



Crowdfunding as a Support Tool for the Activity of Social Investors

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5.1 BACKGROUND AND OBJECT

Social enterprises play three roles in the promotion of community-friendly initiatives: the offering of innovative solutions to unsolved social problems, the centering of their corporate mission on the concept of shared social value, and their intention of contributing to the progress and sustainability of the global economy. The motivational, ethical, and social determinants that characterize their identity are known today (Nel and McQuaid 2002; Margolis and Walsh 2003; Dart 2004; Austin et al. 2006; Zahra et al. 2009; Bugg-Levine et al. 2012; Desa and Koch 2014; Doherty et al. 2014; Santos Barbosa et al. 2017) as well as the specificities of their management which differentiates the social enterprise from the

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profit company (Spear 2006; Dorado 2006; Landes Foster et al. 2009; Sparviero 2019; Salavou and Cohen 2020). Their performance is mainly assessed on the basis of factors external to the company represented by the social impact (Roman et al. 1999; Moore et al. 2012a; Chiappini 2017; Calderini et al. 2018; Rizzi et al. 2018; Caroli et al. 2018) which can be measured with different techniques (Meadows and Pike 2010; Bagnoli and Megali 2011; Gibbon and Deu 2011; Ebrahim and Kasturi 2014; Bengo et al. 2016; Dey and Gibbon 2017; Nicholls 2018).

An increasing topic of interest within this field concerns the financial aspects that affect social enterprises (Moore et al. 2012b; Geobey et al. 2012; Jackson 2013; Rizzi et al. 2018; Cash 2018; Lagoarde-Segot 2019) with particular reference to the nature of their activity and the relationship with the financial system (Emerson 2003; Ormiston et al. 2015; Viviani and Maurel 2019; Minguzzi et al. 2019; Agrawal and Hockerts 2019). Social enterprises suffer from limited funding opportunities as they experience problems in securing loans and raising equity: they are not profitable or growth-oriented enough to access traditional financial markets, which results in a financial-social return gap (Bugg-Levine et al. 2012).

The difficulty in accessing credit and financial markets requires identifying innovative financing models capable of attracting private financial resources to support social initiatives (Azemati et al. 2013). In this context, crowdfunding has emerged as a promising new option to guarantee a large number of small donations from the socially aware crowd for the needs of projects managed by both established non-profit organizations and socially focused start-ups. (Clarkin 2014; Bruton et al. 2015; Clarkin and Cangioni 2016; Parhankangas and Renko 2017; Chan and Parhankangas 2017; Walthoff-Borma et al. 2018). The use of the web platform and online communities facilitates access to financial resources for both profit and Non-Profit Organizations (NPOs), which need to raise funds mainly through non-traditional channels (Belleflamme et al. 2014; Ordanini et al. 2011; Schwienbacher and Larralde 2010) using appropriately the techniques that promote the success of the campaigns (Okten and Weisbrod 2000; Howe 2006; Azemati et al. 2013; Colombo et al. 2015; Cholakova and Clarysse 2015; Ahlers et al. 2015; Short et al. 2017; Courtney et al. 2017; Skirnevskiy et al. 2017; McKenny et al. 2017; Josefy et al. 2017; Vismara 2018; Brema et al. 2019; Yang et al. 2019; Presenza et al. 2019).

Social crowdfunding helps social initiatives to test the appeal of new feasible minimum services that they want to launch and can integrate

other sources of financing in the initial phase that are generally difficult to find (Lehener 2013; Lehener and Nicholls 2014; MacLeod Hamingway 2017; Presenza et al. 2017; Gallucci et al. 2018; Renko et al. 2019; Rey-Martí et al. 2019). It is important to emphasize that for socially focused organizations, crowdfunding can be used to create momentum and excitement around a common cause, to build a community around the organization by activating current donors in addition to finding new ones.

