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Crowdfunding

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Definition

Crowdfunding is the approach fundraisers take to raise funding for a project, venture, or personal needs, from a crowd of people, or known as investors, backers, or supporters based on characteristics of different crowdfunding models, essentially through the Internet. Crowdfunding is considered as an alternative finance option for different purposes of businesses (e.g., new venture creation, business growth and exit), individuals (e.g., life events and challenging circumstances), local communities (e.g., saving a local pub), and public sector. This entry will have a brief look at the history and trend of the different crowdfunding models, as well as their relationship with entrepreneurs and public sector.

Introduction

In the recent two decades, crowdfunding has become a popular fundraising method in the alternative finance industry. It is a form of crowdsourcing, which has a long and rich history with roots going back to the 1700s.

Crowdsourcing was initially designed for a local firm to get support from others in order to solve problems or access knowledge from areas where the firm may not usually have access. In the modern era, the first crowdfunding platform was recognized in 2000, and Schwienbacher and Larralde (2010, p.4) defined crowdfunding as "an open call, essentially through the Internet, for the provision of financial resources either in the form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes."

A broader definition is given by Mollick (2014, p. 2) who defines crowdfunding in an entrepreneurial context as "the efforts by entrepreneurial individuals and groups – cultural, social, and for-profit – to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries." The definition generally considers all the funding from the "crowd" online as crowdfunding. Sometimes, it might be confused with alternative finance, or crowd-based finance. There has not been a widely accepted classification/taxonomy on this yet. We will take the broader definition

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here, that is, the activities of raising funding from the crowd online can all be considered as crowdfunding.

Crowdfunding models can be generally categorized in two groups – the model that can possibly generate financial returns (e.g., peer-to-peer lending and equity-based crowdfunding) and the models with no monetary returns (e.g., donation-based crowdfunding and reward-based crowdfunding). In general, the former group raised much higher funding than the latter group. In 2017, £544 million was raised through equity-based crowdfunding in the UK market, which is much higher than the £44 million raised through reward-based crowdfunding (Zhang et al., 2018).

The funders are generally different groups of people as well. Funders of the former group are mostly private or professional investors with a high level of income – more than 50% of them have an annual income above £50,000, whereas funders of the latter group normally known as backers or supporters, 47% of them earned less than £25,000 per annum (Baeck, Collins, & Zhang, 2014). Therefore, they appear to have different expectations and motivation to fund or invest, depending on the model categories. Equity-based crowdfunding funders were primarily driven by the financial returns and were those who would have used the amount for savings and investment, whereas funders of donation or reward-based crowdfunding varied from egoistical motive (e.g., reward) to altruistic motive (e.g., charitable giving).

Additionally, fundraisers' motives also vary depending on the model categories. Equity-based crowdfunding fundraisers valued the speed at which they could access funding or quality of customer service. Donation or reward-based fundraisers most valued having more control over their projects, which was seen as one key issue for nascent entrepreneurs as they tend to have a significantly higher need for independence. It is worthwhile therefore to discover more about the history and development of crowdfunding.

History of Crowdfunding

The first online crowdfunded project is believed to have occurred in 1997. Fans of Marrillion (a British band) raised $60,000 via Internet to help finance a North American tour. Although the band was not involved in this round of fundraising, they used the method to finance their album in 2001 and two albums afterwards. In the same year, in the United States, ArtistShare was launched as a website where musicians could seek donations from their fans to produce digital recordings. It is also recognized as the first dedicated crowdfunding platform (ArtistShare, 2019; Freedman & Nutting, 2015; Fundable, 2017; The Startups Team, 2018). Later it has evolved into a fundraising platform for music, film/video, and photography projects. ArtistShare's first crowdfunding project was Maria Schneider's jazz album. It can be viewed as the first proper crowdfunding project. A tiered system of rewards were offered; for example, for a $9.95 contribution, a backer could be among the first to download the album, fans who contributed $250 or more could have their names listed in the booklet of the album as those who "helped to make this recording possible," and "one fan who contributed $10,000 was listed as executive producer" (Freedman & Nutting, 2015). This initial tiered system of rewards is still in use in the reward-based crowdfunding platforms, for example, the most prominent ones – Indiegogo and Kickstarter.

