors that are of importance when crowdfunding a social venture. These are the following:

- The type of crowdfunding selected,
- the choice of crowdfunding platform,
- the importance of social capital and early backers,
- the activity and support displayed on social media, and
- displaying the commitment towards the social or environmental goal rather than profit

The research design for analysing the cases thus consists in enquiring into the actions of each social enterprise under study concerning the factors listed above. The choice of platform is considered of interest in that different platforms offer different services and different fees. A platform may offer the ‘all or nothing’ (AoN) crowdfunding format whereby the entrepreneur has to reach the target in order to obtain the offered funds and/or it may offer the ‘keep it all’ (KiA) format which enables the entrepreneur to keep the gathered funds regardless of whether the target amount was reached or not. The platform and the formats proposed come with different fees. All these variables have an impact on the cost of failure in raising funds. Thus the choice of platform and the chosen format of the cases under study are to be examined. This information is made available on the website of the crowdfunding platform.

The type of crowdfunding, that is, whether it is donation-, reward-, debt- or equity-based offers different advantages and disadvantages and some types should according to theory be more suited to social entrepreneurship. The type of crowdfunding that each case has opted for will be carefully examined so as to check the ideas developed in the theoretical part of this thesis. That is, the pecking order theory of capital structure and the idea that donation- and reward- may be better suited to social entrepreneurship. Again this information is consultable on the platform’s website. The next step consists in looking at the early backers. This information can often be retrieved on the twitter or facebook account associated with the social enterprise as early funders are often thanked on social media. The activity and support displayed on social media and by extension any media coverage of the campaign are important to examine in that communicating and advertising the project is an important factor in drawing in funds. The information related to social media can be found on the corresponding social media pages. The media coverage is
usually displayed on the social enterprise’s own website and/or on the crowdfunding platform website. The last step consists in observing the commitment of the social enterprise towards its social or environmental objectives as opposed to focusing on profit maximising. Finally, after having analysed the criteria above within each individual case, a cross-case analysis is performed. This process involves comparing the results from the different cases.

<table>
<thead>
<tr>
<th>Case</th>
<th>Kite Patch</th>
<th>Good Turn Earth Co.</th>
<th>Akwamag</th>
<th>BizeeBox</th>
<th>DonDobbin</th>
<th>Simply Co.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crowdfunding platform</td>
<td>Indiegogo</td>
<td>Indiegogo</td>
<td>Indiegogo</td>
<td>Indiegogo</td>
<td>FundedByMe</td>
<td>Kickstarter</td>
</tr>
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<td>Platform</td>
<td>AoN or KiA</td>
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<td>KiA</td>
<td>AoN</td>
<td>KiA</td>
<td>AoN</td>
</tr>
<tr>
<td>Type of funding</td>
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<td>Reward</td>
<td>Reward</td>
<td>Reward</td>
<td>Equity</td>
<td>Reward</td>
</tr>
<tr>
<td>Percentage of target funded</td>
<td>743%</td>
<td>101%</td>
<td>105%</td>
<td>101%</td>
<td>417%</td>
<td></td>
</tr>
<tr>
<td>Total number of backers</td>
<td>11254</td>
<td>117</td>
<td>85</td>
<td>393</td>
<td>36</td>
<td>820</td>
</tr>
</tbody>
</table>

Table 3: Cases: Social enterprises having successfully been crowdfunded.

7. Results
This part first provides a comparative analysis of the six crowdfunding campaigns that have been selected for this multiple-case study. Following the research design presented above, the procedure consists in identifying and examining the signals that these campaigns have sent to potential funders. It then draws on the results from the multiple-case study to propose a model for social ventures undertaking a crowdfunding campaign.

7.1. Comparative Analysis
The definition of social enterprises is broad and has led to this study encompassing very different companies which fit more or less within narrower definitions of social enterprise. The Kite Patch project and Akwamag are both enterprises presenting innovative technologies that bring a solution to a social and an environmental issue respectively. They both have received the backing of well-known and recognised institutions. Good Turn Earth Co., BizeeBox and The Simply Co. are all startups with an environmental goal. Despite describing themselves as startups rather than nonprofits, their campaigns focus much more on their potential as a solution to an environmental problem than any financial aspirations. Hence, these startups truly qualify as social enterprises. DonDobbin’s crowdfunding campaign has a very different focus in that it is aimed at potential investors within the context of equity-based crowdfunding. Thus despite DonDobbin presenting its product as a solution to a social and environmental problem, its campaign is focused on presenting potential markets and sales projections. This section first examines the
type of crowdfunding that is used in each case and then proceeds to identify the signals that were made in the crowdfunding campaigns under study.