This work analyzes the role that a crowdfunding platform can play in making the activity of a social investor broader and more efficient, a topic that has not yet been conclusively explored in the literature. Our research focuses on the role played by an Italian social crowdfunding platform and on the screening process that this platform performs in enhancing and facilitating the interaction between not-for-profit organizations seeking to raise funds and private investors willing to participate in the financing of innovative social projects.

Examining the first 140 projects hosted by the crowdfunding platform Meridonare between January 2016 and September 2018, our work analyzes how the platform was able to promote philanthropic activities and obtain a multiplier effect on the intervention of a specific social investor, i.e., the Foundation of the Bank of Naples (FBN).

The various reports used by the platform over the years and the information received by Meridonare managers represent our main data sources in order to explore the context of social crowdfunding and to investigate the relationship between the crowdfunding platform and the banking foundation. In particular, we are interested in exploring the role the Foundation and Meridonare play in the social investing process. A key point is to study how institutional forces, such as the FBN, influence the functioning of social crowdfunding and increase the potential of this alternative funding channel. In this perspective, the research questions are defined as follows:

RQ1: How does the relationship between a crowdfunding platform and a social investor influence social investment?

RQ2: What are the benefits for the social investor, i.e., the Foundation, in using the crowdfunding platform as a tool to carry out its philanthropic activity?

Our work highlights that the management of the crowdfunding platform by a social investor, i.e., the Foundation of the Bank of Naples, strongly influences the activity of the platform by differentiating it from the behavior of competitors both in the way of relating to the fundraisers and in the forms of internal organization. Besides playing an important role in connecting and matching fundraisers with investors, the Meridonare platform has been able to promote the early interaction and participation of all the actors involved, thus confirming the findings of Presenza et al. (2019). As a result, the use of the platform as a tool in favor of the philanthropic mission of the Foundation has permitted to generate a social multiplier of 300 percent in addition to the traditional philanthropic annual activities.

Social investment has a real impact on the world of business practices, philanthropic foundations and investor behavior. This work helps to better understand the consequences of social investments made through a new channel identified in the crowdfunding platform. This study turns out to be useful to researchers, policymakers and practitioners to evaluate the effectiveness of the interaction in social investment over the platform and to evaluate under what conditions, such as support services and reward mechanism, social crowdfunding is best applied in enhancing philanthropic activity.

The chapter is structured as follows. Section 5.2 describes the methodology and the data. Section 5.3 presents the results and Sect. 5.4 concludes by illustrating the theoretical and operational implications of this research.

5.2 METHODOLOGY AND DATA ANALYSIS

Given the inductive nature of the research questions, the study adopts a qualitative, case-based approach that enables the exploration of a phenomenon within its context (Yin 2003). Data analysis is carried out by following a four-step procedure adapted from Easterby-Smith et al. (2012): (i) we carefully read the evaluation forms in order to familiarize with the data; (ii) we express judgments by evaluating the collected data in light of the extant literature on social crowdfunding and social investment; (iii) we identify a set of variables considered relevant to address our original research questions; and (iv) we then formulate an analytical framework where the principal implications of our work can be traced.

5.2.1 *Meridonare and FBO: A Brief Description*

The Meridonare crowdfunding platform operates as a limited liability company (Meridonare Ltd.) having the legal form of the Startup Innovativa a Vocazione Sociale (SIAV). Meridonare was established in November 2015 and is led by the Foundation of the Bank of Naples, which considers it as an instrument for enhancing its social interventions. Meridonare's mission is to plan and develop its activity through innovative financial instruments, such as crowdfunding, aimed at promoting social well-being and the development of local communities. Through the use of the crowdfunding platform, Meridonare aims to become the reference point for those who plan social, cultural, or civil interventions aimed at promoting a new way of understanding active citizenship in local urban areas. Meridonare intends to support the ideas and projects aimed at promoting the culture of philanthropic giving, at strengthening the sense of community and at facilitating the creation of strong and cohesive social ties, having as its main targets South Italy, its resources, its talents, and its unlimited potential.