The launch of JustGiving in 2000, London, announced the start of donation-based crowdfunding communities. Research on these types of donation-based crowdfunding communities draws on the extensive literature involving philanthropy and public goods (Andreoni, 2006; Vesterlund, 2006). In 2010, Gofundme was launched in the United States, and now it is the largest donation-based crowdfunding platform in terms of market volume (Solomon, 2019). This free platform (only for personal campaigns) allows people to raise money for their life events (e.g., celebrations and graduations) or challenging circumstances (e.g., accidents, illness, and lawsuits).

Further on that, qualitative studies find that rewards are one of the most important motivations for participating in crowdfunding communities (Gerber, Hui, & Kuo, 2012; Steinberg, 2012). It explains the successive launches of Indiegogo and Kickstarter in succession in 2008 and 2009 as reward-based crowdfunding platforms.

Later in 2010, Naval Ravikant founded AngelList, an online equity-based angel investing platform, built to reduce search frictions and "improve the matching between start-ups and potential investors" (Bernstein, Korteweg, & Laws, 2016, p. 7). The company was argued to have the potential to reshape the venture capital landscape and early-stage funding (Ramsinghani, 2013; Kolodny, 2013; Stone, 2014; The Economist, 2014). In the following year, the launch of CrowdFunder and Circleup unveiled equity-based crowdfunding, offering a platform on which one can sell shares of a company. CircleUp focused on consumer products and retail, which helped 106 companies raise over $125 million till 2015.

Until this stage, investors mainly engaged in donation-based or reward-based crowdfunding in small amounts through crowdfunding platforms. With the emergence of various financial fraud and platform malpractices, in 2012, the passing of the JOBS Act legalized equity crowdfunding by relaxing various restrictions concerning the sale of securities. Before the Act, issuers of private securities could not advertise their offerings or solicit investors generally. The former president of the United States, Obama claimed that with the Act "for the first time, ordinary Americans will be able to go online and invest in entrepreneurs that they believe in" (McCracken, 2015).

In general, in the beginning, crowdfunding was seen by some studies as a niche with little prospect of ever impacting the broader financial system, whereas nowadays it has grown into a significant force in global finance. The crowdfunding market is "growing increasingly complex, fluid and dynamic" (Zhang, Baeck, Ziegler, Bone, & Garvey, 2016, p. 11). Looking at the emergence of various crowdfunding platforms and the market trends, it is clear that the industry is pushing boundaries of market growth, public awareness, product innovation, and international expansion with both social and regulatory support.

On the side of private sectors, entrepreneurial financing plays a vital role in the survival and viability of businesses. Crowdfunding has been considered as a suitable finance option for different stages of firm growth or creation. In the following, the authors will firstly have a look at the use of crowdfunding in entrepreneurial finance.

Crowdfunding and Entrepreneurial Finance

A growing number of crowdfunding models has emerged, such as third-party payment systems and other "shadow banking" mechanisms, social impact bonds and alternative currencies like Bitcoin (ICOs). However, in the perspective of entrepreneurial finance, the main well-recognized crowdfunding models are peer-to-peer consumer lending, peer-to-peer (P2P) business lending, community shares, invoice trading, pension-led funding, debt-based securities, equity-based crowdfunding, reward-based crowdfunding, and donation-based crowdfunding. Studies believed that these models could offer more diverse and transparent ways for consumers to invest or borrow money, fostering innovation, stimulating regional economies, and funding worthwhile social causes (Baeck et al., 2014; Wardrop, Zhang, Rau, & Gray, 2015). In 2018, the combined market activity of the industry grew to £17.2billion – an increase of about 10 times compared to the £1.74 billions of 2014 (Baeck et al., 2014; Zhang et al., 2018). In a wider region, European online alternative finance industry (excluding the UK) grew 63% from € 2.06 billion in 2016 to €3.37 billion in 2017 (Ziegler et al., 2019). The market in the United States grew by 24% with $42.81 billion total market volume in 2017 than the previous year. The total volume in the Americas across North, Central, and South America reached $44.3billion in 2017 (Ziegler et al., 2017). The volume and increasing trend suggest the importance and potential of the market.