7.1.1. The types of crowdfunding

Five of the six cases presented here opted for reward-based crowdfunding. This is because rewards seem to be the preferred option for social entrepreneurs and therefore it was difficult to find cases which did not opt for the reward-based service. According to FundedByMe, equity- and debt-based crowdfunding are for raising larger amounts than reward-based crowdfunding. Reward-based crowdfunding is customarily employed for raising sums below €50,000, while debt-based crowdfunding is usually selected for raising above €50,000 and equity crowdfunding is commonly for raising amounts above €100,000. The pecking-order theory of capital structure advances the idea that internal funding is to be preferred to external funding. Reward-based crowdfunding is a hybrid form of funding in that it mixes pre-purchasing and donations. Donations are regarded as external funding (Achleitner et al., 2014), however, they do not come with the drawbacks that are associated with either debt or equity issues. Pre-purchasing is a form of internal funding in that it counts as revenue from the selling of a future product. Thus reward-based crowdfunding is to be preferred to either debt or equity crowdfunding. However, the latter two typically raise greater amounts. Therefore, debt and equity crowdfunding should only be considered for large amounts of funding required. On the other hand, this does not mean that it is not possible to raise more money through reward-based crowdfunding. The Kite Patch campaign is a perfect example, having raised US$557,254 through reward-based crowdfunding. The same goes for equity crowdfunding in that issuing equity through crowdfunding does not necessarily mean reaching large amounts of funding.

DonDobbin having only reached €34,857. Furthermore, as social enterprises aim to have a beneficial social or environmental impact, they are more susceptible to receive pledges to simply support the cause in the form of donations or funds in exchange for a small reward. Crowdfunders tend to be more attracted by the idea or vision behind an enterprise rather than financial returns (Lehner, 2013). Reward-based crowdfunding thus seems to be better suited to social ventures.

Reward-based crowdfunding enables entrepreneurs to create a list of possible contributions. Entrepreneurs can choose different amounts of money that funders can contribute and then associate a reward to these different levels of contribution. This means that there are many possibilities in terms of contribution-reward layout. Akwamag, Good Turn Earth Co. and The Simply Co. all mixed small rewards and pre-purchase with usually the lowest contribution (between $1 and $10) receiving a thank you letter and or having the contributor acknowledged on the official website of the enterprise. The higher contributions mostly consisted in pre-purchasing different versions or quantities of the product. BizeeBox is a venture that aims to provide a sustainable substitute to disposable take-away food containers. It is an enterprise whose aim is to facilitate waste reduction by supplying reusable food containers. BizeeBox carried out a reward-based crowdfunding campaign on the Indiegogo platform. This campaign is closer to being donation-based rather than pre-purchase crowdfunding because for the smaller contributions, the rewards mainly involved promotional material (i.e. goodies) and “adopting” a food container which would allow the funder to trace the impact of their contribution. It is important for the social enterprise to demonstrate its commitment to its environmental goal in order to obtain funds in this way. The rewards for larger contributions included
sponsorships whereby the brand of the sponsor could figure on the BizeeBox food container. The smaller contributions made for over two thirds of the funding which would suggest the entrepreneurs were successful in advertising their commitment towards their environmental ambitions. The Kite Patch campaign aimed to raise US$75,000 in order to send Kite Patches to Pilgrim Africa, an Non-Governmental Organisation, that among other things aims to get rid of Malaria in Uganda. A Kite Patch is a sticker that makes the wearer invisible to mosquitoes. The rewards put forward by the campaign consisted either in contributing a certain amount to have a certain quantity of Kite Patches sent to Uganda or in pre-purchasing a certain amount of Kite Patches while also contributing to having the same amount of Kite Patches dispatched to Uganda. This clearly demonstrates the focus of the project on having a beneficial social impact in terms of public health in Uganda. There are thus a wide variety of contribution-reward layouts possible. It is important when selecting the different possible contributions to make it accessible to the potential small contributors whilst also incentivising those with more resources to make larger contributions. As demonstrated by the Kite Patch campaign, it is also possible to signal a commitment to a social goal through the rewards that are offered.

