Crowdfunding as a Model and Financing Instrument in Social Enterprises

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Abstract Access to credit and financial inclusion are decisive instruments in promoting the economic development and social cohesion of a community and territory. Helping social enterprises grow and compete is an essential priority for all economies, as they carry out fundamental and necessary functions. Consequently, the search for new methods of financing must become a challenge to pursue and overcome. One of the main problems that social enterprises face is access to credit. In fact, access models to traditional financing instruments fail to comprehend the peculiarity of this type of nonprofit entrepreneurship. To this, the so-called "credit crunch" is added, that is, the restriction of credit offers that affected all enterprises indiscriminately, further aggravating the circumstances of social enterprises. To deal with this situation, a new model, easily applied by social enterprises, is crowdfunding. It is one of the swifter, more social and transparent solutions to gain capital, in stark contrast to the bureaucratic approaches by banks and credit institutions. This paper highlights how the crowdfunding model has become an instrument with a notable impact in terms of fundraising and low implementation costs.

Keywords Crowdfunding · Management · Transparency · Financing · Social enterprise · Economic development

1 Introduction

Crowdfunding is an innovative instrument used to finance projects with entrepreneurial, cultural and social aims. Its success is tied to the development of online platforms that have become widespread and have had a global impact. These platforms allow for large numbers of individuals (crowd) to offer the capital necessary to finance (fund) projects that are promoted by organizations, enterprises, and

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single individuals. Those financing can make a simple donation or obtain a reward in exchange, such as a share in the risk capital (equity) or interest on the capital lent (lending).

For third sector organizations, crowdfunding can represent a new fundraising tool that complements traditional methods. Crowdfunding can, in fact, allow social enterprises (those already in place, or in the startup phase) to finance innovative and impactful projects using pre-existing platforms found on the web, drawing upon small contributions offered by large numbers of supporters.

In the literature, crowdfunding has been recognized as the new tool that "changes the rules of the game" in regards to financing enterprises (Lehner 2013). The dynamism that characterizes crowdfunding is probably facilitated by the difficulty for enterprises, third sector organizations and individuals to access credit, due to the global financial crisis. New trends are represented by the emergence of local and niche platforms, by the development of hybrid platforms that offer more than just one model of crowdfunding, and by the growth of popularity of "Do-It-Yourself" crowdfunding.

2 From Nonprofit Organization to Social Enterprise

To understand the reasons behind the concept of "social enterprise" or an "enterprise with social aims", it is necessary to recall the recent evolution of the nonprofit sector. As is well known, nonprofit organizations, although associated with the obligation of distributing profit, can carry out more than one role, which differs based on economic relevance. Among these roles, the most important are the protection and promotion of the interests of citizens in general or specific groups, the redistribution of resources between individuals or groups, or between alternative uses and the production of socially useful services, on a temporary or stable basis, with varying degrees of autonomy from the public administration (Kramer 1981).

Compared to these potential roles, actual roles are determined largely by the importance that the different national welfare systems assign to public intervention. In European countries characterized (at least until the 1980s) by highly developed public welfare systems, the role of protection and promotion was attributed to the nonprofit sector almost exclusively, while its contribution to both the redistribution of income and the production of socially useful services was considered irrelevant. In countries where it was at least partially recognized (such as Germany, France, Holland, and Ireland), nonprofit organizations, while common, were characterized by limited decision-making autonomy and a high reliance on public funding. This institutional framework has changed since the 1980s. The growing demand for socially useful services and its ever-increasing differentiation, on one hand, and the financial crisis of welfare systems, on the other, have opened spaces for the development of nonprofit formats geared towards the production of socially useful services. They are more autonomous from public administrations than those already in existence, especially in the identification of services to be produced and in the manner in which they are realized.

Defining these new types of organizations simply as ‘nonprofit’, that is, as organizations identified only or mainly from the obligation to not distribute profits, did not seem sufficient in understanding the details. To highlight these, compared to other members of the sector, entrepreneurial characteristics and productive purposes, the use of the term “social enterprise” or “enterprise with a social purpose” has spread (Borzaga and Defourny 2001).

With this, organizations whose main characteristic does not constitute an obligation to distribute profits to its owners, but to combine an entrepreneurial nature, with its connotations of volunteerism, autonomy, risk, and inclination towards innovation, with the production of a service for the benefit of the community in which they operate, or for certain groups of citizens, are identified.

