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THE NEW SHAPE OF FUNDRAISING: A CHANGE IN FINANCING AND HARNESSING BOTH ENTREPRENEURIAL AND SOCIAL NEEDS.

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Introduction

In recent years many difficulties have emerged in accessing funding sources to raise funds to support activities and cover in both public and private sector, in order to answer to the customer and community needs, as well as to create value. This lack of resources mostly affected the entrepreneurial environment and it is defined as the “equity gap”, but it was also hard to manage for the Government, especially for the Public Administrations which have to balance between the needs of a community and both economic and financial constraints.

The work that follows will focus precisely on the understanding of these difficulties and the identification of new financing mechanisms to support innovative enterprises. Specifically, the author investigates Crowdfunding as the fulcrum of the presented dissertation, an innovative financing mechanism that raises from the "bottom" and it is helpful for any type of project that follows a long tail model, thought to be the new emerging model to access to financial resources which started a revolution in the fundraising processes.

The mechanism of crowdfunding will be studied in the light of the undeniable failure of the venture and financial systems in addressing solution to social needs without sacrificing the short-term goals, mainly financial goals, and profits.

Therefore, the project could be summarized in the following research questions:

1. Is there a new way to think about entrepreneurship and capitalism?
2. Could a business that creates (positive) social impact exist?
3. Could the finance, nowadays, answer to the emerging social needs?
4. Which financial mechanism should the entrepreneuship and public administration adopt?

To answer this questions, the author adopted a likely systematic literature review in the first and second chapters, while the third while be focused on the extraction of the results of the research through a case study methodology (Yin, 2009) used as a qualitative and epistemological investigation with an holistic approach. The research design will follow a narrative and a non participating observation approach.

In the first chapter the author will build the literature review in order to identify the theoretical framework into which he moves his research, mainly adopting a likely systematic approach as cited before. Because of the newness of the investigated topic, author identified the main theories and the key concepts that led him to design the frame of the subject area of interest. These theories and concepts can be gathered as it follows: social impact, social innovation, social finance, impact investing and crowdfunding. These represent the compound key words of the research strategy, which conducted the author to gather the needed sources of knowledge from academic, grey and fugitive literature (including technical reports). The review of the literature was closed recognising an intersection between the five key concept, first designing the field of study, consequently drawing the theoretical framework.

In the last part of chapter one, what emerges is that this research moves its step within the theories about the impact of economic and financial returns on society and environment, as well as the studies about social returns and new public management (NPM)-.

In the second chapter the author will try to frame the context into which occur the main topic of this thesis and the state-of-the-art. Firstly, in order to identify the field into which the author intend to move his research, a representation of the financial context is shown, mainly focusing on its criticalities and its relationship with the alternative finance models. In the second paragraph, the author decided to investigate the reasons that moved the Institution and the Enterprises to a reconsideration of their roles, regarding of the consequence of imposed by the welfare and economic crisis recently occurred. This chapter will end with an interpretation of the modern theories about the big idea of the creating shared value, as a strong need for the Capitalism, under the lens of the crowdfunding mechanism. The above quoted research contexts were examined in order to identify a common path in the research between the concept of social impact, social finance, public administration and crowdfunding.

So, in the first and in the second chapters the author identifies once the theoretical framework and then the environment that locates the area of the research. Descending from the theory, social, financial and economic changes have shown how Institutions and the Finance sub-pillar of the human eco-system are not ready to face both the evolution of the community, within they operate, and the social needs. In fact, in the literature review, a *file rouge* within the main concept of social innovation, social impact, social finance, impact investing and crowdfunding, has been drawn. In the second chapter, the author investigates why Institutions (especially Public Administrations), Enterprises and Finance, as we know them, fail to answer to the needs of society. In this chapter, the author made a step forward from the theoretical investigation, discussing about edge cases able to introduce the following aspects: the crowdfunding as a source of social impact; social needs as a catalyst of interest and success; a change in what we use to know as the typical configuration of equity and civic crowdfunding. The reason why the author investigated this subject grew up from the consciousness about the Welfare crisis and the changes in the socio-economic context, that put the Public Administration face to face with the *stakeholders* subjects of its activity. These conditions highlighted, first, the needs for PA to enlarge their participative model (Panozzo, 2005), then, a *trait d'union* between public institutions and "producers" to address positive outcomes (Botti e Vesci, 2009). These are changes clearly shaped in innovations that are collected by new entrepreneurial and financial vehicles, consignees of PA outsourcing processes and devoided of the *no-profit* qualification (Young, 2006). This matters especially for co-creation manifestation and collaborative models.

According to the literature review and looking at the focus of the thesis, it means that crowdfunding is moving towards the impact investing.

CHAPTER I

1.1 THEORETICAL FRAMEWORK AND ASPECTS TO BE INVESTIGATED

In this chapter the author wants to investigate the main topic that lies under his study about fundraising and its changes. The nature of this work forces the author to follow a likely systematic approach to the literature, in order to identify and to outline a theoretical framework that represents the basis of this study, mainly because the investigated topic is definitely new. Thus, the writer gathered the needed sources of knowledge from academic, grey and fugitive literature (including technical reports) mainly searching for five compound key words that allow to center the subject areas which intersections design the field of study and, consequently, the theoretical framework. Basically, the author's research strategy was led to retrieve the main documents via a matching of the above quoted keywords: social impact, social innovation, social finance, impact investing and crowdfunding.

In conclusion, this research moves its step within the theories about the impact of economic and financial returns on society and environment as well as the studies about social returns and new public management (NPM)[1].

1.2 The Literature review

1.2.1 Social Impact

The interest among scholars about social impact is growing faster, because of nowadays changes in the entrepreneurial and business framework. The idea of an existing social impact from human activities took its steps from studies about social entrepreneurship, in fact, as argued by Hadad and Găucă (2014), the concept of social impact is not easy to define untied from the concept of social entrepreneurship. For the Centre for Social Impact in Australia, social impact means «*outcomes-led adaptive thinking and action taken by businesses, government, social purpose organization and knowledge creators that contribute to creating a positive, meaningful and sustainable*

[1] Scholars which investigated the main topics of New Public Management (NPM) were the first who red a correlation between funding environment and social economy.

change for the benefit of society and particularly those at disadvantage as a result of systemic, long term problems». Taking the necessary differences, the study about the new emerging social entrepreneurship movements and theoretical antecedents by Shaw and Carter (2007) underlined how the new shape of social enterprises is tending to the for-profit characterization. This view agrees with Porter & Kramer (2011) idea about a reinvention of capitalism towards a structure characterized by businesses shaped around the creating shared value concept, to unlock the next wave of business innovation and growth. *Tout court*, there's no more need of a trade-off between profits and social needs. That means a new way to intend and measure the impact of for-profit activities on the society.