7.1.2. Signals
Various signals have appeared in the cases under study. Some of these signal the seriousness and credibility of the business. Others specifically signal the intentness of the enterprise’s social or environmental commitment. Finally some signals show overall credibility regarding both the business model and the intentness in contributing on a social or environmental level. Starting the business through bootstrapping prior to any crowdfunding campaign as did Good Turn Earth Co. demonstrates the founders’ commitment to developing the business. Before launching the crowdfunding campaign, the company had already set up its composting system through bootstrapping and had established partnerships with a local supermarket, an urban space acting as a host for the production of the first batch of compost, distributors and the city authorities. The fact of having set up the production process and partnerships reduces the amount of uncertainties that are inherent to launching a business and shows greater credibility to potential funders. Similar effects stem from testing the business concept prior to launching a crowdfunding campaign as done by BizeeBox at the University of Michigan. The entrepreneurs advertise on their Indiegogo page that they had already tested their concept at the University of Michigan. The trial proved successful and they were getting a lot of positive feedback. Being able to show positive feedback and successful results after testing a business concept enhances the credibility of the business model for potential funders. Furthermore, crowdfunding (especially reward-based) also enables the entrepreneur to test the market. A third signal that has appeared in the case studies is the transparency with regards to the purpose of the funds that will be collected through crowdfunding. These three signals, that are developing the business as far as possible through bootstrapping, testing the concept, and transparency about the purpose of the crowdfunding increase the credibility of the business and the trustworthiness of the entrepreneurs.

The signals that are mentioned above concern all kinds of businesses. The following, however, are more specific to social enterprises. These are the signals that demonstrate the level of commitment to the social or environmental cause of the social venture and the entrepreneurs behind it. All the cases above presented their business or product as a solution to a social or environmental problem. All of them
except for Don Dobbin put more emphasis on describing the related social or environmental challenges on their crowdfunding platform page rather than any profit-related variables such as potential markets and sales projections. Posting links to articles about related social or environmental challenges on social media is a way for social entrepreneurs to signal their commitment to their social or environmental objectives. The Simply Co. signaled extremely well the commitment of its founder to environmental challenges. The campaign was strengthened by the founder’s blog “Trash is for tossers” and the story about the founder going two years without producing trash which went viral on social media. The story about the founder of The Simply Co. going two years without producing any waste not only gave her and her startup greater notoriety, it had the effect of making her environmental activism the first thing people would know about her. Therefore, the story acts as a very clear signal to potential funders of her intentness in producing an environmentally friendly product. Thus three signals about the social or environmental commitment appear in the cases under study. These are the description of their social or environmental goals for their campaign, the links to articles on related environmental challenges and finally The Simply Co.‘s inspiring story about waste reduction.

The signals that display overall credibility are gathering funding early on in the campaign and general support on social media. Agrawal et al. (2011), Colombo et al. (2014) and Giudici et al. (2013) found empirical evidence to support the argument that the pledges of distant investors are sensitive to prior funding. Early funding is thus a signal for the credibility of the business. It can also act as a signal for a social enterprise’s trustworthiness regarding their social or environmental commitment on the basis that Lehner (2013) argues that crowd funders tend to be more interested in contributing to the idea behind the project (i.e. in this case the potential social or environmental impact). The Simply Co.’s initial goal of US$10,000 was reached within 48 hours. Early-stage funders for the Good Turn Earth Co. campaign was relatively important as a third of the funding was acquired within the first twelve hours. The BizeeBox campaign almost reached US$10,000 or a third of their target after the seven first days. Over the first eight days of the Akwamag campaign, early backing constituted 17 per cent of the target amount of US$26,000. Balboni et al. (2013) show that support on Twitter, even when this support is not associated to any funding, has a statistically significant positive relationship with the reaching of the target amount. These signals which have been discussed in the literature on crowdfunding are thus clearly present in these cases of social ventures producing successful crowdfunding campaigns.

7.2 A proposed model for crowdfunding a social venture
This section proposes a framework for crowdfunding social enterprises. The results from the multiple case study have shed a light over the signals that social ventures which have successfully crowd funded their project display so as to overcome the problem of asymmetric information whereby the distant funder has very little information by which to judge whether the enterprise is worth investing in. The results from the study have also provided an insight into which type of crowdfunding is most fitting to social ventures. Now, in order to answer the research question that is how to crowd fund a social venture, the elements that appeared in the results need to be placed in a chronological order so as to create a framework for the process of crowdfunding a social enterprise.
**Step 1: Prior to the crowdfunding campaign, develop the social enterprise as far as possible through bootstrapping.**
This step shows that the project is moving forward and demonstrates that the founders are actively developing the enterprise which suggests that any funding will be fruitful. It can involve establishing partnerships. Being able to show backing from other companies and institutions is a good sign of credibility, all the more so the more well-known and recognised these institutions are. This may also involve testing the concept or product.

