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# THE NEW SHAPE OF FUNDRAISING: A CHANGE IN FINANCING AND HARNESSING BOTH ENTREPRENEURIAL AND SOCIAL NEEDS.

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*Introduction*

## *Abstract*

# *The new shape of fundraising: a change in financing and harnessing both entrepreneurial and social needs.*

**State of the art/Literature review**

*Social Impact*

The interest among scholars about social impact is growing faster, because of nowadays changes in the entrepreneurial and business framework. Taking the necessary differences, the study about the new emerging social entrepreneurship movements and theoretical antecedents by Shaw and Carter (2007) underlined how the new shape of social enterprises is tending to the for-profit characterization. This view agrees with Porter & Kramer (2011) idea about a reinvention of capitalism towards a structure characterized by businesses shaped around the creating shared value concept, to unlock the next wave of business innovation and growth. *Tout court*, there's no more need of a trade-off between profits and social needs. That means a new way to intend and measure the impact of for-profit activities on the society.

The International Committee on Guidelines & Principles for Social Impact Assessment (ICGP), in the year 2003, defined social impact as "the consequence to human populations of any public or private actions that alter the ways in which people live, work, play, relate one to another, organize to meet their needs and generally cope as members of society. The term also includes cultural impact involving changes to the norms, values and beliefs that guide and rationalize the cognition of themselves and their society". According to Slootveg *et al.* (2001) and Estévez *et al.* (2013), social impact could be deconstructed into two main concepts: social changes and human impacts. The two concepts are strongly related through a causal relationship, that affects the decision-making processes and the capture and measurement of social impact itself, because of social criteria that may be both positive and negative, depending on the changing perceptions (Burdge & Vanclay, 1995; Vanclay, 2002).

Social impact concerns the outcomes that hit a specified community in terms of social performances that could be translated in the wide spread social value, that means the result of the social enterprises activities on their stakeholders. In contradiction with financial values, the social ones are qualitative and less rigorous, that implies that social impact may be not easy to measure (Bull, 2007; Nicholls, 2009; Arvidson *et al.,* 2010; Lane and Casile, 2011; Barraket and Yousefpour, 2013). However, Bagnoli and Megali (2011) argue that there is a strong relationship between inputs and organizational processes of an enterprises and the outputs and outcomes that identifies the social impacts.

*Impact Investing*

The attention about social impact is even the key factor of the current financial industry tendency, which is focused on the fostering of impact investing or other financial investing mechanism that could produce both financial and social returns (Harji & Jackson, 2012; Louche *et al.,* 2012, Höchstäder & Schek, 2015; Nicholls, 2010).

Impact Investing is a rather new phenomenon which definition is strongly related to the capability to create a social impact as well as a financial return on investment (Clarkin & Langioni, 2015) by matching philanthropic aims, government action and profit-seeking investment (Freireich & Fulton, 2009). There is a *trait d'union* between social impact and impact investing, because the second aims to reach goals in both economical and social fields, using financial models of investment with a social responsible peculiarity and focused on creating positive social or environmental impact.

The current literature (Freireich & Fulton, 2009; Nicholls, 2010; Harji & Jackson, 2012; Louche *et al.,* 2012; Martin, 2013; Clarkin & Langioni, 2015; Höchstäder & Schek, 2015) is positioning under the definition of impact investing different manifestations known as social finance, social impact investing, or blended value investing, and all the financing instruments created to gain both social and financial returns (Bagwell, 2012). Short, Moss & Lumpkin (2009) identified the opportunities reserved by impact investing in the Research to expand the role of financing and in the research to find new way to finance social ventures. In fact, following the evolution from social responsibility to social innovation, the growth of social entrepreneurship, in the meaning of an organized effort to address solution to social issues, is going through a maturation phase that opens new frontiers for the financing community (Clarkin & Cangioni, 2015). This is strongly linked to "the change in capitalism", described by Porter & Kramer (2011) in their "creating sharing value" study, which shows a new way to approach a profit-oriented firms that should be socially and environmentally driven.

