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Ethical Considerations in Crowdfunding

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Introduction

Parallel to the impressive growth of crowdfunding in recent years, we are also witnessing a growing concern with ethical aspects of crowdfunding practice. Here, while not representing mainstream developments, stories about platforms and campaigns suspected of fraud have attracted both public and media attention. For example, at the platform-level, investigation into misappropriation of funds, as in the case of Sweden-based crowdlending platform TrustBuddy, ended up with it filing for bankruptcy in 2015 with substantial losses for its lenders (Palmer 2016). In China, the Ezubao crowdlending platform, succumbed to government crackdown on illegal fundraising, revealing its operations as a 'Ponzy scheme' (Zhang and Miller 2017). Moreover, at the campaign level, and within the reward-crowdfunding context, an independent study (Mollick 2015) showed that 9% of campaigns failed to deliver on promised

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R. Shneor et al. (eds.), *Advances in Crowdfunding*,
https://doi.org/10.1007/978-3-030-46309-0_8

rewards, 8% of dollars pledged went to failed projects, and 7% of backers failed to receive their chosen reward. Such cases include non-delivery on commercial concepts like iBackPack, which raised USD 720K on Indiegogo for its urban backpack concept, and Central Standard Timing, which raised more than USD 1 million on Kickstarter for the 'world's thinnest watch', to name just two (Carpenter 2017). Other cases are more sinister, including the GoFundMe donation campaigns by US citizen Jennifer Flynn Cataldo, requesting help in paying medical bills associated with cancer she did not have, raising more than USD 38K, before being convicted of fraud (ibid.).

The above examples can serve as triggers for a discussion of ethical issues in crowdfunding practice, which, surprisingly, has largely been absent in earlier research. An exception here has been a short communication by Snyder et al. (2016), who called for ethics-focused research on medical crowdfunding in particular, as it raises concerns with exposure to fraudulent campaigns, loss of privacy, and fairness in how medical crowdfunding funds are distributed. Other related studies have taken a legalistic rather than ethical perspective, while addressing legal anchoring of investor protection in crowdfunding (e.g. Heminway 2014; Pierce-Wright 2016). Indeed, ethical aspects in finance have been obscured by the preoccupation with legalization, under the incorrect assumption that what is legal is also ethical, versus how ethics serve as the foundation for regulation (Boatright 2010).

The current study will address this gap by mapping and classifying ethical considerations in crowdfunding practice, while relating them to the different stakeholders who are parties to the development of the crowdfunding activities, including—fundraisers (entities that raise capital for a project), platforms (web applications facilitating the fundraising), funders (actual and potential funding providers to crowdfunding campaigns), and regulators (public authorities overseeing the law-making related to crowdfunding practice). Furthermore, crowdfunding can be viewed as a phenomenon at the intersection between the disciplines of finance, entrepreneurship, marketing, e-commerce, and social networking. Hence, since, to the best knowledge of the authors, no earlier study has addressed ethical considerations specifically in the context of crowdfunding, we draw on principles discussed in studies of ethics in finance

(Boatright 2010), entrepreneurial finance (Fassin and Drover 2017), entrepreneurship (Bucar and Hisrich 2001), marketing (Dunfee et al. 1999), e-commerce (Roman 2007), and online social networking (Light and McGrath 2010).

In the following sections, we first address classical approaches to business ethics, and we then delve deeper into the context of crowdfunding, while exploring related dilemmas from a multiple stakeholder perspective. We then suggest a framework outlining potential ethical pitfalls in crowdfunding practice, as well as some mechanism for addressing them. Finally, we conclude by highlighting the contributions, limitations, and implications of the current study.

