Chapter 27
A Crowd-Funder Value (CFV) Framework for Crowd-Investment:
A Roadmap for Entrepreneurial Success in the Contemporary Society

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ABSTRACT

Crowd-funding is used by business and social entrepreneurs to fund projects that impact society in many ways. Although crowd-funders fund and support entrepreneurial projects, stakeholders are less aware of crowd-funder motivations and behaviours towards products/services, which impact on the success of these projects. The purpose of this research, therefore, is two-fold: a) development of crowd-funder value framework for understanding crowd-funder motivations; and b) provision of robust theoretical basis to the construct of 'crowd-funding'. Different social constructs, such as social identity, and symbolic, crowd and relational social capital related to crowd-funding are discussed based on symbolic convergence theory of communication and social identity theory. This framework will act as a roadmap to understand how crowd-funder motivations impact and create value for individuals, organisations and society, and inform how social, environmental and economic value and impact can be maximised through crowd-funding initiatives.

INTRODUCTION

Financiers, financial markets and financial innovation play an important role in social and environmental value creation, with recent financial innovations including - crowd-funding - that helps in democratising finance, enables small investors to become venture capitalists and creates social and environmental value along with economic value for the welfare of their communities (Shiller, 2013; Van Staveren, 2013). Crowd-funding is used as the main informal capital resource that can be used as seed capital or early stage

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capital, where angel capital (i.e. private capital from business individuals) or venture capital may not be available (Bains, Wooder, & Guzman, 2014; Tomczak & Brem, 2013; Valančienė & Jegelevičiūtė, 2014). Entrepreneurs, crowd-funders and online platforms utilise different combinations of human, financial, social, economic and cultural resources to benefit society in various ways. For instance, VolunteerMatch provides human resources for individuals and organisations in need (Gerber & Hui, 2013), thus, filling the gap related to human capital in society.

With the introduction of Jumpstart Our Business Startups (JOBS) Act in the US supporting crowd-funding mechanisms and techniques, crowdfunding is increasingly gaining importance in business and society (Dushnitsky & Maron, 2013; Stemler, 2013). There are many national associations of crowdfunding operating in different countries, such as the UK Crowd-funding Association, National Crowdfunding Association of India, National Crowd-funding Association of Canada, The National Crowd-funding Association (U.S.) and the European Crowd-Funding Network (Kshetri, 2015a). Governments of many countries have implemented crowd-funding regulatory mechanisms that vary from country to country, aim to promote social and commercial entrepreneurship (Harrison, 2013; Kshetri, 2015b; Tomczak & Brem, 2013) and are providing financial support for achieving the bigger social, economic, and environmental aims for benefitting the wider communities, thereby, promoting crowd-funding ecosystems in their societies (Kshetri, 2015b; Valančienė & Jegelevičiūtė, 2014). However, although all forms of crowd-funding are supported by governments, equity and lending based crowd-funding are more strictly regulated than donation and reward based crowd-funding in most countries, such as China, India, US and UK (Cumming & Johan, 2013; Kshetri, 2015b; Lehner, 2013). Nevertheless, crowd-funding market continues to grow leaps and bounds, for instance, the UK market for crowd-funding was estimated at £200 m in 2012 and was expected to rise to £300 m in 2013 (Harrison, 2013).

Recent market trends have shown that crowdfunding is increasingly being considered and utilised as a way to fund social and business ventures by business and social entrepreneurs alike (Groves, 2015a; Lehner, 2013). Crowdfunding is still a new concept, especially in the social entrepreneurship field as compared to the traditional forms of investment models, used by entrepreneurs to fund their businesses and social ventures (Lehner & Nicholls, 2014). Business and social entrepreneurs utilise various different business models to create new ventures that impact society at different levels (Seelos & Mair, 2005; Teece, 2010). These business and social entrepreneurs that lack economic capital are increasingly utilising crowdfunding techniques and methods to fund their projects (Acs, Boardman, & McNeely, 2011; Ibrahim & Verlyantina, 2012a; Jiao, 2011) as there are very few individuals with access to funds that operate informally and provide venture-capital to other entrepreneurs (Van Staveren, 2013). Although there are informal venture capitalists that support crowd-funding, driven by social, economic and/or personal motives, few of them share these investment opportunities with friends and families, despite the fact that the costs and risks associated with crowdfunding projects are relatively low than the traditional capital venture projects (Ordanini, Miceli, Pizzetti, & Parasuraman, 2011; Shiller, 2013). The traditional approaches to raise economic capital through loans are considered costlier and difficult to access (Lehner & Nicholls, 2014; Mollick, 2014), which is encouraging social entrepreneurs to benefit from crowdfunding that allow peer to peer lending, equity, rewards or donation, to fund new social ventures aimed at radical change and positive impact on society (Dushnitsky & Maron, 2013; Kshetri, 2015b). Since micro businesses also face similar restrictions to get access to economic capital due to lack of financial history (Ibrahim & Verlyantina, 2012b), crowdfunding serves as a powerful tool for entrepreneurs contemplating to start-up new projects.

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