Thus, this new emerging industry has started to create network and metrics to measure its value through the measurement of the social impact, that is usually seen as a qualitative variable (Jackson, 2013; Clarkin & Cangioni, 2015). The need of a measure of impact investing through the social impact measurement, has been shortly satisfied by the Impact Reporting and Investment Standards (IRIS), which offers common set of definition, and the Global Impact Investing Rating System (GIIRS), an analogue of the Standard and Poor's or Morningstar rating systems, uses a common set of indicators to measure the social performance (Jackson, 2013).

The possibility to give a measure of the impact, the new generation of business and socially savvy entrepreneurs that is launching ventures across an array of regions and sectors, the cash-strapped government (Bugg-Levine & Emerson, 2011) are the reasons behind the creation of a great number of impact investment funds (Höchstäder & Schek, 2015).

*Crowdfunding*

Crowdfunding have recently drawn the attention of both scholars and professionals as an outstanding financial tool. Because of its evolutionary nature, from its birth this financial mechanism has experienced a lot of changes, with a common driver: the capability to adapt the crowdfunding model to many different fields.

From the analysis of the current literature, what emerges is the lack of the attention about the role of both the social impact of crowdfunding and the influence of project-to-fund social content on the result of a crowdfunding campaign.

On one hand, Landström (2003) argues that the equity gap challenge represents the highest barrier to overcome for every start-up companies. The difficulties, in fact, increase when the financial sub-pillar, in a specific regional system, isn't effective. This leads to the need of researching alternative financial tools that could be considered as a complement or a substitute of traditional and formal investment mechanism (Wright et al., 2006).

On the other hand, Crowdsourcing revolution (Howe, 2006) and technology platforms started a disintermediation process that changed the dynamics of integration economies (Piller et al., 2004) between the broad types of user and producer. Crowdsourcing is influencing innovation processes, through a mechanism of interaction between the providers and the seekers of strategic resources. At the beginning the strategic resources involved in this interaction were mainly knowledge-based resources, but nowadays the financial-based resources are becoming a relevant aspect of Crowdsourcing, thanks to Crowdfunding.

In the last years, crowdfunding is arising as a widespread financing and fundraising tool, allowing to turn a large audience of customers into investors (Schwienbacher & Larralde, 2010; Ordanini et al., 2011; Belleflamme et al., 2014). These authors agree with the idea that crowdfunding lies on different elements that could be macro-categorized in: web, social (relational) capital (Bourdieu, 1985), financial resources and, indeed, crowdsourcing (Poetz & Schreier, 2012). The need to feed a strong wide community highlights the social network structure of crowdfunding, but, as Mollick (2014) argues, this investment vehicle takes the steps from the evolution of micro-finance (Morduch, 1999).

Crowdfunding is a funding vehicle that embraces different contexts as well as social, civic and academic ones (Giannola & Riotta, 2013; Davies, 2014). It literally connects entrepreneurs with potential funders, or rather individuals who can supply financial capital (Wheat et al., 2013; Marlett, 2015).

According to prior studies, crowdfunding intervenes as a motivational crowdwork factor (Greber et al., 2012; Miglietta et al., 2013) that permits to pass over the barriers linked to proximity and credit crunch (Freund, 2012). This is possible thanks to the intermediation internet based platforms, which act as market place where is possible to collect and canalize the scattered unlocked private capitals to sustain business ideas from research, decreasing the weight of geographical proximity in the innovation process (Agrawal et al., 2011).

Crowdfunding could be classified into two macro-areas: token crowdfunding and investing crowdfunding (Schweinbacher & Larralde, 2010). Token Crowdfunding encompasses the different expression of donation crowdfunding, which is a donation based model – i.e. charity online fundraising campaign. Instead, investing crowdfunding can be further broken down into passive investment and active investment. The passive investment encloses the lending based and reward based models, that differ one another from the type of return provided for the investors. The active investment, essentially, defines the equity based model, which is going to be the most important crowdfunding manifestation for the SMEs. Looking at a generalized context, Crowdfunding, on the whole, acts in different but correlated directions: supplies financial resource, offers markets insights, lets the Small and Medium Enterprises to engages venture capital (Wardrop et al., 2015). Thus, Crowdfunding represents an alternative finance market. Following the presented peculiarities of investing crowdfunding, it could be considered as a subset of crowdfunding in the whole that could be easily defined as *crowdinvesting*. Crowdinvesting allows people to directly answer to the financial resource need expressed by a specified project.