Classical Approaches to Ethical Decision Making in Business

Simply put, business ethics deals with what people in business *ought* to do. In business ethics neither do we merely describe business practices, nor do we attempt to predict what will happen on, say, the stock market, or with company sales following a distinct type of marketing campaign (Sandbu 2011; DesJardins 2009). Instead we ask, in a given business situation, what is the *right* thing to do (Sandbu 2011). More specifically we identify moral reasons for or against different courses of action and weight them against each other (ibid., p. 12). These reasons may often correspond to our moral instincts, or gut feelings of what is right or wrong, but they are not derived from our intuition. Instead, in business ethics we search for moral claims, or underlying principles of what may, from a given perspective, constitute good behaviour and we attempt to logically and consistently apply these when we make decisions.

There are several 'schools' in business ethics and these offer different sets of ethical reasons or principles that can guide decision making. The three main schools are 'Kantian deontology', utilitarianism, and virtue ethics.

'Kantian deontology' derives from the works of the philosopher Immanuel Kant (1785/1991). In Kantian approaches business managers are advised to search for a general principle that can offer guidance when faced with a specific ethical challenge. A key test to whether a principle can be seen as morally robust is to ask if the manager could get all other mangers to follow the same principle in all similar situations (Kant's categorical imperative in Donaldson and Dunfee 1994). In crowdfunding this 'do unto other as you would have them do unto you' approach would manifest itself if a fundraiser was tempted to over-exaggerate the benefits of a product being developed. Would it be rational for the funder to operate in a market where all suppliers, competitors, and customers over-exaggerated their products' performance or customers over-exaggerated their willingness to pay? The likely answer here is no. In Kantian business ethics this means the fundraiser must reason that he or she has a duty not to over-exaggerate and that suppliers, competitors, and customers have a right to be given truthful information by the manager.

In Kantian business ethics we deliberate the reasons for why an action is the right thing and we seek to fulfil our duties and uphold the rights of others as best we can. Utilitarianism (Mill 2016), by contrast, is less concerned with prior reasoning and individual rights, but focus instead on the overall consequences of our actions. When faced with alternative courses of action a manager should choose the action that will maximize the future welfare, wellbeing or happiness of the most people (Donaldson and Dunfee 1994; Mill 2016). In this context, and in line with Veenhoven (1991), happiness can be considered as incorporating both a sense of contentment when comparing life-as-it-is to perceptions about how-life-should-be, and how one feels affectively in terms of gratification of basic bio-psychological needs.

Accordingly, crowdfunding fits the spirit of utilitarianism well. Many products and initiatives either leave well-being at the same level or increase it for a large number of people. Few initiatives would, when all consequences are calculated, produce a total sum of happiness that is lower than when the campaign commenced. Utilitarian ethics encourages fundraisers to develop campaigns, products, or initiatives where the positive consequences for the largest number of people is maximized. This resonates well with campaigns where social entrepreneurship is at the core, but commercial and profit-seeking campaigns may also fit the utilitarian logic.

In both utilitarianism and Kantian business ethics we have dictums which we can attempt to logically and consistently apply, that is, 'greatest sum of happiness to the greatest number of people' and 'do unto others as you would have them do unto you'. In the third school 'virtue ethics' it is harder to distil unified principles. Instead, when searching for guidance on actions and decision making, we are prompted to ask ourselves, 'What would a virtuous person do?' Aristoteles and his book *Nicomachean Ethics* serves as a centre piece in virtue ethics. Aristoteles advices us to develop our moral wisdom through a combination of knowledge and life experience (practical wisdom). We are on a journey of personal development where we increasingly come to understand and experience what virtue is. A virtue often resides on the 'golden mean' between two excesses. For example, if we develop the virtue temperance, we are increasingly avoiding greed as well as unnecessary abstinence. Similarly, as many initiators of crowdfunding platforms or fundraiser will likely develop a keen understanding of, when launching a campaign, you can neither be cowardly nor foolhardy, but must demonstrate the virtue courage (DesJardins 2009).