Most notably, from a comparison between the varied experiences of social entrepreneurship which developed in Europe, it is possible to identify the essential characteristics of these organizations. Their entrepreneurial nature is demonstrated by the possession of four requirements:

(a) the prevalence of a production activity of goods and/or services on an ongoing basis; the distinction between social enterprises and other nonprofit organizations is based, therefore, on the presence, in the former, of a stable production activity directly managed by the organization;
(b) a high degree of autonomy; social enterprises are generally created voluntarily by a group of agents that govern them autonomously, without obligations, either directly or indirectly, towards public authorities or other organizations, except for contractual obligations voluntarily approved. The owners benefit from both the rights of voice and exit since they have both the right to choose the activity and to manage the organization, as well as the possibility to leave the organization or decide upon its dissolution;
(c) a significant level of economic risk; the promoters of social enterprises and their owners directly take on the risks of the enterprise, committing both financial resources and, above all, their labour, and the corresponding investment in specific human capital;
(d) the presence of a certain amount of paid work; in terms of human resources, social enterprises turn to both to volunteer work and remunerated work, with an increasing tendency towards the latter.

Moving on to the ‘sociality’, it is defined not in relation to the type of services produced, but according to the objectives of the organization and the management methods used by the organization. As far as the objectives of the organization are concerned, social enterprises work towards realizing activities that bring benefits to members of the community, rather than profit for the owners. While nonprofit organizations are defined in the “negative” as organizations that do not distribute profit, social enterprises are defined in the positive, according to the objectives pursued. The obligation to distribute profit can also be partial, permitting, as in the case of social cooperatives, that a limited part of the profits can be distributed to members, to remunerate the provision of risk capital or to subsidize the performance of assigned tasks. As far as management methods are concerned, social enterprises are generally characterized by democratic decision-making processes geared towards favoring a participatory dynamic among the investors, the involvement of the different stakeholders in governing the organization (paid workers, volunteers, users, etc.), and the absence of proportionality between the right to vote (or to weigh in on internal decisions) and the subscribed capital.

It follows that from these characteristics, social enterprises, unlike for-profit enterprises and public production units, can generally count on a mix of resources with very different backgrounds and retrieval costs, usually inferior to those of other types of organizations. Financing the activity through the sale of socially useful services or other goods and services is supported, in fact, by subsidies and non-commercial resources from public sources and private donations (Comite 2011).

3 Different Interpretations of the Concept of Social Enterprise

Kramer (1981) first, and then other authors (Wamboye et al. 2015) attempted to interpret social enterprises and observed peculiar characteristics such as the protection, development, and promotion of needs and interests spread out among the citizens in general, or specific groups, or in the inclusion of products the production of socially useful goods and services that can occur in a stable or temporary manner, either dependent on the public administration or autonomous; the social redistribution of resources.

One interpretation tied to the difficulties of the State to fully satisfy the demand for public goods is provided by Weisbrod (1975, 1988) who emphasizes how the "median demand" for goods and services tends to leave all those with needs that do not fall within that range dissatisfied. As a result, the demand for the goods and services that are not fulfilled by for-profit enterprises or by the State will be intercepted by nonprofit organizations. Other authors highlight how social enterprises are the result of certain factors: the typology of certain entrepreneurs who intend to relaunch their own image or broaden their influence, religious and non-religious groups, the reinvestment of undistributed income, and shares of multinational corporations (Young 1983, 1997). One widespread and agreed upon interpretation identifies, in the constraints of profit distribution, a method of overcoming the failure of the contract determined by the existence of asymmetry of information between producer and consumer (or donor), which impede the latter to evaluate and check the quality of the product ex-post with that which was agreed upon ex-ante (Hansmann 1980).

Binding itself to not distribute profit, the organization sends a signal to the consumer that it is not interested in exploiting these asymmetries ex-post, reducing the quality of the final product in order to maximize profit. Broadly speaking, all social enterprises are characterized by the strong social impact of the activity carried out (Borzaga and Defourny 2001).

Over time and by comparing the experiences of social enterprises that have developed around the world, common elements and characteristics can be identified (Defourny and Nyssens 2008): permanent establishment managed directly by the enterprise, which may consist of the production of goods or services, or in promotion; in general, activities that are beneficial to members of that community or specific groups of citizens; stronger governance autonomy (in most cases), compared to other organizations or public authorities, participatory and democratic deliberation processes; high economic risk, therefore difficulties in sourcing borrowed funds, a mix of resources from very different sources and management costs. Social enterprise activities tend to somewhat finance themselves through the sale of goods and services produced, but mainly through subsidies and resources from public sources or private donations. Another common element is the presence of paid work. In fact, although volunteering could be a characterizing part of social enterprises, in truth, there is a rising trend in paid work (even if it is often characterized by the provision of a lower compensation than the market (Borzaga and Depedri 2011).