**Step 2: Develop awareness of the enterprise.** This involves advertising the project and creating pages on social media. It is important for the entrepreneur to get his or her personal networks i.e. friends and family to spread the word about the enterprise. This is also the time for the entrepreneur to assess the resources that may be acquired through personal networks as this will help determine the target amount to be funded. Social media should be used prior and during the campaign to signal support but also to signal the commitment of the entrepreneur to the social or environmental challenge. This can be done, for instance, by posting links to articles about the social or environmental issue at hand. The social entrepreneur should consistently exploit social media before and during the crowdfunding campaign to advertise the project and signal commitment to the success of the project.

**Step 3: Decide on a target amount and choose a type of crowdfunding.** Indiegogo recommends obtaining the initial 30 per cent of the target from the entrepreneur’s social capital arguing that strangers are more likely to provide funding if others have trusted the entrepreneur and the project with their money. This follows what has been established in the literature on crowdfunding that social capital is important for the success of a crowdfunding campaign (Agrawal et al., 2011; Balboni et al., 2013; Colombo et al., 2014; Giudici et al., 2013). The entrepreneur can thus decide on a target based on what is expected to be raised from friends and family and what is needed in order to launch the business. The choice of crowdfunding type depends on the target. For their loan-based crowdfunding service, FundedByMe offers entrepreneurs the possibility of choosing the interest rate. Social ventures could hypothetically take advantage of their commitment to a social or environmental challenge to offer lower interest rates. Furthermore, FundedByMe also offers the possibility for entrepreneurs to offer acquisitions in the case of exit. However, debt issues subject the enterprise to the risk of bankruptcy penalties and equity issues to the loss of self-determination. On the other hand, reward-based crowdfunding does not come with the drawbacks of equity and debt crowdfunding as advanced by the pecking order theory and it is better suited to social enterprises as these can better exploit their good image through their commitment to a social or environmental goal.

**Step 4: Choose a crowdfunding platform.** The crowdfunding needs to provide the selected type of crowdfunding. It is also important to choose a platform that enables the campaign to reach the targeted market. For instance, if an enterprise is seeking to sell a product to a specific country, the crowdfunding campaign should also target this market. This is especially true for pre-purchase crowdfunding. On top of raising funds, crowdfunding enables the entrepreneur to test the market and create brand awareness (Ingram & Teigland, 2013). It is therefore, crucial to choose a platform that can foster the right market not only for the successful reaching of the target but also to advertise the enterprise and get feedback from the targeted market. Other criteria to consider when selecting a crowdfunding platform
are whether the platform offers the KiA or AoN formats as well as the fees that the platform charges. FundedByMe and Kickstarter only offer AoN, while Indiegogo offers both but KiA comes with higher fees.

**Step 5: Prepare the crowdfunding campaign on the platform.** This step involves making a pitch for the social enterprise. This includes explaining how the enterprise will address a social or environmental issue and how the activity will generate income so as to sustain itself. As was seen in the multiple-case study, the focus of the pitch depends on the type of crowdfunding. When employing equity crowdfunding, the pitch should be addressed to potential investors who will be expecting financial returns. However, this does not mean that a commitment towards a social or environmental goal cannot be put forward as it may attract impact investments. As for when using reward-based crowdfunding, the entrepreneur has to produce a good contribution-reward layout that will incentivise small funders and those with greater resources to contribute. This means offering a wide range of possible contributions in exchange for rewards that match each one of the possible contributions. The cases presented above provide good examples of different layouts.

**Step 6: Set a launching date and the duration of the campaign.** Once a date has been set, the entrepreneur should mobilise friends and family to contribute soon after the launch in order to support early funding thus signaling to other potential funders that people have already trusted the entrepreneur and the project with their money. Mobilising this support can go through social media. The duration of the campaign is a factor in the success of the campaign. According to Kickstarter, although it possible to choose a duration between one and 60 days, statistically, campaigns that have a duration of 30 days or less have a better chance of success. Kickstarter argues that a short campaign motivates contributors to make a pledge as soon as possible. The campaign then consists in advertising the project as much as possible so as to create awareness and attract funding.