The International Committee on Guidelines & Principles for Social Impact Assessment (ICGP), in the year 2003, defined social impact as "the consequence to human populations of any public or private actions that alter the ways in which people live, work, play, relate one to another, organize to meet their needs and generally cope as members of society. The term also includes cultural impact involving changes to the norms, values and beliefs that guide and rationalize the cognition of themselves and their society”. According to Slootveg *et al.* (2001) and Estévez *et al.* (2013), social impact could be deconstructed into two main concepts: social changes and human impacts. The two concepts are strongly related through a causal relationship, that affects the decision-making processes and the capture and measurement of social impact itself, because of social criteria that may be both positive and negative, depending on the changing perceptions (Burdge & Vanclay, 1995; Vanclay, 2002).

Social impact concerns the outcomes that hit a specified community in terms of social performances that could be translated in the wide spread social value, that means the result of the social enterprises activities on their stakeholders. In contradiction with financial values, the social ones are qualitative and less rigorous, that implies that social impact may be not easy to measure (Bull, 2007; Nicholls, 2009; Arvidson *et al.,* 2010; Lane and Casile, 2011; Barraket and Yousefpour, 2013). However, Bagnoli and Megali (2011) argue that there is a strong relationship between inputs and organizational processes of an enterprises and the outputs and outcomes that identifies the social impacts.

1.2.2 Social Innovation

According to Guida & Maiolini (2013) the scholars are moving towards a unanimous definition of social innovation, based on the Christensen *et al.* (2006) intuition about an uncommon solution to problems which don't have an optimum solution. This intuition take steps from the observation of a modern context composed by public and private organization unable to answer in a traditional way to nowadays criticalities (Christiansen *et al.*, 2006; Guida & Maiolini, 2013) without adopting new paradigms and standards, following the experience of innovation technologies. What seems to emerge from the literature is the need of new models of interpretation and action. This idea was first introduced by Taylor (1970) who spoke about an improvement of "inventions", meant to be new way to do things, first tested and then marketed, based on identity and interdisciplinarity. According to Taylor (1970), social inventions have problem to be marketed and, consequently, they die; a change in building professionals identity, promoting interdisciplinarity and the capability to overcome the boundaries of particular specific battleground, steers the collective towards forms of organization with high cohesion, creating a social movement that influences the social scene.

Clearly, all the activities are established to produce benefits that affect to all the social scene or community; benefits that are a positive change and an answer to social needs. Mulgan (2006), in fact, defined social innovation as «*innovative activities and services that are motivated by the goal of meeting a social need and that are predominantly diffused through organizations whose primary purposes are social*» (p. 146). The activities, therefore, result in an organization or rather in a business innovation translated in a maximization of both profits and positive social impact[2]. The connection between Mulgan (2006) and Taylor (1970) view is the consideration about the capability of individuals or community itself to understand and interpret their own lives and problems, which could be taken on via the development and application of social innovations. Essentially, awareness is what people need to generate social innovation. Awareness, cohesion, collaboration and interdisciplinarity are dimension of social

[2] Mulgan (2006) cite the editorial case of the magazine *The Big Issue*, sold by individual in critical conditions, following the results of Beck experiments in the 60s who tested a behavioural therapy linked to a socially innovative activity.

innovation. Even Hochgerner & Howaldt (2010;2012) pinpoint the collaboration and collective participation as the engine that ignite the change and the creation of new paradigms.

OECD (Organisation for Economic Co-operation and Development) and European Commission – BEPA (Bureau of European Policy Advisers) offer two different definition of social innovation with the same idea that immerses the roots in the concept of relationship and collaboration between individuals in order to produce benefits from social needs satisfaction. OECD talks about «*satisfying new needs not provided by the market (even if the markets intervene later) or creating new, more satisfactory ways of insertion in terms of giving people a place and a role in production*», introducing the concept of production chain side by side with social innovation. In fact, the Young Foundation suggest a model for social innovation in which intervene: the market; Government; Community; Third Sector. According with Murray *et al.* (2010) these represent the source of social innovation, which boundaries are more and more loose and intersected. Therefore, social innovation seems to be intended as a source of wealth, wellness and growth.

The quest for a "smart" growth, based on innovation and not relying on raw accumulation (Baumol, Litan, and Schramm 2007), has been pushing Governments, especially those in mature economies, to look at the enablers of creativity and innovation. In the information era, creativity could raise up from all the individuals that belong to a society or, in a narrow way, to a community; for example, customers could be considered part of the collective intelligence (Suriñach *et al.*, 2007; Parente *et al.*, 2008; Pisano *et al.*, 2013: Pisano *et al.*, 2014) that actively participate to the creation of innovations. These innovations start to acquire a social dimension, turning to social innovation, indeed. Once again, the social innovation movement is intended to be a collective creative process shared by a plurality of actors (Friedmann & Floerkemeier, 2010; Schenk & Guittard, 2011). According to the Schumpeter's position (1934; 1961) of the individual as a source of innovation, who naturally research solution to the problems throughout new ideas creation. Clearly, it draws a line to the crowdsourcing that could be defined as a participative activity, expressly on line, in which the involved actors, through a flexible open call, participate voluntary to a process sharing their knowledge and skills, in order to obtain and utilize the advantage produced from what they participated on (Estélles-Arolas & González-Ladrón-de-Guevara, 2012). Voorberg et al. (2013), referring to social innovation, analyzed their data collection, even if they found a common base in the collaborative creation of value, they underline three types of co-creation/co-production policies. In service oriented organizations, the participants, treated like partners are: co-implementers; co-designer; co-initiators. Thus, co-creation and co-production are strongly related. Their conclusion are really near to the concept that, looking both at companies and industry, actors/stakeholders work together in a value-creating system (Normann & Ramirez, 2000). The idea of a "reconfiguration of roles and relationship among this constellation of actors in order to mobilize the creation of value in new forms and new players" (Normann & Ramirez, 2000, pg. 66). Thus, the co-creation/co-production dimension of social innovation introduces the idea of a combination of logic at all society's levels, thanks to a participative approach of Young Foundation and Murray *et al.* (2010) four elementary pillars of social innovation. Therefore, with a disruptive effort (Schumpeter, 1934) social innovation recombines all the social and institutional logics at both a macro-, meso- and micro-level hybridizing public, private and civil sectors' logics (Moulaert, 2009; Nicholls and Murdock, 2012; Moore *et al.*, 2012) providing impact on private sectors about the recognition of technological innovation and about the role of businesses (Elkington, 1997; Porter & Kramer, 2011; Nicholls and Murdock, 2012; Moore *et al.*, 2012).