To date, one of the main issues facing social enterprises is access to credit. In fact, access to traditional financing instruments models fails to grasp the peculiarities of this specific type of nonprofit enterprise. The credit crunch, or rather, the restriction of credit, generally hit businesses, further aggravating the circumstances of social enterprises. In this context, it was, above all, the big banks, more exposed to the crisis and so-called "innovative finance", who selected clients, reducing the amounts of credit limits granted to businesses with the worst of capitalization requirements, thus exacerbating the problems. To all this was added the failure to reduce the cost of credit. This set of circumstances has made the use of alternative forms of financing such as crowdfunding essential.

4 Crowdfunding

To date, crowdfunding is one of the fastest, simplest, and most social solution in obtaining capital, in stark contrast to the bureaucratic approach of banks and credit institutions. Crowdfunding platforms can be accessed by individuals, established businesses, or start-ups, those who intend to start for-profit businesses, as well as all those who are driven by mutual and nonprofit purposes.

From a conceptual and terminological point of view, crowdfunding generally indicates the financing of projects by large numbers of investors (the crowd), through donations of money (funding) given through the internet. Indeed, the expression represents a constantly expanding reality, consisting of collaborative processes in which non-professional investors (so-called crowdfunders) commit to supporting the efforts of people and organizations with a high creative potential, but who lack the necessary funds to put their ideas into effect. In other words, per some doctrinaire ideas, it is a tool that creates a kind of "democratization of finance", which allows its creators to sponsor themselves online, using new resources that put the ability to generate wealth in support of the most deserving initiatives into practice (Piattelli 2013). The elements that differentiate this phenomenon from traditional channels (e.g.: venture capital and business angels) can be identified on the one hand by the prevailing participation of non-professional investors, and on the other by the method chosen, that is, the use of online platforms where supply and demand meet (Manzi 2013).

Thus, the operations take place entirely online: the creator publishes their project on the platform's website, indicating the sum deemed necessary for its implementation, and any future remuneration (not necessarily financial) with which they intend to acknowledge the subscribers. As concerns the purely operational aspects, the instrument in question can be applied based on different approaches, which can be traced to the following types of crowdfunding:

(1) Equity-based: investors, in return for their contribution of financial resources, receive a share of the business's capital. Equity financing is a well-established practice and it is in this manner that private equity, venture capital and informal investors (angels) have long played an important role in the development of enterprises. The main difference between equity crowdfunding and these traditional models is the opening to a wide range of potential investors, some of which may also be current or future clients. The main features and requirements related to this type of crowdfunding can be summarized as follows. It is necessary to adequately establish the terms of the operation, defining the quota of capital that is intended to be sold, defining the price and the manner in which to reward investors; the costs incurred in the launch of an equity financing through crowdfunding platforms are usually represented by a success fee, and by legal and administrative costs related to the initiative, as well as any other expenses for consultants; the operation will have many co-owners instead of few big investors, with lower expenses from a financial and organizational point of view than the stock exchange listing. Moreover, although it is a simple way of raising capital, it is in any case necessary to demonstrate that the business is ready for the investment planned, through the presentation of a business plan and financial projections. Finally, the rights of investors can vary, although generally, the members have the right to vote on the main aspects of the management, on the issuance of new shares, etc. In the planning phase, it is necessary to make accurate assessments in relation to the proportion of control that the entrepreneur is willing to cede to external shareholders.

(2) Donation based: the supporters, in this circumstance, make donations freely, in order to advance a cause deemed worthy, without receiving a reward or goods of equivalent monetary value.

(3) Lending based: investors are rewarded for their investment over time, with a profit margin represented by the interest agreed upon during the resource intake phase. This is an alternative to bank credit with the difference that, instead of borrowing from a single source, companies can obtain resources by the dozens; sometimes hundreds of people are willing to lend money. In many cases, they are the same investors to launch offers, indicating the interest rate at which they would be willing to grant a loan. Compared to traditional banking channels, crowdlending has the following characteristics: an increase in the possibilities of access to credit, tout court; more flexibility in interest rates in the event that the campaign reaches great popularity; since the minimum loan threshold is generally low, the operation may have appeal, and can push towards wide audience

participation; the loan is repaid through direct payments to the platform, which then distributes the repayments to the lenders.