In the following, the authors will have a deeper look at the different crowdfunding models from a perspective of market trend, funders' and fundraisers' characteristics in terms of each models' appropriateness for nascent entrepreneurs.

Peer-to-Peer Consumer Lending

Individuals use P2P consumer lending platforms to borrow from a number of individual lenders with each lending a small amount. In simple terms, the platforms perform the brokerage function of financial intermediaries by matching lenders' supply and borrowers' demand for funding (Havrylchyk & Verdier, 2018). This model has been evolving to become an important force in the UK consumer credit and lending space. It reached a market volume of £1,403 million in 2017 (Zhang et al., 2018).

It has been seen as a substitution and competition for traditional bank lending to SMEs, and some P2P consumer lending platforms even have referral agreement from a formal financial institution. However, different from banks, P2P lending platforms do not create money or implement risk and maturity transformation; hence most P2P consumer lending is unsecured personal loans. Without collateral, the inherent problem of information asymmetry is not knowing if a borrower has the capability to pay the loan or is truthfully willing to pay it in due time making P2P loans riskier than bank loans. Therefore, to keep a low default rate (less than 1), the platforms usually have strict requirements for borrowers. The borrowers need to have an A or A+ credit rating to be put into the "prime" or "super-prime" borrower category, even so, the average rejection rate is still as high as 90%, that is, 9 out of 10 loan applications are rejected.

Moreover, rather than starting a new business, most borrowers applied the loan to fund the purchase of a vehicle (46%), or home improvement (26%) and debt consolidation (25%) with an average amount of £5,471 (Baeck et al., 2014). Generally, borrowers use the platforms to seek a loan with a better interest rate and more flexible terms, while the lenders' principal concern is the interest rate available on the loans they finance and the risk related to it.

A P2P consumer lending model is not very suitable for nascent entrepreneurs. Firstly, the amount of loan is somewhat limited. As mentioned above, most of the loans are used for personal use, such as the purchase of a vehicle, home improvement, or for a small project. Secondly, the A or A+ credit rating may not be suitable for those young or early entrepreneurs. Lastly, lenders are seeking a low-risk high-interest rate loan, while nascent entrepreneurs can hardly guarantee the yield rate of their new ventures.

Peer-to-Peer Business Lending

The P2P business lending model is generally the same as consumer lending, but borrowers are businesses, and the lenders can be individuals or institutional investors (Baeck et al., 2014; Wardrop et al., 2015). It has experienced impressive growth and retained the largest market segment in the online alternative finance industry over the last 4 years, with £2billion in transaction volume in 2017; almost half of it in the whole industry (Zhang et al., 2018). There is a growing institutionalization trend of the model; 40% of the funding was provided by institutional lenders including mutual funds, pension funds, asset managers, banks, family offices, and other financial institutions. In light of this, lenders are less social-cause motivated but primarily motivated by the financial return available. The main factors influencing their lending decision-making are business creditworthiness, diversifying investment portfolios and rate of return (Zhang et al., 2016). Therefore, borrowers need to present their creditworthiness and the ability to provide a high return.

Most P2P business lending borrowers are SMEs from the manufacturing, professional business services, construction, or retail sectors seeking growth capital or working capital. The speed and ease of use are their main reasons to use this financing model (Baeck et al., 2014), although newly established businesses can hardly guarantee a high rate of return.

Since 2014, the P2P lending market has been included in the Financial Conduct Authority (FCA)'s regulated activities, and platforms have to comply with a series of regulatory requirements ranging from prudential capital requirements to business conduct rules (Lu, 2018). These regulations are definitely an essential policy for the sustainability of the P2P lending market, but they also set a high entry barrier for nascent entrepreneurs or newly established business to utilize the financing model.

Community Shares

Community shares refer to withdrawable share capital, which is unique to cooperative and community benefit society legislation (Zhang et al., 2016). In simple terms, investors investing in community shares of a business that is mostly serving their community, so that the share capital will help finance the business. Collective participation makes it possible to install more substantial projects in the community, which will lead to cost efficiencies. Most community-based projects aim to support a social or environmental cause, not to make a financial gain, although investors may receive limited interest and tax break on the investment.