**8. Discussion**

One of the biggest challenges presented by crowdfunding is the asymmetric information that lies between the entrepreneur and potential funders who are strangers to the entrepreneur. Thus in order to increase the chances of carrying out a successful crowdfunding campaign, it is important for entrepreneurs to signal to potential funders that the project is worth funding. Some of these signals such as early funding and general support on social media have already been discussed in the literature (Agrawal et al., 2011; Balboni et al., 2013; Colombo et al., 2014; Giudici et al., 2013). This thesis, however, focuses more specifically on crowdfunding social entrepreneurship for which another type of signaling is possible. Social ventures looking to crowdfund their enterprise can also exploit their social or environmental commitments to attract funding from the crowd. By signaling this commitment in various ways, they can, on the one hand, attract funding from people who are sensitive to the cause, and on the other, benefit from scepticism about profit-driven companies’ commitment to the quality of the outcome. According to contract failure theory, displaying greater commitment to a social or environmental cause than to maximising profit will signal greater attention to the quality of the outcome. Social enterprises usually aim to simply be financially autonomous so as to sustain their activity. This means that it is often the case that they do not offer attractive financial returns for investors. Thus signaling an intent in combatting a social or environmental problem is a way of
compensating for this handicap and attracting a different sort of funder. Thus in order to crowdfund social ventures, the entrepreneur should proceed in signaling the credibility of the business as well as the commitment to a social or environmental challenge. In this respect reward-based crowdfunding seems to be the most suited option as it enables the entrepreneurs to better capitalise on their social or environmental commitment.

The case study methodology has permitted the analysis of the reward-based crowdfunding campaigns which mix donations, pre-purchase and other rewards. Moreover, the choice of multiple-case study has enabled the identification and analysis of the signals used to overcome the problems that are associated with asymmetric information. However, the multiple-case study methodology fails to really assess the level of impact of these signals on the success of a crowdfunding campaign. This thesis thus rests on prior quantitative studies which show significant statistical relationships between signals and the success of a crowdfunding campaign (Agrawal et al., 2011; Balboni et al., 2013; Colombo et al., 2014; Giudici et al., 2013).

This thesis was more focused on reward-based crowdfunding. This focus on reward stems from the fact that five of the six enterprises in the multiple-case study were funded through reward crowdfunding. This is because there is ground to argue that it is more suited to social ventures. First of all reward-based crowdfunding enables the combination of the possibilities to contribute in the form of donations or in exchange for rewards such as pre-purchase. The cases under study show that it is possible to raise funding through small contributions in exchange for simple thank you letters or messages of gratitude on social media. This donation-based funding is better supported if the enterprise can show that the activity will a positive impact on society or on the environment. Secondly, other forms of crowdfunding such as those that involve debt or equity issues have drawbacks. Issuing equity can come at a higher cost because of adverse selection and it also means that the entrepreneur’s self-determination is reduced as other owners may be entitled to have a say in the in the enterprise’s agenda. However, the main reason for reward-based crowdfunding being better suited to social ventures is that social enterprises typically only aim to be financially independent, that is, to generate enough revenue so as to cover their costs so as to sustain their activity. This means that social enterprises are usually not in a position to offer attractive financial returns to investors or lenders. Moreover, reward-based crowdfunding, especially in the form of pre-purchase has the advantage of testing the market as funders become consumers and signal a demand for the service or product. Thus reward-based crowdfunding appears to be more fitting to social ventures.

However, equity crowdfunding does typically raise higher funds than is usually possible through reward-based crowdfunding. Furthermore, despite the entrepreneur sometimes having to give up some autonomy, equity-based crowdfunding can attract skills and expertise which can be an important source of support for startups (Ingram & Teigland, 2013). The case study does not cover debt-based crowdfunding. This is because FundedByMe only recently launched their debt-based crowdfunding service and none of the successfully completed campaigns on the platform qualified as social enterprises. Therefore, this thesis only provides a limited insight into the possibility of debt-based crowdfunding for social entrepreneurship.