(4) Reward based: it is a support mode related to a specific reward, which in most cases is not of a financial type, but can be represented by the goods or services to be enjoyed at a later stage. From a strictly managerial perspective, this type of crowdfunding, if well structured, allows businesses to start with orders already on the balance sheet and an ensured cash flow (an element of great importance for start-ups), as well as creating an audience and contacting a potential target market even before the actual launch of the product. In the reward-based form, therefore, the funds received do not need to be returned, even if obligations exist towards the business to provide the service and/or the goods promised: similar features render this instrument a greatly appreciated option among start-ups and entrepreneurs; it is particularly suitable to convey innovative products and services or to stimulate the curiosity of consumers.

(5) Pre-purchase model: it is an evolution of the reward-based model, and in a sense, it represents a moment of transition towards participatory schemes, particularly used by newly formed companies. This type of crowdfunding foresees that, for the backers, in addition to the advantageous conditions connected to the use of services provided by the company or the purchase of its products, potential right of first refusal to purchase can be attributed to units or shares at a later date.

Albeit for entrepreneurial and social purposes, the equity-based model assumes the greatest interest, depending on the type of activity, the stage in the life cycle, the financial needs and so on, and businesses will be able to move towards forms of crowdfunding that are more appropriate and more convenient from an operational point of view, as summarized in the following table (Table 1).

Table 1 The most appropriate and convenient forms of crowdfunding from an operational point of view, adopted by businesses

	Equity crowdfunding	Rewards crowdfunding	Peer-to-peer loans
Pre-trading		✓	
Pre-profit	✓	✓	
Profitable venture expanding			✓
Mature company in constant expansion	✓		✓
Mature stable company	✓		✓
Launch of new products/ services/brand	✓	✓	✓
Acquisitions			✓
Expansion into new territories	✓	✓	✓
Investment in new facilities			✓
Need for refinancing	✓		✓
Need for capital restructuring	✓		✓

Source: European Commission Staff Working Document: Crowdfunding in the EU Capital Markets Union, Brussels (2016)

Depending on the purpose or the subject, is easy to see how a platform is better suited to one project than another (e.g. a nonprofit organization that aims to raise funds for an orphanage will be more inclined to promote the project on a crowd donation platform. In contrast, a start-up that wants to create its own prototype will target a crowd equity platform). Given the vast development of the crowdfunding model, it is possible that there are hybrid models in addition to those mentioned above, and at times authors identify new models (Hermer 2011).

5 Opportunities and Limitations of Crowdfunding

Crowdfunding is designed as an innovative opportunity to raise funds, and whose limits appear unexplored by virtue of its democratic and participatory dynamic; it offers, to all those intending to finance interesting initiatives, to address the crowd. Crowdfunding as an instrument of economic recovery has also been the subject of much criticism, as declared by numerous scholars and industry professionals. It is, without a doubt, a practice that opens new economic scenarios, offering alternative forms in financing enterprises, which leads to participatory economics, redefining the role of the consumer as an individual rather than a component of an indistinguishable throng. However, in order to understand the potential of this tool, a quantitative analysis cannot be disregarded, as it can highlight and investigate the phenomenon in the light of the opportunities and limitations that it reveals. The tool used to support this investigation is the SWOT Analysis, which will establish the integration of critical issues and opportunities that can be obtained from the use of this financing method and the external forces of the macro environment as drivers of success (or failure) of the campaigns (Table 2).

Table 2 SWOT analysis

Strengths	*Weaknesses*
High degree of control	Administrative complexity
Easy access to financing sources	Financial transaction
Prior assessment of feasibility	Risk of appropriation of the initiative
Benefits to the local community	Risk of fraud for the investors
Benefits to the economy	Informative asymmetry
No geographical barriers	
Opportunities	*Threats*
Computer literate society	Insufficient culture
Mitigation of the effects of the economic crisis	Incomplete regulations
Niche markets	

Source: Personal elaboration
Strengths, weaknesses, opportunities, and threats of crowdfunding

5.1 Strengths and Weaknesses

In view of the risk capital gathered, the first detectable point of strength concerns the degree of control that the entrepreneur retains on the decisions related to the business they intend to launch. Unlike traditional forms of financing, such as recourse to debt financing, participation in the risk capital of professional investors more often than not requires a close collaboration between the entrepreneur and the investor who shares the business risk and is jointly interested in the success of the same. Professional investors will further qualify the proponent team; they will contribute to the validation of the economic initiative and, therefore, may intervene by changing the product/market/technology combinations upon which the business idea is based or will object to significant considerations regarding investment decisions. The logical consequence of this engagement process is the loss, sometimes even significantly, of the degree of control of the proponent team on defining corporate strategies. The use of grassroots financing, instead, does not involve this risk. Funding from a crowd of people will not lead the entrepreneur to lose decision-making powers; they will continue to be able to autonomously define all strategic aspects, and the intervention of the crowd will be limited to the phase in which capital is raised.