Donaldson and Dunfee (1994) note that while these three ethical schools of thought provide useful overall guidance to decision making, they fail to reflect and assist with often complex and very context specific challenges facing business managers. In crowdfunding we also have the added problem that platforms and campaigns may attract interest and support from across countries and even continents. Donaldson and Dunfee's "integrative social contract theory" addresses these challenges by laying out some general ('macrocontract') principles, and then, within the confines of these principles, encourages business managers to elucidate the informal ('microcontract') 'rules of the game' in the transactions they engage in. The latter includes the understanding and adhering to local expectations for ethical behaviour. Some of the general principles that can and should constrain managers regardless of location can be 'core human rights, including those to personal freedom, physical security and well-being, political participation, informed consent, the ownership of property, the right to subsistence, and the obligation to respect the dignity of each human person (ibid., p. 267).

Finally, it bears stressing that the way business ethics is studied and taught has been challenged in recent years by Mary Gentile and the movement 'Giving Voice to Values' (GVV) (Gentile 2010). Gentile argues that teachers and scholars of business ethics spend too much time debating abstract questions of right and wrong, when the real struggles of employees and managers is not to understand that practices they may be observing or form part of are wrong, but rather to find the strength to voice their concerns. 'Giving Voice to Value' urges business schools to alter teachings from primarily debating moral philosophical problems and prioritize building confidence and the ability to raise concerns. The implications for crowdfunding are that platforms and fundraisers should strive to create a culture where employees and managers are deliberately empowered and encouraged to speak up if they encounter dubious business practices.

Crowdfunding: An Ethical Solution or Problem?

Crowdfunding can be considered both as an ethical solution to old problems and as a source for new ethical challenges to be addressed. The very concept of crowdfunding, at its core, represents a solution to traditional barriers of access to finance, which resonates well with the utilitarian ethos of reform and social improvement. Similarly, crowdfunding presents an answer to growing scepticism towards, and disillusionment with, traditional financial institutions, which have triggered and overseen cycles of economic booms and busts in recent decades. In this view, anyone with access to internet can potentially raise funds for a project of their choice from anyone else with access to internet. This implies greater democratization in the use and allocation of financial resources, as well as greater say of the public in its choices of future consumption, provisioning of public goods, and the free promotion of ideas.

First, building on the principles of the democratization of finance (Erturk et al. 2007), crowdfunding practice implies that: (1) the exclusive (if not monopolistic) control of traditional financial institutions and their criteria for allocating financial resources to individuals, organizations, or projects is weakened through competitive offerings from the crowd; (2) more individuals, organizations, and projects can be financed overall, and especially those from environments where discrimination based on gender, sexuality, ethnicity, and religiosity are rampant; (3) more individuals and organizations can influence product and service development efforts towards fulfilling needs of their future consumption, while somewhat weakening the power of manufacturers, wholesalers, and retailers in making such choices for them; (4) individuals and organizations can have more opportunities for investment in general, and for high- and medium-risk investments in particular; and (5) through greater access to finance and investment opportunities, inequalities in society can be minimized in the longer term.

Second, in terms of provisioning of public goods, crowdfunding may be especially relevant where existing institutions fail to provide them. Such projects can include the financing of health care services and equipment for needy individuals (e.g. Berliner and Kenworthy 2017), education services and equipment for needy individuals (e.g. Meer 2014), research work and equipment (e.g. Byrnes et al. 2014), communal purchases of renewable energy solutions for electricity consumption (e.g. Lam and Law 2016), funding of communal cultural activities and institutions, as well as their restoration/renovation and maintenance (e.g. Josefy et al. 2017), etc.

And, third, crowdfunding can serve as a platform for free and democratic distribution and exchange of ideas through financially supporting social, political, religious, and environmental activism. Here, funds can be raised for financing civic and social initiatives, political parties, public legal actions, production and distribution of ideologically infused media (i.e. books, magazines, videos, etc.), and so forth.

Overall, these ethical advantages, seem to relate closely to notions of what has been referred to as the ‘collective level of consumer empowerment’, where alternative modes of social organization around consumption are constructed and emerge from collaboration with others (Papaoikonomou and Alarcón 2015). Here, traditional information asymmetries are destabilized and may be remedied via alternative and more democratic fundraising channels, which may also serve as social aggregation platforms around causes of interest that may go beyond consumption.