1.2.3 THE SOCIAL FINANCE: DOING BETTER FOR DOING WELL

There's a strong link between social innovation and finance because of the nature of social innovation itself and its capability to produce social, financial and economic value, that could be harnessed by unconventional forms of finance and entrepreneurship. These forms should steer the financial resource flows towards activities able to gather social innovation opportunity to emerge or scale up (Giddens, 1984, Moore *et al.*, 2012). Thus, new forms of finance are the connection between social innovation and social entrepreneurship, consequently affecting social impact in term of social and environmental return on investment. This is a “marketized” philanthropy (Lehner & Nicholls, 2014) supported by micro-financing organizations (Estape´-Dubreuil and Torreguitart-Mirada 2013), social banks (Nakagawa and Laratta 2010) and new form of investing processes, represented by venture philanthropy (Daly 2008 , 2011), impact investing (Mendell and Barbosa 2013) and public–private collaborations (Van Slyke 2006 ; Warner and Hefetz 2008). The focus on the debate about social finance and all its manifestations lies under a strong search for solution to common problem, fixed the interest about impact and performance measurement (Frumkin, 2003). The idea to expand the border of the venture capital concept to a wider understanding and implementation was formulated by Letts *et al*. (1997) and explained by Frumkin (2003) who clarified that a change in traditional philanthropic action, across an hybridization with venture capitalist techniques, affected the funding mechanism which adopted the main characteristics of a financial investment, especially considering the long term duration. This is in contrast with the typical behavior of philanthropic organizations to provide single year grant. According with Morino (2004), Morino and Shores (2004) and Frumkin (2003) venture philanthropists enter a long term relationship within their investment target such as social enterprise and non-profit organization. The application of venture capitals principles to philanthropy as a measure of definition of Venture philanthropy, is an idea shared even by European Venture Philanthropy Association (2006). So on, we can accept six elements as the key characteristics of venture philanthropy:

1 High engagement;

2 Multi-year support;

3 Tailored financing;

4 Organisational capacity-building;

5 Non-financial support;

6 Performance measurement.

The presented six main characteristics of venture financing, determine the first distinction point of another social finance instrument known as impact investing which look even at financial return on “social” investments.

1.2.4 THE IMPACT INVESTING MECHANISM

The attention about social impact is even the key factor of the current financial industry tendency, which is focused on the fostering of impact investing or other financial investing mechanism that could produce both financial and social returns (Harji & Jackson, 2012; Louche *et al.,* 2012, Höchstäder & Schek, 2015; Nicholls, 2010).

Impact Investing is a rather new phenomenon which definition is strongly related to the capability to create a social impact as well as a financial return on investment (Clarkin & Langioni, 2015) by matching philanthropic aims, government action and profit-seeking investment (Freireich & Fulton, 2009). There is a *trait d'union* between social impact and impact investing, because the second aims to reach goals in both economical and social fields, using financial models of investment with a social responsible peculiarity and focused on creating positive social or environmental impact.

The current literature (Freireich & Fulton, 2009; Nicholls, 2010; Harji & Jackson, 2012; Louche *et al.,* 2012; Martin, 2013; Clarkin & Langioni, 2015; Höchstäder &

Schek, 2015) is positioning under the definition of impact investing different manifestations known as social finance, social impact investing, or blended value investing, and all the financing instruments created to gain both social and financial returns (Bagwell, 2012). Short, Moss & Lumpkin (2009) identified the opportunities reserved by impact investing in the research to expand the role of financing and in the research to find new way to finance social ventures. In fact, following the evolution from social responsibility to social innovation, the growth of social entrepreneurship, in the meaning of an organized effort to address solution to social issues, is going through a maturation phase that opens new frontiers for the financing community (Clarkin & Cangioni, 2015). This is strongly linked to "the change in capitalism", described by Porter & Kramer (2011) in their "creating sharing value" study, which shows a new way to approach a profit-oriented firms that should be socially and environmentally driven.

Thus, this new emerging industry has started to create network and metrics to measure its value through the measurement of the social impact, that is usually seen as a qualitative variable (Jackson, 2013; Clarkin & Cangioni, 2015). The need of a measure of impact investing through the social impact measurement, has been shortly satisfied by the Impact Reporting and Investment Standards (IRIS), which offers common set of definition, and the Global Impact Investing Rating System (GIIRS), an analogue of the Standard and Poor's or Morningstar rating systems, uses a common set of indicators to measure the social performance (Jackson, 2013).

The possibility to give a measure of the impact, the new generation of business and socially savvy entrepreneurs that is launching ventures across an array of regions and sectors, the cash-strapped government (Bugg-Levine & Emerson, 2011) are the reasons behind the creation of a great number of impact investment funds (Höchstäder & Schek, 2015).

1.2.5 The Crowdfunding phenomenon

Crowdfunding have recently drawn the attention of both scholars and professionals as an outstanding financial tool. Because of its evolutionary nature, from its birth this financial mechanism has experienced a lot of changes, with a common driver: the capability to adapt the crowdfunding model to many different fields.

From the analysis of the current literature, what emerges is the lack of the attention about the role of both the social impact of crowdfunding and the influence of project-to-fund social content on the result of a crowdfunding campaign.

For this reason, in this explorative study the author focalizes his attention on the relation between crowdfunding and impact investing. In particular, author studied the equity crowdfunding investment, relying on the behaviour of many European countries which are tending to regulate and to support equity crowdfunding, in order to supply equity to Small and Medium Enterprises (SMEs). In fact, after the Italian experience about equity crowdfunding regulation (Decree Law "Crescita 2.0", converted in law in 2012), other European countries are, similarly, designing specific regulation.

On one hand, Landström (2003) argues that the equity gap challenge represents the highest barrier to overcome for every start-up companies. The difficulties, in fact, increase when the financial sub-pillar, in a specific regional system, isn't effective. This leads to the need of researching alternative financial tools that could be considered as a complement or a substitute of traditional and formal investment mechanism (Wright et al., 2006).

On the other hand, Crowdsourcing revolution (Howe, 2006) and technology platforms started a disintermediation process that changed the dynamics of integration economies (Piller et al., 2004) between the broad types of user and producer. Crowdsourcing is influencing innovation processes, through a mechanism of interaction between the providers and the seekers of strategic resources. At the beginning, the strategic resources involved in this interaction were mainly knowledge-based resources, but nowadays the financial-based resources are becoming a relevant aspect of Crowdsourcing, thanks to Crowdfunding.

In the last years, crowdfunding is arising as a widespread financing and fundraising tool, allowing to turn a large audience of customers into investors (Schwienbacher & Larralde, 2010; Ordanini et al., 2011; Belleflamme et al., 2014). The author agrees with the idea that crowdfunding lies on different elements that could be macro-categorized in: web, social (relational) capital (Bourdieu, 1985), financial resources and, indeed, crowdsourcing (Poetz & Schreier, 2012). The need to feed a strong wide community highlights the social network structure of crowdfunding, but, as Mollick (2014) argues, this investment vehicle takes the steps from the evolution of micro-finance (Morduch, 1999).

Crowdfunding is a funding vehicle that embraces different contexts as well as social, civic and academic ones (Giannola & Riotta, 2013; Davies, 2014). It literally connects entrepreneurs with potential funders, or rather individuals who can supply financial capital (Wheat et al., 2013; Marlett, 2015).

According to prior studies, crowdfunding intervenes as a motivational crowdwork factor (Greber et al., 2012; Miglietta et al., 2013) that permits to pass over the barriers linked to proximity and credit crunch (Freund, 2012). This is possible thanks to the intermediation internet based platforms, which act as market place where is possible to collect and canalize the scattered unlocked private capitals to sustain business ideas from research, decreasing the weight of geographical proximity in the innovation process (Agrawal et al., 2011).