Secondly, the use of crowdfunding allows for a pathway around the difficulties, now chronic, of raising funds through traditional channels of credit. The incredible ease of access to grassroots financing applies across the board to any type of proponents, and is likely to bridge the information and offers gap between institutional investors that markets are experiencing. The individual proponent will be able to ask the crowd for funding without having to face the bureaucratic slowness and lack of perception of financial institutions. Businesses, especially small and medium-sized ones, can turn to the crowd when several impediments occur: lack of an active market for institutional investors, an unsatisfactory track record, lack of guarantees or unsatisfactory prospective growth rates.

The third point to make for the strength of crowdfunding lies in the real possibility of breaking down a large part of the market risk that characterizes new products, particularly during the launch phase onto a traditional market. The development of a new product, even in view of widening the range or revitalizing products that are in decline, involves a long process.

The crowdfunding operation mechanism is based on attracting as wide an audience as possible; an audience that finds the idea interesting, and upon deciding to contribute financially, unknowingly validates the idea as able to approach the real market. The launch of the campaign then unifies phases of the normally distinct process, and at the same time pre-tests, through the support of the crowd, the feasibility and commerciality of an idea. From this consideration, others, which are just as significant, are derived. The ability to pre-test business ideas will make the action of the proponent more effective and efficient, not only in terms of the squandering of financial resources, but above all in allowing timely corrective actions on commercial or technical aspects of the product, especially in the case of campaigns that give voice to the technical and commercial capabilities of supporters, as well as the ability to predetermine the quantity of goods to be produced.

From a purely financial perspective, the opinion that the use of grassroots financing allows a considerable reduction of cost of capital, a reduction mainly due to the specific characteristics that distinguish the financial relationship between the participants appears to be a solid doctrine. The cost of capital is, in relation to the specific components of a given financial structure, the cost that the business incurs to appoint itself with useful capital. It, therefore, indicates the remuneration required by each lender category. The magnitude of the cost of capital is, therefore, determined by the bargaining power of the lender and the opportunity cost expressed by the latter; given that employment options are varied, the opportunity cost will indicate the remuneration surrendered by not using these resources in other activities identified by the same risk level.

The remuneration offered using capital obtained by way of equity or debt must therefore be able to meet the opportunity cost of the investor, ensuring a satisfactory return compared to prospective alternatives. In crowdfunding, ignoring the equity segment in which these considerations are necessary, the proposer does not face an excessively onerous opportunity cost, given that the contribution made by the crowdfunder-financier often takes the form of negligible sums, and is possibly re-paid, with symbolic rewards or the chance to get a product in pre-sale at an attractive price. The sensation is of finding oneself in the realm of more of a mutual exchange, rather than as part of a veritable financial operation. The opportunity cost for the crowdfunder does not solely comprise of the expected return in relation to potential scenarios, but also by gaining emotional value that finds its counterpart in social participation and sharing, and not specifically only by an economic return. Thus, when compared to the cost of capital, even in the absence of specific evidence-based comparisons, it can be said that in crowdfunding, raising capital has a much lower cost. The specification is needed since the construction of a crowdfunding campaign still has specific costs, mainly related to content production, the presentation of the team and project pitch, and to promotion, and ongoing communication, necessary to obtain approval from the crowd. In light of this, it is not possible to ignore that, where the cost of raising capital appears lower, the cost of producing and managing the campaign, especially in terms of time resources, can easily be very high.

Among the strengths that emerge from crowdfunding is its aptitude to become an instrument of economic recovery for the nation. Experimentation of new products directed towards the crowd creates the possible emergence of new markets, attracts innovation and the concentration of nascent professionalism, while the creation of businesses financed from the bottom-up creates an increase in jobs with no corresponding increase in public expenditure for support programs. Crowdfunding could, therefore, become a strategic asset in restoring national economy stability and self-sufficiency.

The social and participatory dimension of crowdfunding is the nourishment of a dual process of growth—the individual and the group—which continuously feeds itself thanks to the benefits of the individual proponent, which extend to the entire community, both in economic and social terms. Positive experiences for the individual produce awareness and urge other individuals in the same community with limited resources to take action to free their entrepreneurial creativity; at the same time, the community will bond further and will tend to give value to and support its members. This mechanism appears particularly evident in civic crowdfunding campaigns, where the crowd is involved in sustainable regeneration projects in their city. These campaigns greatly amplify the individual's social dimension as a member of society and have the construction of a civic consciousness oriented to community development as their final goal.