On the other hand, some also view crowdfunding as a source of new ethical problems. Such view challenges the assumption that the 'wisdom of the crowd' is coming up with optimal solutions. Here some critics warn about the 'madness of the crowd', the 'tyranny of the majority', and unintentional legitimization of institutional failures. First, the concerns with the madness of the crowd, involve situations where groups of people can be collectively misguided and even illogical and delusional (Mackay 2006). Such situations are exacerbated by herding behaviours and information cascades, where later decision making is based on inferences from earlier decision making by others (Shiller 2015). Hence, when a critical mass of individuals makes a decision based on incomplete information or outright misinformation, risk assessment based on others' behaviour can be heavily misguided. Such situations represent a far cry from Kantian business ethics suggesting that managers should continuously consider their rights and duties in relation to others, including vulnerable individuals. Here, while these concerns are mostly associated with investor protection and related disclosure requirements (Heminway 2014), they are also relevant for non-investment campaigning in terms of consumer and donor protection.

Second, concerns with the tyranny of the majority (Guinier 1995), as adopted from political science, relates to situations where decisions made by a majority groups do not account for the needs of minorities, or comes at the expense and even directly hurting minority groups. The very definition of crowdfunding is based on public funding of small sums from a large group of people, but what about small groups of people who are unable to raise large sums from the crowd, or when a large group raises funding for an initiative that implies an oppression of a minority.

And, third, by replacing failing public institutions in funding of public goods (i.e. health care, education, environmental protection, etc.), the crowd indirectly legitimizes these institutional shortcomings. Here, while some failure to finance public goods is a result of objective lack of funding, some of it may also be a result of mismanagement of public funds and even corruption in certain cases (Dorotinsky and Pradhan 2007). Hence, funding of public goods via crowdfunding reduces the pressure on, and responsibility of, public institutions and may indirectly legitimize cases of their mismanagement. While this may lead to considerable improvement in well-being in the short-term, utilitarian principles of achieving greatest happiness for the greatest number of people may be violated in the long-term.

In the following section we delve deeper and outline potential ethical pitfalls for the stakeholders involved in crowdfunding practice, as well as some mechanisms for addressing such challenges and dilemmas.

Mapping Ethical Considerations in Crowdfunding

Since crowdfunding practice involves multiple stakeholders, the current section will outline ethical dilemmas and pitfalls with respect to each of the four key stakeholders involved, including—platform, fundraiser, funder, and regulator. This review will follow the approach of Waters and Bird (1989), highlighting that unethical practice can be both 'against' the firm (e.g. false costs reporting for personal gain) and 'for' the firm (e.g. paying bribes for closing deals or getting licences). Accordingly, we address ethical considerations that relate to actions both for and against the relevant stakeholder. Now, while all stakeholders may be subjected to ethical dilemmas common to practice outside the context of crowdfunding, our review will focus on the dilemmas most relevant specifically to the context of crowdfunding.

Crowdfunding Platforms

A crowdfunding platform is 'an internet application bringing together project owners and their potential backers, as well as facilitating exchanges between them, according to a variety of business models' (Shneor and Flåten 2015, p. 188). Platforms operate in accordance with crowdfunding models that include both investment (i.e. peer-to-peer lending, equity CF, revenue sharing, etc.) and non-investment models (i.e. reward and donation CF). Due to the young nature of the industry, most platforms represent relatively young start-ups with limited resources and a survivalist modus operandi. As such, they are subjected to pressures and