Crowdfunding could be classified into two macro-areas: token crowdfunding and investing crowdfunding (Schweinbacher & Larralde, 2010). Token Crowdfunding encompasses the different expression of donation crowdfunding, which is a donation based model – i.e. charity online fundraising campaign. Instead, investing crowdfunding can be further broken down into passive investment and active investment. The passive investment encloses the lending based and reward based models, that differ one another from the type of return provided for the investors. The active investment, essentially, defines the equity based model, which is going to be the most important crowdfunding manifestation for the SMEs. Looking at a generalized context, Crowdfunding, on the whole, acts in different but correlated directions: supplies financial resource, offers markets insights, lets the Small and Medium Enterprises to engages venture capital (Wardrop et al., 2015). Thus, Crowdfunding represents an alternative finance market.

To date, in fact, Italian Crowdfunding platforms, since their first appearance with the foundation of *ProduzioniDalBasso*[3] (2005), show a Compound Annual Growth Rate (CAGR) of 85,7% from 2005 to 2015 that is expected to turn into 63,9% at the end of 2016, considering the upcoming new crowdfunding platforms. Looking at the insights from the market in the 2014, the success rate of the crowdfunding campaign launched on the different living platforms (Il Crowdfunding in Italia Report 2015, 2016) is about 30% in the mean. The success rate of crowdfunding campaigns launched on an equity platforms is 33%. The total volume of investments made throughout crowdfunding platforms in 2015 is € 56,8 millions, with a growth rate of 85% from 2014. More than €1,6 millions come from the registered 13 equity crowdfunding platforms. Moreover, the 34% of the launched campaign clearly expressed their social vocation as well as their mission to address solutions to social issues.

So, studies are mainly aimed to understand which factors led a crowdfunding campaign towards the success, taking the steps from the work on fundraising in venture capital context (MacMillian 1986, Baum & Silverman, 2004, Dushnitsky, 2009). Some authors

[3] ProduzioniDalBasso is a reward and donation crowdfunding platform, born in 2005, that works in the DIY digital productions. In the 2013 it’s been estabilished and registered as an innovative start-up.

(Mollick, 2014; Agrawal *et al.*, 2010) noticed a relevant impact of quality signals, social network ties, appropriate goals and careful planning on the success of a campaign.

Thus, Crowdfunding represents a novel mechanism of fundraising embedded in the current financial innovation (Moenninghoff & Wieandt, 2013), which operates in order to produce convergent innovation (Dubé et al., 2014). It means innovation that produces both economic and social (human) outcomes. These aspects clarify the increasing attention from scholars and practitioners on this financial tool. Even Governments are interested in crowdfunding, the U.S. Government, for example, was the first who put its attention on this new investment vehicle, understanding the inner potential represented by crowdfunding for the new emerging enterprises. Government like the Italian one decided to study the phenomenon and released regulations about crowdfunding. U.S.A., India and Turkey are moving in the same way (Bruton *et al.*, 2014).

1.2.6 In-depth review of Civic and Equity Crowdfunding

Recently, two expression of crowdfunding have drawn the attention of scholars among the others for their interesting peculiarities: civic crowdfunding and equity crowdfunding. Even if the basis of these mechanism are the same, they shows substantial differences.

As you red earlier, the origin of crowdfunding is perhaps to depute to the development and evolution of crowdsourcing (Rubinton, 2011), even if, by finding a its validation in the micro finance system or the micro loan, it would be appropriate at least mention the Irish Loan Fund and the Grameen Bank such seminal institutions for the dissemination and adoption of micro financing. So, the first manifestation of crowdfunding is identified in the need to face and solve social problems expressed in the XVIII century among the population of Dublin. The father of crowdfunding addressed to local problems is considered to be the Irish writer Jonathan Swift, who inspired the Irish Loan Fund Foundation in 1720, which would grant loans without collaterals to the poor of Dublin. Stiver *et al.* (2015), Davies (2014) and Hussey (2012) reported, instead, the experience in funding the New York's Statue of Liberty and the

London's Royal Albert Hall. So, crowdfunding has been existed for ages, but the technology and social change empowered it. Looking at the examples showed by scholars (Stiver, 2015; Davies, 2014; Hussey, 2012), crowdfunding reveals its primordial expression as a funding tool for local needs, in this way civic crowdfunding is maybe the first example of crowdfunding.

The orientation to fund public and government project for the benefit of communities is the key characteristics of civic crowdfunding for many scholars (Borollo & Castrataro, 2015; Stiver *et al.*, 2015; Davies, 2014; Gray, 2013; Grill, 2012) aligned at both the citizen participation (Zuckerman, 2013) to public projects and urban planning and stakeholders involvement.

In this terms, civic crowdfunding is an instrument to create shared value (Porter & Kramer, 2011) via shared goods production, thanks to the use of network and ICT (Davies , 2014), bridging the private and public needs with an alternative financial source. Problems could be solve throughout online platform that connect diversity with online relationship (Putnam, 2000).

The experience of civic crowdfunding in few European countries (Gray, 2013; The Economist, 2013; Hollow, 2013; Davies, 2014) showed how the probability to produce widespread social benefits catalyses people in order to fund projects and to reach the expected funding goal.

Looking at the equity crowdfunding model, this influence expressed by the social vocation seems to be unclear, unless scholars will steer the attention to social enterprises.

Going in depth of the source of financial need, considering the composition of a community – made by individuals with different needs – the entrepreneurial and financial institutions have to face a huge variety of formulation of intents, so they are influenced by a lot of actors, according to the stakeholder theory. All these individuals could be grouped into a lot of niches that crowdfunding phenomenon seems to be able to engage, following the evidence of the application of the long tail theory (Anderson, 2004).

Following the presented peculiarities of investing crowdfunding, it could be considered as a subset of crowdfunding in the whole that could be easily defined as *crowdinvesting*. Crowdinvesting allows people to directly answer to the financial resource need expressed by a specified project. This financing mechanism was born in 2012 and its industry produced $28 billion in the 2015 (1° Report Italiano sul Crowdfunding, 2016). The most diffused expression of crowdinvesting is the equity crowdfunding model which allows individuals to subscribe, trhough web-based platforms, equity shares of a company which runs a crowdfunding campaign. USA and Italy were the first countries which have tried to introduce the alternative financing mechanism, Italy was the first to release in 2012 a crowdfunding regulation included in the Law Decree "Sviluppo-Bis" and ruled by the CONSOB even though the most representative market is the United Kingdom where *CrowdCube*, the main crowdfunding platform, raised £168 million. The above quoted regulation allows Italian start-ups, Small Business and financial vehicles which invest in them to access to the equity crowdfunding as long as they interacts through a CONSOB authorized platform. Focusing on equity crowdfunding, the "1° Rapporto Italiano sul Crowdfunding" (2016) shows how mean volume of investment specified in the target of each crowdfunding campaign is €317k with an offer for equity of 23%, that corresponds with a prodigal pre-money evaluation of €1 million. Although, the total amount of the financial resources raised is €5,6 million that is under the expectation and the potentiality of the market.