Most studies of this financing model focused on community renewable energy projects, such as wind farms and solar energy (Chan, Evans, Grimley, Ihde, &Mazumder, 2017; Holstenkamp, 2019; Beery & Day, 2015) and community-based tourism (Dodds, Ali, &Galaski, 2018). Studies have mainly discussed the application of this financing model, investors' characteristics, and implication to policies. It is clear that these projects have a strong geographical characterization in which the explicit aim is to improve the participation of local communities in the renewable energy or tourism investments accruing in their territories. Moreover, this type of share capital can only be issued by cooperative societies, community benefit societies, and charitable community benefit societies. Although investors have the right to withdraw some or all of their share capital, subject to terms and conditions, the shares can never be worth more than how much is paid for them, and they could go down in value if the society gets into financial difficulties.

Therefore, considering the policy and the nature in this sector, the community shares model is not suitable for most of start-up financing, while small local community businesses such as a local pub are more likely to use this model. This type of share capital can only be issued by certain types of businesses and is largely affected by the location.

Invoice Trading

Invoice trading financing is usually auction-based with the firms selling their invoices or receivables at a discount to a pool of individual or institutional investors in order to receive funds immediately rather than waiting for invoices to be paid. Invoice trading has a relatively large market volume in the UK, with £787 million in 2017, in third position after the two P2P models in the online alternative finance industry (Zhang et al., 2018). The model has proved to generate a relatively substantial value flow and attracts businesses which require "immediate" finance (as the invoices are usually auctioned on a 24-h basis, and sellers receive the payment in a short time after the auction ends). The model can be particularly useful for small and microenterprises to get "right-on-time" access to working capital with the average invoice auction duration of only 8 h.

Pension-Led Funding

Pension-led funding allows individuals mainly SME owners/directors, to use their accumulated pension funds in order to start or reinvest in their businesses. It can be seen as a source of funding for P2P business or consumer lending; however, in this instance, due to its uniqueness to nascent entrepreneurs, the author chose to discuss it separately.

In 2016, pension-led funding reached £23 million (Zhang et al., 2016), which is a quite small figure compared to other alternative finance models. The businesses seeking pension-led funding came from a range of sectors with retail, construction, technology, and manufacturing among the most prevalent. The average amount of funding secured by those using pension-led finance was £70,257 (Baeck et al., 2014).

It is clear that the model could be an option for older entrepreneurs with private pension savings who wish to start their businesses. It works better for older small business leaders who have a larger size of fund to leverage and use intellectual properties as collateral.

Debt-Based Securities

This model allows individuals purchase debt-based securities (DBS) (typically a bond or debenture) at a fixed interest rate and receive full repayment plus interest paid at full maturity. Since 2016, HMRC ruled that debt-based crowdfunding (DBC) investment can be included in Innovative Finance ISAs (Triple Point, 2017), which can be seen as a tax incentive to attract investors. Besides, DBS are regulated investment products under the governing of FCA rules and most of them are fully tradable and transferable. DBS platforms are responsible for conducting due diligence and verification of the offers. Platforms also manage the transfer of ownership and facilitate any payments when a DBS is sold. DBS is perceived as lower volatility than equities and predictable income with a predetermined maturity date. The returns can be up to 6% per annum, tax-free (Best, 2017). It is a relatively new alternative finance model with only a small amount of deals having been offered and funded, the investors focused mostly on the renewable energy sector. The model has been rarely studied academically.

Equity-Based Crowdfunding

Equity-based crowdfunding (EBC) is defined as the sale of registered security in a business to a number of investors in return for their investment (Wardrop et al., 2015). Businesses on EBC platforms vary from early-stage to growth-stage, and investors can diversify their portfolio by investing in the business at different stages. It reached £544 million in 2017 with 64% growth from 2016 (although most of this growth relied on real estate crowdfunding) (Zhang et al., 2018), contributing the most among the three models. For those cautious of investing large amounts, in 2014, the Financial Conduct Authority (FCA) introduced a "10%" rule, which requires retail investors that are neither "sophisticated" nor "high net worth" to certify that they are not committing more than 10% of their net investable assets in EBC (FCA, 2015). This reduces investors' perceived risk to some extent. With the primary aim of making a financial return, EBC investors consider the quality of the team and the pitch as the most important decision-making factors.