Lastly, one of the main strengths of crowdfunding is the complete absence of geographical barriers due to the ability of the Internet to overcome distances. Each project can expand the search for funding to, potentially, the entire globe, attracting funds not only from their own community but also by drawing on resources and expertise from the European and international market. Crowdfunders can correspondingly choose to join foreign communities and support projects and ideas for projects from any nation. Moreover, if a crowdfunder is from a different nationality than that of the country where they currently find themselves, thanks to a global network, they can support active projects in their native communities. The geographical variable is highly modular. If the proponent intends to have global exposure, they will design a campaign capable of reaching overseas and attracting the largest possible audience; differently, crowdfunding can become an instrument of involvement in a geographically defined community, in which the same components encode real needs and convert them into local campaigns.

Launching a crowdfunding campaign also implies numerous critical aspects that cannot be underestimated. First of all, compared to traditional forms of capital raising, greater administrative and organizational complexity linked primarily to the relationship the proponent must attend to in each phase of the campaign can be observed. As part of a successful campaign, the proponent must first and foremost efficiently activate their networks of acquaintances and friends and persuade them to help. For each contribution received, even at short intervals, the proponent will undertake to personally thank each contributor and will provide daily content production related to the progress of the project. In addition, especially with reference to the practice of equity crowdfunding, communication with non-professional investors does not allow the use of codified financial communication and is generally accepted by specialized investors. The coexistence of two categories of investors, completely antithetical, will result in the production of periodic reports dependent on completely different communication techniques, not only in the language used but above all in its aim to intercept and hit upon different modus operandi.

The domestic market presents a significant point of weakness pertaining to the manner in which funds are transferred from the supporters to the proponents. Currently, the most common method used is PayPal. Many platforms require that donations are made via a registered PayPal account, as it represents the only money transfer system that allows a "promise to pay", unlike bank accounts or credit cards. Clearly, the online account requires expertise in the use of technology, which not all supporters may have. Moreover, PayPal allows its users to make donations only to reward or donation platforms, while in the equity segment, it is not relevant, and could limit or delay exchanges on the lending platform due to the current lack of alternative technologies in digital fund transfers.

The natural habitat of a crowdfunding campaign is the web; thus, presenting an idea to the masses can also shoulder the risks related to the nature of the Internet, such as the global spread of its contents. One point of weakness that is generally identified concerns the possibility that proponents, who are especially creative and innovative, see their idea replicated in a short time by big companies or investors with greater financial resources. The risk that the idea can be stolen from its creator is high, especially in campaigns that result in bankruptcy, not due to the vision of the project, but rather due to the campaign structure itself (wrong platform choice, lack of a relational network activation, poor communication, etc.). The risk of fraud also equally affects supporters. Platforms do not provide assurance as to the good faith of the proponents; therefore, it is not possible for the backers, at least in the approach phase, to assess the credibility of the proponent and defend themselves from any potential fraud.

The weaknesses highlighted can be seen as consequences of the presence of asymmetric information in the market. The asymmetric information theory, developed for the first time in 1970 by Akerlof (Akerlof 1970), shows how the balance between supply and demand can be distorted by the imperfect information of the agents. A market characterized by the perfect symmetry of information assumes that all users have access, at no additional cost, to all the information they need to make their own consumption and/or production choices. Asymmetric information leads to a condition in which relevant information is not fully shared between individuals; therefore, one part of the agents involved has more information than the rest of the participants and can gain an advantage from this configuration. In the practice of crowdfunding, the presence of asymmetric information is an endogenous condition of the offering mechanism (online submission of projects) that threatens to become pathological and determine opportunistic behavior both ex-ante and ex-post the launch of the campaign. The proponent usually has all the information about their project. The part-conveyance of information to the crowd may be implemented consciously, in cases, for example, of fraud, but it is not excluded that it can take place in a totally unconscious manner.

5.2 Opportunities and Threats

Continuing the discussion of crowdfunding and its specificity, the assessment of the opportunities and threats arising from the external environment is viewed as a logical and consequential step in providing a comprehensive, but certainly not definitive, perspective of the phenomenon. The opportunities arising from the macro environment are attributable to the technological challenges that have led to a radical socio-economic change in the wake of the progressive development of the means of communication and connection with other individuals. To date, much of the world's population is connected to the web; the development of an increasingly computerized society favors crowdfunding operators, ensuring the instant processing, transmission, and sharing of all relevant information for the agents.