The equity-based model seems to be the most attractive and interesting, redefining the role and relationship between supply and consumers, which directly involved in a process of co-creation and becoming co-workers (Kleeman et al., 2008), indeed, for investors, directly involved in the formation of a competitive edge, inserted in a fair system Costellation. Adopting this model means, therefore, integrate crowdfunding in an interactive strategy (Normann & Ramirez, 1993).

The most interesting model to be adopted, for a startup, is the equity model based. This model constitutes an active investment position for those who decide to participate in a new business activity, that it can be translated into a greater involvement on the part of those who participate in venture capital funds; in the broadest sense, it means that the investor guarantees the ability to directly affect the business project (Rubinton, 2011).

It’s clear that this model is based on financial actions: just like a shareholder you can make a real investment and you can be a company’s ownership small part, whose shares can rise or fall in value. You can exploit a long tail model in a process of investment, in order to unlock the option to buy shares from the bottom.

As described so far, it has stressed a fundamental aspect of this revolution in the world of financing for startups. It determines a crucial step in the role played by the customer, from consumer to investor. In this form of financing, which can be defined as private crowdsourced financing, linking up with what has been said in the first few paragraphs (Nordicity & CMF-FMC, 2012), there was a convergence and democratization of the three classic roles of producer, investor and consumer. On closer inspection, he realized an identity between investor and consumer; this is precisely the figure of crowdfunder, which simultaneously performs two tasks: to make capital and to generate visibility and attention for the project.

The maximum power of this process includes the adoption of 'economies of integration "(Piller et al., 2004), in which you start a direct dialogue between business and consumers. The latter are directly involved in the production process, becoming a new category: working customers (Kleeman et al., 2008) or of co-workers or co-producers.

These are some of the criticalities of this model that, together with the almost absolute absence of the rights of vote linked to the subscribed shares, express the light and shades of the equity crowdfunding mechanism.

CHAPTER II

2.1 THE CRITICALITIES OF THE FINANCE AS WE KNOW IT

It is self-evident how the emerge of new alternative financial sources emphasizes a fail in the traditional financial model, especially looking at the social return of an investment. Porter and Kramer (2011) already suggested to rethink the capital markets because finance, only focusing on the benefits for financial market participants, ignores the true value creation without leading the companies in the right way with a more conscious support. They underline as the short-term profits orientation of Capital Markets put a pressure on companies who, first, forget the outcomes of their activities and, secondly, miss greater opportunities offered by the social emerging problems.

Social awareness today represents a driver of innovations and a fruitful source of opportunity, that could be embedded with a more sophisticated form of capitalism (Porter & Kramer, 2011, p.17) because the nature of capitalism slowed down the capabilities of firm to engage the opportunities offered by social challenges. Porter & Kramer (2011) argued how a ridefinition of traditional schemes translates themself in a bridge between Finance, Government and NGOs (Non Governative Organizations), a vision that get close to the Triple Helix Model of Etzkowitz and Leydesdorff.

The critics of the traditional financial systems find its solidity on the critics about the social responsibility behaviours of managers which operates only to defend their own interests (Barnea & Rubin, 2005; Pagano & Volpin, 2005; Cestone & Cespa, 2007) with no attention to the social need, a vision that descends from the moral hazard in theory of agency (Holmstrom, 1979).

Recently, a position paper (Vecchi *et al.*, 2015) showed how finance reached globally a sub-optimal performance level, considering that private wealth has never been so high.

In fact, according with the researchers, «*in 2013 total global financial assets grew to $225 trillion, tripling the world's GDP (McKinsey Global Institute 2014), even if only 22% of them is represented by equity investments, whose CAGR in the period 2007 – 2012 was -5,5%; high net worth individuals (HNWIs) financial wealth reached the peak of $ 52.6 trillion worldwide in 2014*». Vecchi *et al.* (2015) case study about the impact investing fund "Oltre Venture" emphasized the wealth distribution in Italy and how HWNIs grew by 15.6% in 2013 compared to 2012, reaching the peak of 203,200 individuals. Together with Oltre Venture they explained how the wealth, in Italy, was concentrated in 1,5 million of families which held it in the measure of five times the GDP, the 20% of the wealth was liquid. This performance highlights how who create wealth barely fuels activities to tackle social needs, unless they found a reliable vehicle that could grant both short-term and long-term benefits. Thus, there is a huge volume of capital to be unlocked.

On the other hands, businesses are the primary providers of wealth, thus they have the instruments to turn themselves into a surce of financial resources. At the same time, businesses creates externalities, positive or negative, respectively in term of benefits or costs for the society. The externalities couldn't be taken into account by businesses, pointing a market failure, especially considering that the main externalities that are produced they are negative. Nevertheless corporate scandals hitting from time to time news headlines worldwide underline that the social value creation is still often disconnected from the competitive corporate strategy (Baron, 2001; Bhattacharyya, 2010; McElhaney, 2009; Porter & Kramer, 2006), more interested in avoiding to pay taxes (Davis *et al.*, 2016) through the implementation of corporate social responsibility strategies.

However, if scholars look at the providers of solution to social problems, they can see how the main actors are NGOs and social enterprises which characteristics are really close to high-tech start-ups; thus, they have to overcome tha same barriers, mainly financial. Here arise the needs to bridge the financing gap between start-up and scaling phase, which affects most social businesses in their development (Vecchi *et al.*). Moderns corporation and traditional financing models are not particularly well suited to support and nurture companies with a strong social vocation, because they are more into outputs than outcomes. Therefore, while social entrepreneurship has proven to be a successful way of coming up with innovative solutions to global issues, the financing of social enterprises remains a major issue (Martin, 2015) so they have to pass through an arid “valley of death” from the philantropic action in their seed stage to the investment capital.

Anyway, considering the mechanism of traditional financing models, their inappropriateness and lack of interest in addressing solution to social needs come from the rules of the mechanism itself that oblige a management of the funds, in order to respect the expectations of general and limited partners (Bygrave, 2008), that Wood *et al.* (2013) define as a balance between the goals of capital preservation and accumulation imposed by fiduciary duty; consequently, financial performances prevails on social objectives and affect the decision-making process (Sethi, 2005)

Private firms and voluntary organizations, in particular, have to reframe their role's perception from that of, respectively, lobbyists and advocates for particular interests to become responsible partners in the production of innovative solutions for the society at large (Hartley, Sørensen, & Torfing, 2013). The public sector, characterized by curtailed budgets, high debt, administrative rigidity, should find the way to leverage the capacity and the capitals of the private sector to innovate and to increase the generation of social value.

However, by mobilizing financial, technological, and human resources, they are also the source of the solutions, along with governments and social organizations.