Table 8.1 Ethical pitfalls for platforms

Ethical pitfalls		Options for addressing
For platform success	Against platform success	
• Misappropriation of crowd funds for covering platform expenses • Misuse of user data and privacy violation • Hidden and unclearly specified pricing • Misrepresentation of campaign results and dynamics • Approve publication of unethical/untrustworthy campaigns • Cutting corners in quality and security • Operating outside existing legal frames	• Ideological biases in campaign approval • Provide ill advice to fundraisers (not experts in everything)	• State regulation of platform operations and published content • Self-regulation by industry organizations • Self-regulation by industry and users • Accounting reviews • Periodic external audits on ethical practices • Platform-level ethical concern reporting and communication lines • Ethics training of employees

dilemmas common to other entrepreneurial ventures (Hannafey 2003; Harris et al. 2009), primarily including the liability of newness and decision making under conditions of resource scarcity.

Table 8.1 outlines key ethical pitfalls platforms may fall into when attempting to deal with the pressures of liability of newness and resource scarcity. Such pitfalls include intentional and non-intentional instances of abuse of power, compromise on quality and security, as well as misinformation. All of which may be characterized as violations of ethical intent, means, or ends captured in the third basic perspective of ethical marketing (Laczniak and Murphy 2006). Abuse of power can come in the forms of misappropriating crowd funds for covering platform expenses (in jurisdictions where platforms can manage crowd funds), the misuse of user data while violating privacy or harvesting commercial value from such data without consent and/or knowledge of the users. Alternatively, abuse of power may also be evident in unfair exclusion of otherwise ethical campaigns based on ideological biases of platform managers, and the provision of ill advice on areas outside the specialization of platform employees. A different challenge relates to compromise on quality that may be manifested in approving publication of ethically questionable projects, as well as cutting corners in quality checks of campaigns, quality of service, and data security. In addition, instances of misinformation may include hidden and unclearly specified pricing, and the misrepresentation of campaign results and dynamics all to attract more fundraisers and funders to the platform.

In addition, since generally innovation comes before regulation, some crowdfunding platforms may be faced with dilemmas of operating in national jurisdictions completely lacking relevant regulations, or where existing regulation results in less ethical solutions for the public. In the former, platforms operating without clear regulatory guidelines and under heavy resource constraints, may be tempted to adopt more relaxed interpretations of user validation procedures, campaign quality filtering needs, investor and customer protection requirements, as well as limitations on the use of funders' monetary contributions. In such cases, self-regulation via platform management, industry associations, as well as via critic media and public opinion may replace national regulation in the short term, but stakeholders should engage authorities towards establishing relevant legal frameworks in the long run.

Alternatively, examples of the latter cases can be related to excessive costs associated with entry barriers and compliance requirements for loan facilitators, which enshrine monopolies of large credit providers offering loans with higher interest rates and under worse conditions than those offered via crowd lending platforms; limitation of platforms abilities to manage portfolio investments for funders resulting in higher rather than lower risks for users; limitations on distribution of equity campaign information in the age of social media networking and free information flows online; as well as long and expensive permit procedures for donation fundraising projects, to name a few. In such situations, while regulatory amendment can be encouraged via public debates and lobbying, platforms are faced with the options of either exiting the market until regulatory changes are implemented or walking the fine lines of civil disobedience (Falkenberg and Falkenberg 2009) with tight legal support and often under special permission and under supervision of financial authorities.

Some of the mechanisms that may help ensure the ethical practice of crowdfunding platforms include adherence to and work on advancing crowdfunding-related state regulations. In addition to state regulation, which may require long political negotiation cycles, self-regulation through industry associations' codes of conduct, as well as self-regulation by users in flagging out ethically questionable campaigns and practices can also prove useful. Hence, ethical platforms need to ensure that both they and the fundraisers using them achieve a behavioural standard in excess of obligations specified in existing laws, a requirement corresponding with Laczniak and Murphy's (2006) second basic perspective of ethical marketing.

Furthermore, and regardless of formal legal requirements, platforms can be required to engage in periodic financial auditing, as well as ethical auditing (Laczniak and Murphy 2006), possibly by third-party organizations. Finally, other mechanisms for ensuring ethical practices at the platform level, may include ethical training to employees (ibid.), as well as establishment of communication and reporting procedures for ethical concerns of both employees and the public. The latter providing the crowd with an opportunity to exercise its own responsibility in demanding ethical campaigns and campaigning.