Italian Banking Foundations are defined by the Italian Constitutional Court (sentence No. 300/2003) as “private subjects, non-profit, participating in the construction of the common well-being” that use their assets to promote philanthropic activities in the territory to which they belong. Today, the Foundations of Banking Origin (FBO) system consists of 87 foundations originally made up of banks and savings banks with the objective to exercise direct philanthropy. In the 1999s, with the aim of separating the commercial activity of the banks from the philanthropic activity, the role of the FBO has been specifically structured by the Legislative Decree No. 153/1999. Today the Foundations of Banking Origin continue to be an important institutional investor in the Italian financial system and use their profits to pursue the socio-economic development of specific places through the supply of philanthropic resources to third sector operators and to public institutions. FBO are not allowed to make donations to commercial enterprises. Despite being private entities, the FBO are subject to the supervision of the Italian Ministry of Economy and Finance (MEF) with the aim to strengthen their role as institutional investors and regulate the purposes of social utility, collective interest, and economic development of their location region through the resources generated by the prudent investment of financial assets.

5.2.2 *The Meridonare Operating Model and Its Evolution*

In 2015 the main crowdfunding operators in Italy were: DeRev, Produzioni Dal Basso, BuonaCausa, and PlanBee. None of these operators was, however, specialized in social activities but rather on innovative ideas. The Foundation of the Bank of Naples has entirely financed the launch of the Meridonare platform, including the hiring of its first three employees. They were selected both on the basis of their information technology skills and their past as founders of a former local social platform.

To facilitate access to the platform for social project proposers, who often lack specific technological, marketing and social media skills, Meridonare has chosen to offer its users various support services free of charge: the video presenting the request, the strategic study of the campaign, the organization of events to present the crowdfunding campaign, banking assistance for the opening of a dedicated current account, and the use of a multimedia totem (donamat). Specifically, the latter is a tool that allows to illustrate the video of the campaign and, at the same time, to collect the donations in order to facilitate fundraising during special events (such as, for example, the one held in June 2016 at the San Carlo Theatre in Naples). To support the dissemination of knowledge of the campaigns present on the platform, Meridonare has developed an online journal called “Meridonare news” which contains various editorial activities including interviews with associations/organizations promoting social projects.

The fundamental contribution to the development of the crowdfunding platform was the instrumental relationship with the Foundation of the Bank of Naples (FBN). In addition to financing the start-up phase of the social project, the FBN has been the main financier of the Meridonare since the beginning as part of a strategy that has considered the crowdfunding platform as the ideal channel to promote the social interventions of the Foundation.

5.2.3 *Data Analysis*

The database is composed of the information contained in the evaluation forms, i.e., Social Reports, filled up by the Meridonare operators at the end of each crowdfunding campaign. The evaluation and reporting activities encompass the various phases of the crowdfunding campaign and

cover the entire spectrum of activities (online and offline), ranging from the project submission phase to the end of the crowdfunding campaign. In the pre-campaign phase, Meridonare analyzes the project in terms of completeness, potentiality, and social impact by assigning its own evaluation judgment. The preliminary assessment of the project aims to decide whether to place the request on the platform and precedes the assignment of a score to be communicated to the donors. At the end of the campaign, Meridonare assesses the social impact of the campaign on the community by compiling a final report.

The evaluation process is not a black-box, but it is shared with the applicants already from the planning phase of the proposal. The sharing of the evaluation mechanisms helps to implement effective and efficient behaviors and actions for the following: the financial target of the crowdfunding campaign (funding); the implementation of the intervention (output) overseen by Meridonare, then publicized on the platform; the evaluation of the social impact (outcome) made by the Foundation, published annually in the social balance sheet of the Foundation itself.

Table 5.1 describes the variables that have been identified following the initial phases of our analysis process (Easterby-Smith et al. 2012).

5.3 FINDINGS

As described in detail below, the quantity and quality of information in the report has changed over time. Initially the report consisted of a simple form which, starting in 2017, was transformed into an evaluation sheet of the social impact of the campaign. In particular, Meridonare transmits to the board of the Foundation a report which identifies the capacity of the association to develop relationships—both personal and through social media—with new donors sensitive to the theme of charity and philanthropy.