2.2 THE CRITICALITIES OF INSTITUTIONS AND ENTERPRISES IN ADDRESSING SOLUTION TO SOCIAL NEEDS

The increasing importance of social enrepreneuship lies under its relationship with Public Institutions. Specifically, with the Public Administrations. Public Administrations (PAs) was subjected to the considerable alteration induced by both the Welfare State Crisis and its assumption of the role of strategic regulator, more and more interfacing itself with stakeholders who are the recipients of its activity. This led the Public Institutions to expand their collaboration model with the private sector, more and more outsourcing to companies that operate in the Third Sector, providing and delivering services to individuals (Panozzo, 2005).

To date, the theory not only justifies this decision with economic and financial reasons, but also with the will to recognize professional skills and experiences, creating opportunities for the operators of the Third Sector (Vittadini, 1999 Borgonovi and Del Vecchio, 2000). It develops a *trait d'union* between Public Institutions and "producers" of services to individuals, clearly directed to the production of positive outcomes, that denotes a shared implementation of strategic plans for the future of urban areas (Botti and Vesci, 2009). In the application of such plans, a balance between public needs and resources, available to the community, must be made, following the criterions behind the logics of a business model (Borgonovi, 2005).

It has been strogly emphasized the link between social entrepreneurship and Public Institutions, both of them have the task of fielding initiatives to encourage and to accompany the creation of new forms of entrepreneurial projects (Mele, 2012). Such initiatives should go from the creation and the management of incubators, until the coordination of the whole process of exploitation of innovation and economic development.

Clearly, the Academia and University Insitutions cannot be excluded from this fairy relationship, their nature is characterized as a built-in source of innovation made through the scientific research.

Then, public institutions must be made responsible, rather, more properly, the Public Management must be made responsible through the promotion of forms of management by objectives (Pellicano, 1994). This will effectively puts the quality in the center of the spot (Pellicano, 1994; Borgonovi, 2005), the achievement of which couldn't happen without implementing networking mechanisms.

These innovations are collected from forms of social entrepreneurship, target of outsourcing processes of local authorities and not necessarily characterized by the non-profit rule requirement (Young, 2006). The Local Authorities (in a wide sense the PAs) Social Enterprises and universities become hub and spoke of a complex, but flexible, structure of social exchange relationships, which combines the collaborative, participatory and inclusive approaches of the users and the parties that constitutes the network, in the decision-making processes.

The context described so far is suitable to provide an interpretation of Etzkowitz and Leydesdorff model as a relational network with multiple centers of gravity (Butera, 1997) adopting models of government and development that could be described as a type of Neo-corporativist Triple Helix, in which the Public Administration, especially the local authority, plays a key role (Viale and Campo Dall'Orto, 2002). The intersection between scientific research and social entrepreneurship seems to find a fertile soil within the grassroots regional innovation systems (Cooke et al., 2004) into which the initiative is developed by and it is organized at the local level, more over the public research has a strong industrial connotation.

It outlines, for those who investigates today, an approach that aims to give local governments a role that, on one hand, has the task of creating opportunities and, secondly, to act as a manager and coordinator. The opportunities are collected both from the University and from the entrepreneurial sub-systems, starting a conversation that has, at least two forms: the collaborative one and the Entrepreneurial University one. In both cases the aim is to produce innovations in the prerogative of society.

The lack of resources has led Public Institutions to start fundraising mechanisms, then adopted by social enterprises themselves. The question is whether the PAs is or is not able to take possession of new and innovative fundraising tools, such as crowdfunding, supporting them to the phenomena of Social Venture Capitalism, by incorporating them in their initiatives.

2.3 THE CONCEPT OF "CREATING SHARED VALUE" AND THE NEW HORIZON OF FINANCE AND CAPITALISM

The fulcrum, maybe the keystone, of the current reasoning is the capability to concretely hybridize the pillar of the ecosystems, that should be canalyzed through an activity system coordinated between the above quoted pillars.

As mentioned before, you might be experiencing conditions that imposed to the economic system, in the broad sense, to review its positions and functioning. Starting from what was moved and generated by the Welfare crisis, attention has shifted to business as the main cause of negative externalities. Problem which, in the first instance, has been met by the adoption of Corporate Social Responsibility policies (Freeman, 1984), in contrast with the traditional and shared approach of the maximization of profit as a consequence of Friedman's "*The social responsibility of business is to increase its profits*" (1970). The problem with this kind of answer, as argued by Porter and Kramer (2011), is that it is timeworn and it does not take into account the context in which we currently live. In addition, as it has emerged from the literature review, these are actions that link only to a "restoration" of the brand image, that is, they're not really moved by a social motivation or, if you prefer, from a real social vocation.

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However, the problem with this response is that, as argued by Porter and Kramer (2011), it is dated and does not take into account the context in which we live. In addition, as it has emerged from the literature review, these are actions that link only to a "restoration" of the brand image, that is, they're not really moved by a social motivation or, if you prefer, from a real social vocation. So, a real contrast between the theories of Freeman (1984) and Friedman (1970) does not occur in real life, where businesses are still designed to achieve the short-term financial goals. An intuition, that of the writer, further strengthened by the observation of the attitudes adopted by the world of finance during the phenomenon of the start-up bubble. As described above in the previous paragraphs, in fact, the structure and operation of venture capital funds, which must protect its shareholders, are geared to the realization of successful exit as quickly as possible. Therefore, on the one hand, the venture capital funds are thus necessary and sufficient condition for start up in order to overcome the "Death Valley", on the other hand, however, the financial goals distract them from possible results of longer-term, previously defined as social outcomes.

We are asked now to step forward because, if it is true that there is a trade-off between financial and social benefits, we must return to a point of tangency within the needs of both companies and the community. Porter and Kramer (2011) have noticed that the lack of interest of businesses about finding solutions to social problems has led to the emergence of institutions such as NGOs and Social Enterprises, whose orientation to social needs, in fact, has placed them outside of the traditional finance radar.

A new concept of value is going to be advanced and proposed in order to pursue and realize not only from an economic and/or financial point of view, this concept must be considered a “shared value". Porter and Kramer (2011) were the first who define the concept of shared value as that one which promotes the recognition of a social variable, able to collaborate with the economic value in the definition of the markets. Furthermore, although those fact has been ignored, the social variable continuously produces internal cost for the company. Scholars say that this concept should not be confused with the redistributive approaches, because it is "expanding the total pool of social and economic values" (Porter & Kramer, 2011, pg. 5). In essence, the first definition of shared value frames it as a set of “policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates” (Porter & Kramer, 2011, pg. 6). This view was quickly shared by several big company, and multinationals such as Nestle and National Australian Bank (2014). Bosch-Bada et al.

(2013) have instead seen as the evolutionary step of CSR, theorized by Porter & Kramer (2011), coincides with a long-term sustainability that could be affected by the distortion of the stock market. It is, therefore, required a proper disclosure to shareholders about the objectives and about the wight of the sustainability itself, compared to profits, in influencing decision-making processes and financial evaluations.