Fundraisers

A fundraiser, in the context of crowdfunding, can be defined as an individual or organization actively raising funds from the crowd for a specified purpose outlined in a fully or partially publicly available campaign or loan request. In earlier research, and often pending on the crowdfunding model involved, fundraisers are also referred to as 'campaign creators' or 'creators' in most models of crowdfunding, 'loan takers' or 'borrower' specifically in the peer-to-peer lending, and 'donation collectors' in context of donation crowdfunding. Here, it is important to stress that our understanding of fundraising goes well beyond charitable gift giving with which the concept has been most frequently associated earlier (e.g. Anderson 1996). Hence, fundraising in crowdfunding can be associated with sales and investment, as well as donation. And accordingly, ethical

Table 8.2 Ethical pitfalls for fundraisers

Ethical pitfalls		Options for addressing
For fundraiser success	Against fundraiser success	
• Overselling and provision of misleading info • Share personal sensitive information • Fundraising for projects with unethical objectives • Fundraising for projects with unethical outcomes • Misrepresentation of campaign results and dynamics	• Misuse of funds raised (from bad choices to criminal use) • Delivering substandard products and services to funders • No or misinformation after campaign end in case of delays or failure	• Quality checks and verifications by platform • Regulating eligibility to run campaigns + rights and obligations • Guidelines for ethical fundraising • Require supportive materials for critical fundraiser claims • Ethical concern reporting and communication lines

considerations for salespeople (i.e. Valentine and Barnett 2002), entrepreneurs (i.e. Hannafey 2003; Harris et al. 2009), and charity collectors (i.e. Anderson 1996) may apply.

Table 8.2 outlines key ethical pitfalls fundraisers may fall into when attempting to deal with the pressures to perform, succeed, and avoid failure. Here, paraphrasing Laczniak and Murphy's (2006) first basic perspective of ethical marketing, fundraisers should never view funders (and other supporters) as merely a means to a profitable end, but should place people first and ensure that their projects achieve real social benefit beyond satisfying a narrow customer segment need.

Relevant pitfalls here include intentional and non-intentional instances of abuse of power, compromise on quality, misinformation, as well as directly or indirectly hurting humans, animals, or the environment. Cases of abuse of power may be manifested in failing to deliver on campaign promises by misusing of funds raised for other purposes than the ones stated in campaign. A different situation can also involve in using personal information of investors without their consent or knowledge. Instances of compromise on quality may be in the delivery of substandard products and services, or those produced under ethically questionable conditions for saving costs, while deviating from specifications and promises outlined in campaign. Cases of misinformation can include situations in which fundraisers engage in 'overselling' while providing misleading and partial information, misrepresenting campaign results and dynamics as the campaign develops, or misinforming, or even failing to inform funders in case of delivery delays or project failure once campaign is finished. Finally, fundraisers may engage in projects with unethical objectives and/or outcomes that can hurt humans (i.e. actions against minority groups, fraudulent activities, criminal activities, etc.), animals (i.e. involving animal cruelty and abuse, etc.), or the environment (i.e. production and/or consumption damaging environment, etc.).

Various mechanisms may help ensure the ethical practice of fundraisers in crowdfunding which include adherence to crowdfunding-related state regulations. In addition to requirements specified in law, platforms can issue ethical guidelines for fundraisers with a checklist fundraises can go through before submitting campaigns. Other actions by platforms can include systematic quality checks and verifications activities both as specified by law and as not specified by law but required for ethical practice. More specifically, requirements for proper disclosure of information about critical aspects of the campaign, risks involved in fulfilment of its promises, as well as the identity of the fundraisers should be closely observed and enforced by platforms. Finally, platforms may provide a dedicated communication line for flagging concerns about unethical practice by fundraisers, and when needed leading to the freezing of a running campaign until ethical concerns are removed. Such option provides an outlet for the crowd to exercise its own responsibility to demand ethical campaigns and campaigning.