The turnover recorded by the crowdfunding industry in only a few years has raised strong expectations by numerous industry scholars and professionals about the ability of grassroots financing to have a positive influence on economic systems. The construction of networks for the sharing of innovative ideas and the possibility of offering their resources in support of projects with a high social and ethical value represents just some of the benefits of crowdfunding. In this regard, De Buysere et al. (2012) identified the benefits derived from the practice of crowdfunding on the domestic market: resilience of the system, determining the best market rates, diversification of financing, financial stability, alternative financing channels.

- Resilience of the system: Crowdfunding represents a concrete opportunity to start a turnaround in the financial system whose degree of concentration is so high as to have led to the affirmation of the so-called “too big to fail” model. Few large institutions hold most of their net wealth, thus sustaining the risk of bringing about the collapse of the entire system.
- Determining the best market rates: The determination of current interest rates does not appear efficient, and the concentration of wealth in the hands of a few large institutions creates a strong bargaining power of the same. Crowdfunding platforms would allow, in the view of the European Commission, fairer market rates and prices to be generated, thanks to the re-injection of liquidity in the market and to the expansion of credit offerings.
- Diversification of financing: Crowdfunding, in addition to guaranteeing easier access to new forms of financing, allows beneficiaries, be they businesses or private individuals, to diversify financing sources, creating value for the system as a whole and making the business less vulnerable to any shortcomings of funds.
- Financial stability: The chronic difficulties found in the market for enterprises to make strategic investments is debatable only within an incisive economic recovery plan on a European scale. Crowdfunding can, however, help restore confidence to market participants. Even small amounts of investments into concrete projects directs the crowd to the use of resources in the real economy, representing an alternative to the inflationary crisis caused by artificial inflows of investments in the financial market.
- Alternative financing channels: The spread of projects on platforms, similar to what happens to businesses looking for ideas, can direct governments and public authorities towards a more efficient use of public funds. The presence of a highly interconnected network will lead to the emergence of the unexpressed needs of the community, generating a chain of government interventions targeted to crucial sectors or activities. The economic ecosystem, characterized by an increasingly large number of niches, represents a further opportunity for the proponents, as well as for the platforms. The identification of a specific target is facilitated by direct brokering offered by the platform with a homogeneous community, characterized by specific interests or needs.

Upon completion of the analysis, possible threats to the spread of crowdfunding and its continuing experimentation in the financing models of business investments are identified. Firstly, there is still an insufficient collective culture as regards the phenomenon at a national level, from both the supporters and the project designers. The rapid evolution of crowdfunding followed an urgent approach, rather than a strategic approach. Numerous actors have oriented themselves towards crowdfunding with a make-shift attitude towards the lack of credit alternatives; they are, therefore, both poorly structured and informed. The direct consequence of this attitude was the lack of understanding of the true potential obtainable by crowdfunding in view of a lack of culture surrounding the instrument itself, starting from the most suitable model of the campaign to be launched. The cultural spread of the phenomenon is due mainly to the platforms, which, to ensure their survival in the market, have increased their communicative activities, including through the organization of events and seminars.

6 Crowdfunding and Social Enterprises

Helping social enterprises grow and compete is an essential priority for all economies, as they carry out basic and necessary functions; consequently, finding new methods of financing must become a challenge to pursue and overcome. Social enterprises can be defined as private organizations whose mission is to produce goods and services in the pursuit of objectives of general interest for the local community, people or social groups (Borzaga and Defourny 2001). Numerous studies on social enterprises have shown that traditional fundraising tools are not very effective, especially in supporting the startup and growth of social enterprises (Ridley-Duff 2008; Fedele and Miniaci 2010; Nicholls 2009).

The inadequacy of traditional financing instruments is also evidenced by the creation of organizations that focus on new investment logic—so-called social finance—that call for the use of financial resources for activities aimed at achieving social and environmental returns, as well as financial returns (Moore et al. 2012). Although many feel an increasing need to bridge the gap between the instruments offered by social finance and the financing needs of social enterprises (Nicholls 2009; McWade 2012), it remains complicated, both in the literature and among practitioners, to define effective operational models. The main research areas of social finance are micro-finance (Burgess and Pande 2005), impact investing (Mendell and Barbosa 2013), venture philanthropy (Daly 2008) and the financing of public-private social partnerships (Lehner and Nicholls 2014). Research in these areas has largely focused on the analysis of factors that explain the demand for financing by social enterprises (Moore et al. 2012) and less on the understanding of the variables and mechanisms that can lead to finding solutions.