The analysis of the results obtained from the campaigns published on the crowdfunding platform stimulated, at the end of the first year of activity, the revision of the Meridonare operating model.

The observation of the data contained in the evaluation forms has contributed to grasp the two main changes on Meridonare's operating methods and, therefore, to give an answer to our first research question (RQ1).

The first important change concerned the verification of the social purposes pursued by the applicant association to the platform for

Table 5.1 The key variables of Meridonare's crowdfunding activity

<i>General values</i>	#	<i>Financial values</i>	€	<i>Values on the campaign</i>	#
Months of monitored activities	33	Total budget required	2,650,819	Total months on the platform	601
Projects on platform	140	Budget collected	1,190,124	Months duration average campaign	4.29
Evaluation sheets carried out	98	Average value required	18,934	Total donors	8,684
Impact assessment carried out	42	Preventive contributions provided by FBN	318,000	Average donors per campaign	62.03
Total Meridonare employees	6	Premiums provided by FBN	92,800	Donors natural persons	5,289
Variables to monitor for each project	51	Total contribution provided by FBN	410,800	Donor bodies	305
				Average donation per event	264
<i>Communication tools</i>	#	<i>Social impact results</i>		%	
Videos made by Meridonare	112	Budget collected on requested budget		44.9	
Total coordination meetings held	435	FBN contributions on total funding		26.7	
Events organized by Meridonare	106	FBN premiums on total funding		7.8	
Events carried out independently	216	Budget collected on total FBN payments		289.70	
Total events	338				
Views on Meridonare website	90,760				
Total Facebook contacts	119,712				
Total Twitter contacts	8,047				
Total LinkedIn contacts	2,370				
Total Instagram contacts	32,005				
Total social contacts	159,526				
Press articles	111				
Articles on Meridonare news	171				
Other articles online	206				
Total articles	488				

Source Our elaboration

fundraising. The identification of a set of key variables ennobles the role of the crowdfunding platform which, acting as a hub that raises the sharing of knowledge, lays the foundations for the creation of an ecosystem of high-impact social initiatives. In this context, the Meridonare operators carry out an evaluation of the congruity of the requested amount in relation to the social objective pursued (e.g., the money necessary to purchase a minibus to accompany children to school) to obviate a detected tendency to make requests too high. The lack of congruence between the request for funds and the funds actually necessary for the realization of the project is one of the main causes of failure of the crowdfunding campaign.

The second change was the introduction of a reward mechanism in order to raise the success rate of the campaigns and align the collection of funds with the social objectives pursued. The reward mechanism works in the following way (Gallucci et al. 2018):

- if the crowdfunding project collects less than 15% of the funds, the NPO will not receive the funds, and the funds will be devolved to another project on the platform indicated by the NPO itself;
- if the crowdfunding project collects between 15 and 50% of the funds, the applicant organization ought to modify its proposal to persuade both Meridonare and the Foundation that the additional funds provided by the Foundation will contribute significantly to the finalization of the project;
- if the crowdfunding project collects more than 50% of the funds, then resources are made available for the NPO;
- if the crowdfunding project collects 100% of the funds (funding target achieved), it receives an incentive from the Foundation, which determines an additional amount of resources (which range from 7% up to 15%) in accordance with the score obtained.

The reward mechanism actually makes it possible to establish specific priorities with reference to those projects that can be proposed for additional funds. In this regard, the incentive program provides eventual financial intervention by the Foundation only for projects that have exceeded the financial target established by the crowdfunding campaign.

This circumstance has produced two benefits (RQ2): the better allocation of financial resources and the greater control over the social impact

of the financed projects. The combined effect of these two benefits has produced a multiplier effect. In quantitative terms, Meridonare's activity has determined an important social leverage effect. For each euro of contribution to the projects paid by the Foundation, more than three euros were mobilized by non-institutional donors. Faced with 410,800 euros of financing from the FBN, the crowdfunding platform has collected and supported about 140 projects with over 1 million and 190 thousand euros.