Although EBC for seed and start-up financing has maintained a high growth rate, as the maturing of the model, the focus has gradually shifted to bigger, later stage venture investment deals on the platforms. As for nascent entrepreneurs, equity-based crowdfunding has similar drawbacks to venture capital or business angels. First, a long period to get the investment. The average EBC campaign duration is 60 days. This may not be as long as the business angels' decision-making process but to prepare for the campaign and to network around it still takes quite a long time. Second, the lack of business creditworthiness. EBC may help businesses to directly communicate with potential investors but newly established or concept-proving period businesses can still have difficulty persuading them that the business could make an impressive profit. Third, although investors on EBC do not have the rights of involvement in a business operation like business angels, selling shares – suggesting losing part of the voting rights is not ideal for nascent entrepreneurs.

Donation-Based Crowdfunding

With donation-based crowdfunding (DBC), also known as charitable crowdfunding model, individuals donate small amounts to meet the broader funding aim of a specific charitable project while receiving no financial or material return in exchange. There is no legally binding financial obligation incurred by a recipient to a donor; no financial or material returns are expected by the donor. It allows fundraisers, primarily from social and cultural groups, creative enterprises and community-based organizations to directly make an online appeal for donations and connects donors directly with fundraisers and beneficiaries without a standard intermediary (e.g., charity organization). DBC accounted for £41 million in 2017 – a slight increase of 3% from the previous year (Zhang et al., 2018).

The social and communal nature of DBC is the primary draw for funders. Studies suggest that both "warm glow" and pure altruism play an essential role for donors in donation-based crowdfunding markets. Donors are motivated by both purely altruistic (solely the desire to provide for a recipient) and the joy of giving. Studies on features associated with the success of DBC campaigns discovered that personal connection and credible appeals are the key factors increasing the likelihood of receiving a donation (Polzin, Toxopeus, & Stam, 2018; Majumdar & Bose, 2018).

Most backers reported that the first introduction they had to the model came through recommendations made by a friend or family member or other social connections. Building on this, social media plays a strong role in getting backers to support DBC campaigns (Baeck et al., 2014). These influencing factors may shed light when exploring the factors influencing fundraisers' decision-making in RBC campaigns as they are both financing models without monetary return.

Reward-Based Crowdfunding

Reward-based crowdfunding (RBC) is one of the oldest and highest usage rate crowdfunding models. Various researchers have given their definitions on this relatively new concept. Generally, it is an exchange of a monetary contribution for some nonmonetary reward. Backers would expect that "fund recipients" provide "a tangible but nonfinancial reward or product" at a later date in exchange for their contributions. In an RBC project, various levels of rewards/pledges would be introduced based on different pledge amounts from backers. Therefore, by the nature of RBC, unlike the equity-based capital mentioned above, all RBC campaigners retain their control in the business and intellectual property rights (e.g., patents, trademarks, and copyrights), which is valued highly by nascent entrepreneurs. It enables them to raise funds on their own terms with a transparent and efficient funding process.

The growth of the RBC market volume is quite remarkable, although it only accounted for a relatively low percentage (0.7%) of the whole online alternative finance industry in 2017. The market volume based on RBC platforms in the UK grew from £26 million in 2014 to £44 million in 2017 (Zhang et al., 2018), and the number of both successful campaigns and repeat fundraisers increased by a large amount. It suggests that RBC platforms and the market are becoming more regulated and standardized, which is a crucial issue to retain the sustainable growth of RBC.

RBC is a more relevant model for nascent entrepreneurs. Baeck et al. (2014), from a survey of 191 fundraisers and 1,128 backers who have used RBC, summarized the general business features, as well as the characteristics and motivations of fundraisers and backers. They discovered that most of the campaigns tend to be small operations in the social sector or creative industries; often individuals with little trading history and modest, if there is any turnover. Around half of the fundraisers participants were "unable to get funding elsewhere" or "unable to source funding locally" and stated they would have been "unlikely" or "very unlikely" to raise funds without crowdfunding.

The crowdfunding models discussed above are mostly focusing on their applicability to entrepreneurship, that is, how it can be used to achieve an individual/private organization's goal. On the other hand, public institutions are also beginning to explore what crowdfunding means for them.