So, studies are mainly aimed to understand which factors led a crowdfunding campaign towards the success, taking the steps from the work on fundraising in venture capital context (MacMillian 1986, Baum & Silverman, 2004, Dushnitsky, 2009). Some authors (Mollick, 2014; Agrawal *et al.*, 2010) noticed a relevant impact of quality signals, social network ties, appropriate goals and careful planning on the success of a campaign. Moreover, the experience of civic crowdfunding in few European countries (Gray, 2013; The Economist, 2013; Hollow, 2013; Davies, 2014) showed how the probability to produce widespread social benefits catalyses people in order to fund projects and to reach the expected funding goal. Thus, the social element seems to be crucial as well the above quoted ones.

Looking at the equity crowdfunding model, this influence expressed by the social vocation seems to be unclear, unless scholars will steer the attention to social enterprises.

Going in depth of the source of financial need, considering the composition of a community – made by individuals with different needs – the entrepreneurial and financial institutions have to face a huge variety of formulation of intents, so they are influenced by a lot of actors, according to the stakeholder theory. All these individuals could be grouped into a lot of niches that crowdfunding phenomenon seems to be able to engage, following the evidence of the application of the long tail theory (Anderson, 2004).

Thus, Crowdfunding represents a novel mechanism of fundraising embedded in the current financial innovation (Moenninghoff & Wieandt, 2013), which operates in order to produce convergent innovation (Dubé et al., 2014). It means innovation that produces both economic and social (human) outcomes. These aspects clarify the increasing attention from scholars and practitioners on this financial tool. Even Governments are interested in crowdfunding, the U.S. Government, for example, was the first who put its attention on this new investment vehicle, understanding the inner potential represented by crowdfunding for the new emerging enterprises. Government like the Italian one decided to study the phenomenon and released regulations about crowdfunding. U.S.A., India and Turkey are moving in the same way (Bruton *et al.*, 2014).

*Social Innovation*

Social innovation is a wide concept hard to define, anyway, looking at its main target, it could be expressed as the *ensamble* of activities and innovative behaviours for social targets oriented to create shared value (Austin et al., 2006; Brooks, 2009; Mair e Marti, 2006). Fathoming the literature, we could try to draw a trait d'union with the theories of co-production and co-creation. Literature uses both the words as synonymous, but Voorberg et al. (2014), referring to social innovation, tried to identify a unique definition of the above quoted concepts. Voorberg and his colleagues analysed their data collection, even if they found a common base in the collaborative creation of value, they underline three types of co-creation/co-production policies. In service oriented organizations, the participants, treated like partners are: co-implementers; co-designer; co-initiators. Thus, co-creation and co-production are strongly related. Their conclusion are really near to the concept that, looking both at companies and industry, actors/stakeholders work together in a value-creating system (Normann & Ramirez, 1993). The idea of a "*reconfiguration of roles and relationship among this constellation of actors in order to mobilize the creation of value in new forms and new players*" (Normann & Ramirez, 1993, pg. 66). Thus, following the literature review about social innovation, the collaboration within a plurality of actors, as it happens in a hybrid dimension synthesized by the Quadruple Helix Model, is a source of social innovation that is, by definition, a collective creative process shared by a plurality of actors, which positive effects hits the entire society.

**Purpose/thesis –** Following the evidence of the literature review, author have noticed a gap about the study of financing enterprises and public administration, which operates in order to produce a social impact. The whole research aims to analyse the new emerging financial tool, known as crowdfunding, with the purpose to understand and explain how it collaborates with the main traditional financial mechanisms used by enterprises (social enterprises) and Public Administration. The focus is led on civic crowdfunding and the impact of social vocation on the success of a crowdfunding campaign. Throughout a study about the experience of the start-ups, impact investing funds and venture philanptropy, author focalized his attention on the importance of the shared value creation and social vocation in leading a successful crowdfunding campaign.