It remains difficult to identify times and measurement techniques of CSV (creating shared value) policies without invoking the principles of Blended Value Accounting (BVA) and the methodology of the Social Return on Investment (SROI). Measurability is and will always be a central point in the choice of strategies, tactics, and activities for the company.

The adoption of a CSV approach it appears as a simple, maybe redundant, adoption concept that does not try an evolutionary step compared to CSR; then, its adoption in the entrepreneurial practices is a complex procedure and not at all immediate. The suggestion on how to enable the CSV in modern enterprises comes from the possibility to blur the boundaries between profit and nonprofit characterizations, resetting capitalism as we know it, rethinking products and markets through a redefinition of the production in the value chain and a restoration of industry cluster for the support of companies. It has been manifested an intersection between innovation and shared value. Businesses, then, must redesing themselves in harmony with the community and the environment in which they appear.

The identified economic infrastructure will, however, hold on a collaboration between all the innovation eco-system pillars, while the governments should play a key role in creating the right set of rules that will favor the creation of useful tools to encourage enterprises in the pursuit of creating shared valued.

In this sense, it will lead to a greater effectiveness and sustainability; also profits will assume a different value, such that those which concern and incorporate social intentions will lead to higher forms of capitalism. This evolutionary ambition has, however, opened a debate, as it emerges from the study of Dembek et al. (2016), focused on criticism of that model, that opens a reflection on the understanding of the model proposed by Porter and Kramer (2011), that is, whether it should be considered a theoretical framework or just a business idea. In practice, mainly we discuss whether the shared value and CSV template is actually an evolutionary step from the positions expressed by the CSR or whether it is nothing but an unoriginal overlapping (Crane et al., 2014). What emerges even more clearly from the study of Dembek et al. (2016) is that the CSV model is adoptable by enterprises as long as the production of benefits for society corresponds exactly to the achievement of short-term economic targets.

Florin and Schmidt (2011) found a junction point between the various positions expressed on CSR and CSV in the definition of "hybrid ventures", for the achievement of public and private objectives through the business model innovation. It starts designing activities of the key elements of the model, in order to reorganize the corporate structure to make it capable of exploiting new opportunities (Zott and Amit, 2008). According to them, the success of CSV passes through the hybrid ventures and its evaluation by the financial actors: for profit investors will be willing to invest in a project which would match both economic and social needs only if a lower market return will be measured by a lower cost of the capital.

Recalling the impact of technological innovations, that have taken on the birth of the well-known Industrial Revolutions, the technology seems the right instrument for influencing the matching between business needs and social needs (Chopra and Narayana, 2013), assuming a shared value creating technology-driven . Looking at the modern age and taking the distances from the bio-tech revolution, this is the connectivity era, that means, still according with Chopra and Narayana (2013), all the stakeholders of the planet are in a constant contact and business could change the face of the planet thanks to the leveraging effect of the technology. This position is really close to the study about the intermediation internet based platforms, which act decreasing the weight of geographical proximity in the innovation process (Agrawal et al., 2011). These online infrastructures seem to be the foundation of the Crowdsourcing revolution (Howe, 2006), when technology platforms started a disintermediation process that changed the dynamics of integration economies (Piller et al., 2004) between the broad types of user and producer. Crowdsourcing is influencing innovation processes, through a mechanism of interaction between the providers and the seekers of strategic resources. As you red earlier, according to Rubinton (2011) this revolution set the basis for the raise and the development of a new financial institution known as crowdfunding, where the strategic resources, traded with the interaction, are the equity resources. Following the evidence of the literature review, it is easy to draw a line between the CSV approach and the crowdfudning mechanism: the interaction between producers, entrepreneurs or whoever has a project to propose and the customers who want to turn themselves into investors unlock a virtuous cycle into to which the benefits of all the stakeholders could be matched. This process will affect more and more the Public Entities thanks to the development of civic crowdfunding mechanism, which involves even the Government and the Community in the whole.

Therefore, it occurs an important question about how crowdfunding could participate to the change in the capitalism face, especially contributing to put the Finance on an evolutionary path, proposing new horizon for the Finance itself and the capitalism indeed.

CHAPTER III

3.1 The Methodology

In the following paragraphs, the author tried to represent the crowdfunding phenomenon and how it has been changed moving towards a new face and shape.

The newness of the topic, as well as the lack of certain and various data, the peculiar youth of the analyzed phenomenon and, moreover, the explorative nature of the research, pushed the author to choose a case study approach (Yin, 2009).

To be clear, the author aim is to identify and understand a specific phenomenon, relatively new in literature. Therefore, the research is designed as a qualitative and epistemological investigation with an holistic approach. Author built a single case study research, borrowing elements and characterization from the grounded theory (Strauss & Corbin, 1990, 1998, 2006; Charmaz, 2006).

Eisenhardt (1989) explains that one or more cases are useful to develop theories about some specific topics. Because of the current framework, it could be useful to follow an inductive development of the theory that aspires to recognize and describe the existence of a phenomenon (Siggelkow, 2002; Siggelkow, 2007). Through a conceptual exercise and a conceptual question (Siggelkow, 2002; Siggelkow, 2007), author starts a case-based research, whom empirical evidence are collected by observation of participants (Burgess, 2002), studying a single case.

At this point, a clarification is necessary to explain the choices about methodology. Once again, the newness of the investigated topic forced the author to meditate on the best feasible choice about the techniques of analysis. On one hand, following the evidences emerged from the literature review, the research about crowdfunding moved from the investigation of its mechanism on the platform side. On the other hand, the author decided to study the crowdfunding phenomenon on the business venture side, contextualized in the Italian country. For this reason, author noticed that a quantitative analysis would not have been robust and significant because of the reduced numerosity of the statistical unit. In the first stage of the investigation, the specific focus of the research highlighted a database from which the author should extract variables that couldn't be considered perceptual. The database would have been composed by a small number of units and was considered unuseful, for exemple, in a survey were the respondents could have been the 20% of the total amount of units. The database was considered inappropriate because it could have led the author to a non significant analysis.

In the way to strengthen the above quoted assumption, looking at a single case, it takes the start for the attempt to research a meaning and to give a sense to the observed phenomenon, in a local and contextual perspective (Burgess, 2002).

After the review of the literature, author focused on the civic and equity crowdfunding models. Especially, the equity is considered to be the greatest expression of active crowd-investment model, so it is part of the core of this work, considering that many European countries are tending to regulate equity crowdfunding, in order to supply equity to SME's. In fact, after the Italian experience about equity crowdfunding regulation (Decree Law “Crescita 2.0”, converted in law in 2012), other European countries are, similarly, designing specific regulation. Then, the author went in depth the topic collecting the needed data from different sources, database and by the adoption of different methods.

3.2 Data Collection and Data Analysis

To validate the construct of the research design, the author operated a triangulation of the data sources, following an hybridization of the holistic approach to the representative cases of the crowdfunding phenomenon. This approach respected the target to reach an interpretation and explanation of the phenomenon throughout an analytical generalization.