In this perspective, Meridonare's role is not only to merely to act as a standard crowdfunding platform, but also to facilitate interaction and relationship-building between the various stakeholders in order to raise the chances of success of fundraising. The platform operates in order to broaden the charitable activities in the area by involving the support of donators who otherwise would not have participated.

At the same time, the FBN plays a key role in allocating resources in a rational and strategic manner on projects that have the greatest social impact. In this perspective, the Foundation has identified in Meridonare not only a tool to attract donations, but also a means to monitor, evaluate, and leverage the efficacy of its own social intervention.

5.4 DISCUSSION AND CONCLUSION

The philanthropy sector in Italy is characterized by the presence of the banking foundations (FBO) which largely satisfy the NPO charity demand. Faced with the significant volumes of annual payments (over € 1 billion), the assessment and reporting system for the activities carried out is still not adequate. Attention to the transparency of the processes, which is met through the mandatory publication of the payments made, prevails over the assessment of the social impacts of the disbursements themselves (not required by any legislation).

The understanding of social investment activities carried out by a crowdfunding platform such as Meridonare can only take place if the role and methods of intervention of the Italian foundations of banking origin are analyzed. The FBO are bound to very structured and regulated procedures for defining the budget and choosing the recipients of the charitable interventions. This often determines the impossibility to effectively support worthy projects of social utility as they are too small in size or excessively fragmented.

The creation of a social crowdfunding platform allowed the Foundation of the Bank of Naples (FBN) to expand its sphere of intervention in favor of a large number of small-scale social projects. Meridonare's initiative and its instrumentality in the mission of FBN represents an innovative modality in the operating model of banking foundations. The multiplier effect that has been created has increased the intensity of their philanthropic activity, contributing, among other things, to spread the culture of investment with a social impact.

Thanks to the feedbacks coming from the evaluation forms and the continuous interrelationship between Meridonare and the Foundation, the platform's operating methods have evolved over time. The development of specific internal skills aimed at optimizing the use of social media and a better understanding of fundraising techniques have not only encouraged greater coherence between the funding requests and the actual investment needs, but also introduced an effective reward mechanism.

These interventions have produced a dual output. First, the selection of projects and their accompaniment during all phases of the crowdfunding campaign have increased the propensity to donate by thousands of people interested in supporting social initiatives. Second, it consolidated Meridonare's role as a functional tool for the Foundation's philanthropic activity. Meridonare strengthens the effectiveness of FBO interventions in the third sector by favoring the allocation of resources in a rational and strategic manner on efficient projects in compliance with the vision and the mission of the Foundation. Social crowdfunding makes it possible to establish specific priorities with reference to those projects which, due to their size or fragmentation, may not be part of the ideal objective of the Foundation's charitable activity.

Given the wider social, political, and economic impacts of social investment, the development of an analytical framework is of enduring concern to regulators, practitioners, and academics. The drivers that increase the return of social investment are expected to be different from those that lead to financial choices. The examination of the relationship between the crowdfunding platform and the bank-originated Foundation is functional in order to survive in a long-term challenge of sustainability (Cornée 2017). More generally, the results of our analysis highlight the importance for social investors such as banking Foundations to maximize the impact of philanthropic activity. In particular, from this work it emerges that crowdfunding platforms encourage collaboration between the various

parties involved and attract the interest of small investors pursuing social projects, selected with transparent and shared criteria.

The case under analysis allows to derive some useful guidelines for the philanthropic sector and for those interested in this field. In particular, the drivers of success are likely to be the innovative use of the crowdfunding tool within this sector, the wide offer of online and offline services, and the intense relationship between the Foundation and the platform that led to periodic improvements in the operating process including the introduction of the reward mechanism. The major benefits of this approach are represented by the growth of social interventions in the territory, the multiplier effect on the philanthropic activity of the Foundation and the diffusion of solidarity values among a wide audience of private subjects.

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