The pecking-order theory of capital structure has its limits. The theoretical literature on capital structure lacks a
unifying theory (Frank & Goyal, 2007). There are other existing theories on capital structure. The trade-off theory contradicts the conclusion of the pecking order theory (Kraus & Litzenberger, 1973; Frank & Goyal, 2007). The trade-off theory of capital structure which states that there is a tradeoff to be found between debt issues and equity issues is not relevant to this thesis in that when carrying out a crowdfunding campaign, an entrepreneur only selects one type of crowdfunding. This does not mean that an entrepreneur cannot combine crowdfunding with other financial instruments. The pecking order theory fits within the enquiries of this thesis in that this thesis is not concerned with the capital structure of social enterprises. One of the objectives of this thesis is to examine the the advantages and disadvantages that are associated to each type of crowdfunding and enquires into whether one of these forms of crowdfunding is better suited to crowdfunding. The theory simply provides a pecking order which emphasises the drawbacks that stem from external funding especially debt. The theory thus brings interesting material to the discussion in that it puts forward the drawbacks that are inherent to equity and debt issues. It is not used as an overarching theory for the thesis.

Finally, it is important to note that this thesis does not take into consideration the effect of taxes on crowdfunding. These vary from country to country and may favour a particular type of crowdfunding in certain instances.

9. Further Research
This thesis has identified various signals within the cases under study. Future work should proceed to test the level of effect of these signals on the probability of success in crowdfunding social ventures. Although some signals brought up in the results have already been tested, notably the effect of early funders (Agrawal et al., 2011; Colombo et al., 2014; Giudici et al., 2013) and that of the support displayed on social media (Balboni et al., 2013), the effect of effectively signaling a social entrepreneur’s commitment to a social or environmental challenge remains to be assessed. As this commitment can be signaled in several ways, each one of these should be weighed individually.

Further research should examine more in depth the advantages that debt- and equity-based crowdfunding could bring to social entrepreneurs. The difficulty here is that most social entrepreneurs crowdfunding their venture turn to reward-based crowdfunding thus limiting the amount of information available for this sort of research.

This thesis has discussed the importance of the contribution-reward layout in reward-based crowdfunding. Further research should look into how to optimise this layout so as to attract greater funding.

10. Conclusion
By analysing the choice of the type of crowdfunding and by identifying the signals made by social entrepreneur in their crowdfunding campaign, this thesis finds that social entrepreneurs realising a crowdfunding campaign emphasise their engagement in a social or environmental cause so as to attract funding. In answer to the question of how to crowdfund a social enterprise, this thesis pinpoints two efforts that need to be made. The first is to select the appropriate form of crowdfunding and the second is to attract funding through various forms of signaling. The five cases that made the use of reward-based crowdfunding were able to take advantages of one characteristic social enterprises have but conventional for-profit enterprises do not, that is, the ability to attract funding by advertising their social or environmental impact.
The main obstacle to obtaining funds is the asymmetric information that stands between the potential funders and the entrepreneur. This asymmetric information stems from the fact that potential funders who are strangers to the entrepreneur do not have any perfect information about the promise of the enterprise. Furthermore, in the case of social ventures, this uncertainty does not only concern the financial potential of the company but also its social or environmental returns. Thus the entrepreneur needs to signal to potential funders commitment to the success of the business as well as the fact that he or she is trustworthy. On top of this, a social entrepreneur needs to signal commitment to a social or environmental challenge. This is all the more necessary the social enterprise in question only aims to be financially independent. In other words, if a social enterprise simply aims to be financially autonomous then it cannot offer attractive financial returns to funders. Therefore, debt and equity crowdfunding appear as less fitting to this sort of social enterprise than reward-based crowdfunding which not only enables the social enterprise to better benefit from its social or environmental responsibility but also provides an alternative financial instrument that does not require strong financial returns to attract funding. However, the definition of social enterprises is rather broad and thus encompasses different combinations of priority between social and financial drive. Social enterprises that choose equity crowdfunding aim to be able to offer attractive financial returns. Thus they place a greater emphasis on these potential financial returns in their crowdfunding campaign. This does not prevent these ventures from advertising their social and environmental goals as this can attract impact investing. Thus this thesis finds that, in crowdfunding social ventures, signaling differs according to the type of crowdfunding.

**Acknowledgements**

First and foremost, I would like to thank my supervisor Moyen Mustaquim for the much provided guidance, feedback and support throughout the entire writing of this thesis. I would also like to thank my evaluator Else Nygren for her valuable feedback and support in the latter stages.

Special thanks go to Mikrofonden Väst and Miljöbron for providing me with the opportunity to write this thesis, especially to Jan Svensson from Mikrofonden Väst for helping me refine the research area and define the objectives.
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