Generally, financing instruments for social enterprises are traditional debt products—such as long and short-term loans promoted by banks—and mutual loans, for social cooperatives. The development of more innovative inclusive finance instruments, both debt and equity, is still in the early stages, although there have been several important instances reported (Melandri et al. 2014), albeit of limited size (Calderini and Chiodo 2014).

The main problems identified in the relationship between social entrepreneurship and traditional intermediaries are related to the characteristics that distinguish activities with social purposes in regard to those with a productive purpose. There are cultural and cognitive barriers between the instruments adopted by traditional investors and social entrepreneurship, which can hinder communication processes among stakeholders (Lehner 2013; Brest and Born 2013). In particular, traditional lenders are not used to negotiating with social missions, or considering the social impact in the analysis of cash flow, adding it to the financial returns and integrating it into planning and control phases (Brown 2006; Ridley-Duff 2008).

The credibility of the social investor is of great importance in the definition of the social enterprise. The assessment of the social investor requires a close examination of the degree of prevalence of the business project's social aim for its effective implementation. This variable has been analyzed by specialized literature as well, especially in relation to the level of accountability of nonprofit organizations (Ebrahim 2005; Jordan and Van Tuijl 2006), understood as transparency and reliability in accounting for fundraising processes. In the light of the aspects highlighted by the literature, crowdfunding can represent an alternative tool capable of combining the transparency and potential for the accountability of organizations with social aims, through a project design based on innovative reward systems (Lehner 2013; Comite 2011).

In crowdfunding campaigns, the aim to raise funds for a given project is commonly accomplished by communicating through various social networks—Facebook, Twitter etc.—as well as through specialized blogs (Belleflamme et al. 2014). So-called community experience is a key feature of crowdfunding; it can be used in combination with traditional methods of (offline) fundraising. Moreover, the logic of crowdfunding, while being similar to that of philanthropy and mutualism, which is the basis of social cooperation, is different from these because the supporters invest money not only to get intangible returns—such as social status and recognition of their actions (actions of good citizenship etc.—Ordanini et al. 2011), but also for material and experiential rewards, and, at times, for financial benefits.

Lehner (2013) stresses that the supporters of a crowdfunding project look very closely at the ideas and fundamental values underlying the initiative for which financing is sought, and thus its legitimacy. From the social enterprise perspective, crowdfunding can thus provide an instrument of supplementary legitimacy for the business activity, based on a selection process of highly democratic projects by potential supporters (Drury and Stott 2011). Those who want to support a project can analyze them and then decide which to fund and how; moreover, they can share information about the project through social media within their own social network.

In essence, for many lenders, investing in a crowdfunding campaign allows them to gain access to preferential information about the company's social proponent, through the communication tools offered by the crowdfunding platforms themselves.

Financing social impact projects may also generate benefits in terms of creating a sense of belonging to an entrepreneurial initiative, as well as to the co-creation of social values (Brest and Born 2013; Ordanini et al. 2011). These elements fill the gap left by traditional financing instruments and can become important variables for the creation of appropriate management models for social entrepreneurship financing processes. With crowdfunding, the *crowd*—an indistinct mass of potential investors—becomes *peers,* community supporters, and co-creators who share values and have an interest in realizing the project (Comite 2010).

7 Conclusion

Crowdfunding, which has a high social value, can change the rules of finance for the business. It has been seen not only by traditional companies but also by social enterprises, which with crowdfunding are able to finance social innovation projects. An important element of social crowdfunding is communication. It is indispensable to speak to communities through targeted communication involving people by convincing them to give their contribution. In this regard, socials play an important role by communicating messages and driving communication. The strength of crowdfunding is just to start from the bottom, to involve a territory by proposing initiatives that may actually affect citizens.

Crowdfunding is truly an instrument that can represent one of the greatest sources of fundraising for social enterprises since its potential is unlimited. In fact, through a crowdfunding platform millions of users can be reached in very little time; even the collection of money in the form of donations does not encounter limitations, and costs are minimal.

In conclusion, crowdfunding is not a temporary phenomenon but can be considered the financing model of the future, in view of the increasing levels of fundraising volumes at a global level and the continuous evolution and experimentation of support models in the development of innovative organizations. In this context, it is important to choose, use and develop the most appropriate technology for fundraising, management and disbursement of funds as they represent the discriminating elements that can be used as a lever for the increase in online collection.

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