Funders

A Funder, in the context of crowdfunding, can be defined as an individual or organization providing financial resources in response to a concrete call for funding in the form of a crowdfunding campaign or peer-to-peer loan application/request, and based on pre-specified conditions stated in such calls. Funders have also been referred to as 'backers', 'contributors', and

Table 8.3 Ethical pitfalls for funders

Ethical pitfalls		Options for addressing
For funder success	Against funder success	
• Bully/Pressure others into support • Funding projects with unethical objectives • Funding projects with unethical outcomes • Learning about opportunity on platform but closing deals without platforms	• Public harassment or shaming of fundraisers, causes, or other funders • Public misinformation about campaigners, causes, or other funders	• Platform sanctions against funders and campaigners • Guidelines for ethical CF support • Ethical concern reporting and communication lines • Regulating funder rights and obligations

'supporters' in all crowdfunding models; 'investors' in the various investment models of crowdfunding; 'loan givers' or 'lenders' specifically in peer-to-peer lending; and 'donors' in donation crowdfunding. Accordingly, ethical considerations of funders in the context of crowdfunding may relate to those relevant to investors (Drover et al. 2014), lenders (e.g.—in case of institutional lenders—Cowton 2002), customers, and donors (e.g. as in ethics as value sought by consumers—Smith 1996).

Table 8.3 outlines key ethical pitfalls funders may fall into when being concerned with the success of crowdfunding campaigns they have or have not supported, as well as considering the ethical value proposition of such campaigns. Relevant pitfalls here include intentional and non-intentional instances of abuse of power, misinformation, as well as directly or indirectly hurting humans, animals, or the environment. Abuse of power may be evident in instances of bullying and unfair pressure of others to financially support campaigns through actual or implied harassment and/or public shaming on social media. Alternatively, wealthy supporters may force fundraisers to close deals they have learned about on platforms outside the platform and without its involvement, at the expense of platform income and public profit. In terms of misinformation, here situations may involve the public spreading and sharing misleading and/or inaccurate information (not originating from the fundraiser) about campaigns and the fundraisers behind them for enhancing either the success or the failure of a campaign. And, in terms of potentially hurting humans, animals, and the environment, funders may fail to assess negative ethical implications of projects with clear or hidden unethical objectives and/or outcomes.

Here, again, some mechanisms may help ensure the ethical practice of funders in crowdfunding which include adherence to crowdfunding-related state regulations. In addition to requirements specified in law, platforms can issue ethical guidelines for funders about engagement with other prospective funders about campaigns. Other actions by platforms may include a dedicated communication line for flagging concerns about unethical practice by funders, and when needed leading to the freezing of relevant accounts until ethical concerns are removed, and even informing users about false information being shared about the relevant campaign and/or fundraiser. And, finally, platforms can also include an incentive or sanctions scheme for funders based on the extent to which they behave ethically.

Regulators

A regulator, for the purpose of our discussion, refers to the governmental authority/body responsible for formulation, amendment, and entry of laws into the national law books that control practices related to crowdfunding. Such authorities include national legislators/parliaments, which rely on input provided by institutions including (but not limited to) ministries of finance and economy, financial regulatory authorities, national consumer protection agencies, and so on. Indeed, earlier theorizing effort building on institutional theory, has highlighted the importance of regulators for crowdfunding success (Kshetri 2015) and investor protection (Heminway 2014). Others have reported a significant association between perceived adequacy of crowdfunding regulation (by platforms) and its volumes per capita in European countries (Ziegler et al. 2019), as well as globally (Ziegler et al. 2020).