Crowdfunding and the Public Sector

To public institutions, in the modern era, one of the biggest challenges for public services is probably to ensure their spending decision can reflect the needs of taxpayers in a more transparent way. Civic crowdfunding in this circumstance could grow in popularity.

Civic Crowdfunding

Civic crowdfunding is not a new practice. For instance, to renovate and develop the iconic architecture in London, the Royal Albert Hall, it has been funded partially through incremental citizens donations what is now known as civic crowdfunding. The use of the term can be traced to 2012, when online civic crowdfunding platforms were established soon after RBC platforms, such as Spacehive (2011), and Neighbor.ly (2014) and Citizinvestor (2012, closed now). However, there is still a lack of academic studies on the model. Davies (2014, 2015)'s definition on civic crowdfunding is more accepted. Davies (2014) put the civic crowdfunding projects as "crowdfunded projects that provide services to communities," and the expected output of such a project is a public good or a common pool resource that can be consumed equally by members of a community, no matter how much contribution they put for the good (Davies, 2015). It has gained great attention for its potential to channel citizen funds towards public services or local community projects, as well as its potential to associate fundraisers with municipalities, organizations, and individuals who are interested especially at a time of constrained government budgets (Stiver, Barroca, Minocha, Richards, & Roberts, 2015).

For the local community projects in civic crowdfunding, it is similar to the community shares model, only the former one is more donation-based. The backers may not have specific ownership, although sometimes a "thank-you" note or name on the wall could be expected. The motivation of backers focuses more on a desire to engage collectively and solve shared problems. Nonetheless, if a resource is built/generated as planned but is not maintained properly over time or used in an unexpected manner, backers may feel that their contributions less significant than they had thought at the time of funding (Davies, 2015).

On the other hand, not all civic crowdfunding platforms permit individuals and community groups to initiate projects. For instance, Citizinvestor (closed now) projects used to be created by government-authorized entities only. There are also hybrid models using match-funding between public institution and citizens. For instance, the mayor of London pledges up to £50,000 to the best idea/project as "one of the crowd" to on Spacehive – an online civic crowdfunding platform. The idea is to make London "a better place for everyone who visits, lives or works in the city" (Spacehive, 2014).

However, the relationship between civic crowdfunding and government has been perceived in contradictory ways. Some think it as a threat to the power of local government, while some think it as an opportunity to widen the possibilities for public–private cooperation rather than to disinvest from existing services. For instance, in the current pandemic of Covid-19, the NHS Charities Together has put up a crowdfunding campaign in aims of supporting the heath and emotional well-being of NHS staff and volunteers caring for Covid-19 patients (Justgiving, 2020). This will certainly relieve some burden of the government. However, at the time of when the public constantly questioning the government the reason for NHS staff to extremely lack of personal protective equipment (PPE), this may cause divergent outcomes.

In all, recognizing those possible criticisms, civic crowdfunding has the potential to encourage collaboration across citizens, government bodies, and businesses, and to provide a more transparent method for the government to utilize public funds. It shows both the future opportunities and challenges in using the civic crowdfunding in the financing of public goods.

Social Networking and Crowdfunding

Social networking is regarded as one of the most important factors for the success of the crowdfunding projects. Studies have investigated the formation of social network ties, the geographic locations of advocates, and the number of an entrepreneur's fans (Gerber et al., 2012; Lehner, 2014; Mollick, 2014). These studies show that the initial phase of a crowdfunding project usually is "friend funding" (Colombo, Franzoni, & Rossi-Lamastra, 2015). Mollick (2014) argued that the number of an entrepreneur's Facebook friends could be considered as an indicator to predict the success of the crowdfunding project. Dushnitsky and Marom (2013) claimed that the backers for RBC are not predominately provided by the community. Instead, the vast majority of contributors are from the project creator's own social network, such as his family, friends, and followers from his/her own social network sites (SNSs).

Also, by connecting SNSs to crowdfunding platforms, creators are more likely to turn their social network into social capital. Lu, Xie, Kong, and Yu (2014) discovered that social media has a positive impact on promoting crowdfunding projects by increasing their success rate. They believe that the most effective and convenient way for entrepreneurs to broadcast their online crowdfunding projects is through SNSs, such as Facebook and Twitter, as online information can be rapidly and widely spread through social media (Mollick, 2014). Most studies used Twitter and Facebook as the main SNSs to investigate the impact of SNSs on the relationship between entrepreneurs and their advocates. Most backers found out about campaigns through social media or direct mailing. In many cases, they also had some connection to, or knowledge of, the fundraiser prior to the crowdfunding campaign, so that they gave funds to someone they knew at least by reputation. This suggests the important role of the social network towards fundraising success.