This main purpose, found its reason in the crisis of Welfare State and the changes in the socio-economic context, that put the Public Administration face to face with the *stakeholders* subjects of its activity. These conditions highlighted, first, the needs for PA to enlarge their participative model (Panozzo, 2005), then, a *trait d'union* Public institutions and "producers" to address positive outcomes (Botti e Vesci, 2009). These are changes clearly shaped in innovations that are collected by new entrepreneurial and financial vehicles, consignees of PA outsourcing processes and devoided of the *no-profit* qualification (Young, 2006). This matters especially for co-creation manifestation and collaborative models.

According to the literature review and looking at the focus of the thesis, it means that crowdfunding is moving towards the impact investing.

**Methodology -** The newness of the topic, as well as the lack of certain and various data, the peculiar youth of the analyzed phenomenon and, moreover, the explorative nature of the research, pushed the author to choose a case study approach (Yin, 2009).

To be clear, the author's aim is to identify and understand a specific phenomenon, relatively new in literature. Therefore, the research is designed as a qualitative and epistemological investigation with an holistic approach. Author built a single case study research, borrowing elements and characterization from the grounded theory (Strauss & Corbin, 1990, 1998, 2006; Charmaz, 2006).

Eisenhardt (1989) explains that one or more cases are useful to develop theories about some specific topics. Because of the current framework, it could be useful to follow an inductive development of the theory that aspires to to recognize and describe the existence of a phenomenon (Siggelkow, 2002; Siggelkow, 2007). Through a conceptual exercise and a conceptual question (Siggelkow, 2002; Siggelkow, 2007), author started a case-based research, whom empirical evidences are collected by observation of participants (Burgess, 2002), studying a single case.

In the way to strengthen this assumption, looking at a single case, it takes the start for the attempt to research a meaning and to give a sense to the observed phenomenon, in a local and contextual perspective (Burgess, 2002).

At the beginning, author looks at the crowdfunding in the whole, then he focuses on the civic crowdfunding model, that is the core of this work, looking at all crowdfunding sub-models, even at the equity crowdfunding, considering that many European countries are tending to regulate equity crowdfunding, in order to supply equity to SME's. In fact, after the Italian experience about equity crowdfunding regulation (Decree Law "Crescita 2.0", converted in law in 2012), other European countries are, similarly, designing specific regulation. Then, author went in depth the topic collecting the needed data from different sources, database and by the adoption of different methods. Therefore, data were collected first from the web and then from the insight of the main crowdfunding platforms that hosted social vocated projects. Then, author continued to gather data from the observation and interviews.

Results were analysed in comparison wit the context interpretation.

**Findings and Practical implications** – This approach is expected to capture the complexity of the phenomenon.

This study leds the author to recognize a new emerging shape for the crowdfunding. In fact, if the need to reinvent the capitalism structure, leveraging on the shared value creation, identified the configuration of impact investing, the democracy of the web and, in particular, of the crowdfunding platforms, open the financial world to a new structure which allows to take advantage of the traditional limits of funds of investment. Thus, both the capability to attract a great number of investors - according to Anderson's long tail model (2004) - and the social content of the project-to-fund, represent the push to move the crowd investment towards impact investing.

Moreover, the experience of studied corwdfunding campaigns highlights the tie between crowdfunding (or rather crowd investment) and the traditional finance, that could be represented as a puzzle of pieces derived from the corporate finance.

Summarizing, the author tries to understand if crowdfunding could be helpful both to raise up financial-based resources for Innovative Companies and produce social outcomes to the benefit of all the interested communities. Moreover, this research could help both entrepreneurs (especially innovative companies) and crowdfunding platform owner, to set up an effective and succeeding crowdfunding Industry.

**Further Research** - Author initially intends to enlarge the sample, including all innovative start-ups. This would be useful to conduct a quantitative research, in order to better understand the role of crowdfunding, the importance of a social attitude as a quality sign and the evolution of this fundraising mechanism towards the impact investing. Then, the author suggests to map the crowdfunding phenomenon across the Europe, in the way to start a case study within different countries to understand how cultural aspects and regulations affect the evolution of crowdfunding in a specific country.