Accordingly, the very process in which the regulator defines boundaries for the crowdfunding industry may also include ethical considerations of its own, primarily addressing ethical objectives of regulation, ethical regulation process, and ethical outcomes of regulation. Table 8.4 presents

Table 8.4 Ethical pitfall for regulators

Ethical pitfalls		Options for addressing
For public protection	Against public protection	
• Enforce new laws that are excessive and reduce ethical outcomes (lower access to finance with worse conditions) • Enforce new laws that are too permissive reducing ethical outcomes (encouraging irresponsible and risky behaviour)	• Avoid amendments to law while enforcing existing laws that provide less ethical outcomes (lower access to finance with worse conditions) • Protection of traditional financial monopolies • Not providing opportunities for public hearings on ethical implications of laws	• Parliamentary hearings about ethical implications of existing regulation • Sandbox regulatory processes for involving stakeholders in regulation review • Setting national ethical concern reporting and communication lines • Commission expert assessments of ethical aspects in current regulation

potential ethical pitfalls in this context. First, in terms of ethical objectives of regulation, regulators must avoid reluctance to review ethical implications of existing regulation under changing technological and social conditions. Such situations may include intentional and non-intentional bureaucratic avoidance of law amendments that may enhance ethical objectives. Second, regulation processes should follow ethical procedures, as when not providing opportunities for public hearings on the ethical implications of existing laws, or avoidance of sandbox processes where both industry players and regulators interact in formulating laws that fit new technological and social conditions. And third, failing to address negative ethical implications of existing or proposed laws. In case of existing laws, regulators should consider whether they provide unnecessary protection for monopolistic powers reducing overall public welfare. And in the case of new proposed laws, regulators should strike a balance between over- and under-regulation, which may result in excessive or too permissive laws that will lead to differing ethically questionable outcomes.

Certain actions and practices may help ensure the ethical outcomes of regulatory work in the context of crowdfunding. First, regulators may commission expert assessments as well as hold parliamentary hearings on the ethical implications of current regulation in face of new technological and social conditions. Second, regulators can closely engage with industry players in a sandbox process for both mapping potential ethical pitfalls in crowdfunding practice and developing legal remedies for them. And, third, regulators can establish a formal unit or function where members of the public can report and flag unethical practices that can serve as input for future regulation, or as basis for suspending operations of relevant actors when relevant.

Conclusion

The current discussion is one of the first to address ethical considerations in crowdfunding practice. It does so from the perspectives of multiple stakeholders including platforms, fundraisers, funders and the regulator, and outlines concrete potential ethical pitfalls and mechanisms for addressing them. Overall, we suggest that while crowdfunding practice can serve as a solution to earlier ethical challenges in the financial sector, it also presents some new ethical challenges that need to be addressed by stakeholders with relevant policy and action.

From a practical perspective, our mapping of ethical pitfalls and mechanisms for addressing them can serve as prescriptive guidelines for the various stakeholders in their efforts to ensure, enhance, and improve ethical practice in crowdfunding. Here, crowdfunding platforms can formulate ethical guidelines for fundraisers and funders, introduce incentive and sanction schemes for ethical practice by both, train its employees, and develop codes of conduct for them to follow. In addition, regulators can engage in activities that enable evaluation of the ethical implications of existing regulation under new technological and social conditions of the internet economy and social media age, as well as engage in ethical procedures of regulatory amendments towards better ethical outcomes of new laws.

Finally, in terms of research, due to the absence of earlier research on ethics in the context of crowdfunding, opportunities for relevant discoveries are abundant. Accordingly, we hereby outline several such opportunities. First, future studies may identify and analyse the implications and effects of ethical practices of platforms in various crowdfunding models, as well as national, sectoral, and segment contexts. Second, researchers may examine the role played by ethical considerations in the decision of funders to financially support campaigns, as well as share information about them. Third, researchers can assess the impact of ethical cues in campaign content and materials on the success of such campaigns. And, fourth, other studies may attempt to assess the ethical implications of existing regulatory frameworks in different countries, while examining whether they correlate with better market results overall, and ethical outcomes in particular.

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