Like Granovetter (1973)'s discussion about the "strength" of social ties, in the study of crowdfunding, Mollick (2012) considering a campaigner as the actor, classified a campaigner's social network into three degrees. He argued that the First Degree Network is a campaigner's family and friends, while a wider network (friends of friends) defined as the Second, and the Third Degree Networks are formed by strangers. These three degree networks are proved to generate contributions for crowdfunding (Mollick, 2012; Pirolo & Presutti, 2010). Personal networks of project founders are significantly correlated with the success of crowdfunding (Mollick, 2014; Kim, Hong, & Yang, 2017).

Crowdfunding platforms, in some studies, are also considered as a part of social networks that connect different players, such as creators and backers (Beier & Wagner, 2015). The interaction among them is mainly through communication via the platform online. Watzlawick and Beavin (1967) have drawn a conceptual line between the content and relational aspects of communication, that "communication is synonymous with what is observable in human interaction" (p.4).

Considering the crowdfunding platform as an actor, Colombo et al. (2015) classified social networks into two types. First, internal social capital is embedded in crowdfunding platforms by establishing relationships with entrepreneurs and backers. Second, external social capital is developed outside crowdfunding platforms or in other third-party social network websites. Closer relationships, like family and friends or personal acquaintances in the real world, had supported the internal social capital and other relationships from resources embedded in crowdfunding platforms, such as the social relationships developed and communities established through crowdfunding platforms supported the external social capital (Bao & Huang, 2017; Kendall, 2014). It can be seen that, compared to most other sources of entrepreneurial financing, crowdfunding has the advantage of getting financial support from platforms. This means that the appeal for financial support has moved from focusing on a small group of targets to a broader world (Kim & Viswanathan, 2013; Lagazio & Querci, 2018; Lu et al. 2014). Kang Jiang, and Tan (2017)argued that the process of reaching a wider world could be done in two ways; the entrepreneur promotes the project himself/herself or engages advocates to help.

Therefore, based on the internal social network embedded in crowdfunding platforms between entrepreneurs and backers, reciprocal giving could be one way of building up social network. André, Bureau, Gautier, and Rubel (2017) argued that crowdfunding platforms foster specific kinds of relationships relying on reciprocal giving, beyond the usual opposition between altruistic and selfish motivations.

For internal relationship support, Staber (2006) argued that an entrepreneur could develop and maintain social capital through investing in other entrepreneurs' projects. That may generate strong ties with other entrepreneurs and develop an entrepreneurs' reputation in the social network. Therefore, it develops an obligation among other entrepreneurs to fund his/her project. For example, if a project creator once got capital supports from other entrepreneurs in the same platform, he or she may feel it is a duty or commitment to give back to these entrepreneurs when their future crowdfunding projects need investment (Zheng, Li, Wu, & Xu, 2014). It can be called "obligations." Therefore, in a community of crowdfunding, entrepreneurs can create and maintain such internal relationship supports with peers by investing others' projects and then gradually forming a reciprocity mechanism. Most crowdfunding platforms could display the number of projects that an entrepreneur has supported in the public profile. So early backers are more willing to support those entrepreneurs that have behaved as good members of the crowdfunding community.

Conclusion

Crowdfunding is an emerging alternative finance method beginning from early twenty-first century but based on the old concept of crowdsourcing with roots going back to the 1700s. The concept is simple but in line with human nature as a social animal – to (get) support (from) other people. Therefore, with the maturation of the market and regulations, crowdfunding is here to stay. The importance of it is more likely to increase. A definition and brief look at the history of it, as attempted in the begin of the chapter, helps to better understanding what is crowdfunding. Interest groups from individuals, entrepreneurs, businesses to public sectors should have a closer look at the different crowdfunding models to better understanding the opportunities it offers and challenges in this emerging context.

Cross-References

► Digital Marketing
► Social Media as Used by Interest Groups

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