Mainly, data have been collected from observation, documents and artefacts, to led the study close to an across-case comparison.

Therefore, data were collected first from the web and then from the insight of the Assiteca Crowd platform. Then, the author continued to gather data from the observation and by interviewing the Paulownia spokesman.

Results were analysed in comparison with the context interpretation.

In order to define what may concern the relationship between Crowdfunding and Impact investing, this study investigate a case study about an equity crowdfunding campaign led on an Italian equity crowdfunding platform “Assiteca Crowd”.

3.3 A Significant Case Study: Paulownia Social Project

The author investigated PAULOWNIA SOCIAL PROJECT srl, an innovative start-up with a social vocation, created by a team of experts coming from the renewable energy sector, agriculture and environmental protection. Its mission is to develop plantations of fast-growing trees, activities also known as SFR - Short Rotation Forestry, in order to allocate the raw material obtained, in both national and international timber sector. Its crowdfunding campaign was hosted on the Assiteca Crowd equity based platform, an Italian web-based portal where the equity fundraising is legal, regulated and safe. Assiteca Crowd is one of the Italian crowdfunding platform certified by the National Securities and Exchange Commission (CONSOB).

The reasons why the author decided to investigate Paulownia crowdfunding campaign lean on the awareness that this innovative start-up experienced the most successful fundraising activities via web based platform. Paulownia Social Project srl is the second best within all the successful campaigns, but the first within the equity crowdfunding successful campaigns. AssitecaCrowd, hosted for 56 days the Paulownia campaigns that are the days it needed to gather about €520k from 12 investors. The tab. 1 shows the best crowdfunding projects.

Tab. 1 – The six most successful campaign led on an Italian crowdfunding platform, 2015-2016.

Projects	***Platform***	***€***
Ricostruiamo Città della Scienza	*DeRev*	*1.463.867,00*
Paulownia Social Project	*Assiteca crowd*	*520.000,00*
BIOerg	*Next Equity*	*452.576,00*
Canetiere Savona	*Starsup*	*380.000,00*
Un passo per San Luca	*Ginger*	*339.743,00*
E' l'ora della solidarietà: emergenza Sardegna	*Rete del dono*	*138.896,00*

Source: Il Crowdfunding in Italia Report 2015, 2016

This experience seems to represent one of the best practices that supports the idea about crowdfunding as a financial instrument, able to support SMEs to face the equity gap challenge in their start-up stage. In fact, the case of Paulownia represents an edge case, that is useful to indicates how equity crowdfunding applied to a "slightly" social enterprise could fulfill the aspirations about creating both profits and positive social and environmental impact. Data were collected, for the first instance, from the platform to recognize the main characteristics of the campaign itself and the aspects related to the investors, their investments and their geographic localization.

Mainly, the company's purpose is the development, production and marketing of innovative products or services with high technological value applied to the forestry in Italy. Paulownia, developed a patented new plant varieties and acquired under license others, in order to use selected samples to ensure rapid growth, excellent quality of the timber and maximum absorption of carbon dioxide from the atmosphere. The social activities will be carried out taking care of the optimization of production processes and the identifiability of the product, also through innovative tools, so that the timber produced by the company can be marketed on the Community market in order to support the Community supply of wood or biomass ensuring traceability, as required by

EU and national legislation in force. From the environmental point of view, the production of Paulownia, made by the company, will contribute significantly to the reduction of carbon dioxide emitted into the atmosphere and, therefore, the company can carry out any activity to enhance the environmental benefits generated by the project. In addition, the company may perform ancillary activities on forestry and compatible with them, such as the production of organic honey in the same object main activity sites, vocational training and social education addressed to junior high and high school students, realizing special school educational programs and participation in university research projects. The company is considered an innovative start up with a social vocation. The company may carry out all the business, financial, investment and real estate that the administrative organ deems useful or necessary for the implementation of activities that constitute the corporate purpose.

The activities that Paulownia Social Project intends to carry out, concretely relates to forestry in Sicily, in the Trapani province, of fast-growing trees, an activity also known as SFR-Short Rotation Forestry. The trees belongs to the paulownia species, considering of its capacity for growth, the fastest in the world, its qualitative skills and the very high absorption capacity of carbon dioxide. n particular it has been selected the clone In Vitro 112® (Patent: EU No. 010881704 registered on 25/09/2012). The selected clone was genetically engineered in the laboratory in 1972, it has been proven to have superior characteristics, for adaptability to different types of soil and different weather conditions, compared with other types of paulownia. The Company intends to proceed every four years to cutting and wood product sales for a twenty-year cycle, and then the contribution of biomass to roots.

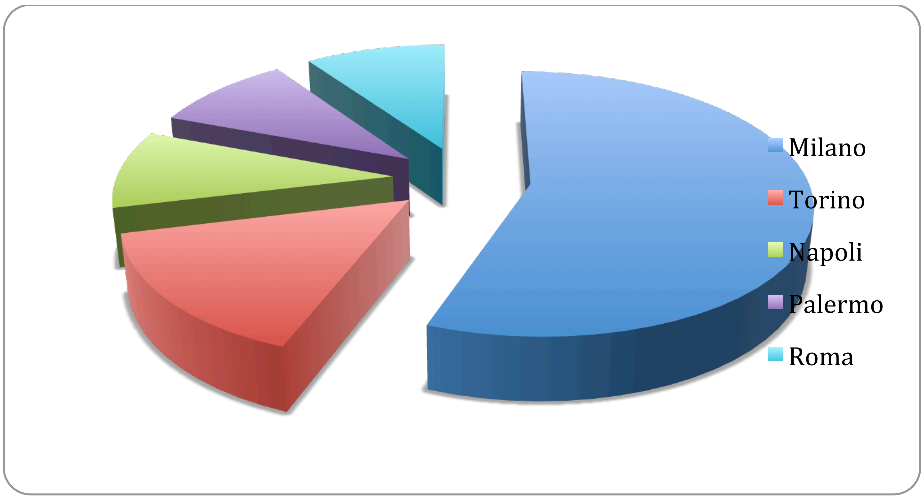
Looking at its crowdfunding campaign, Paulownia Social Project srl stood up the standard behavior of equity crowdfunding campaign: in fact, while a common Italian crowdinvesting campaign offers the 23% of the shares, Paulownia Social Project offered the 87% of its equity, reflected on its equity value. The pre-money evaluation of Paulownia Social Project, in the light of the previous considerations about its campaign, is far under the market mean value of €2 million and is equal to €80.000, really cautious.

Paulownia Social Project, thanks to equity crowfounding Assiteca Crowd platform, reached the target of 520,000 Euros and welcomed 12 new members in its equity. In less than two months (56 days), with an extraordinary average daily collection of more than €9,000.00, the Paulownia project reached new fundraising record.

Looking at the investors, 9 of them are private individuals and 3 are companies; considering the Italian crowdfunding regulation constraints, to follow the rules, the last mile of the crowdfunding campaign were run by the financial vehicle of Assiteca Crowd. In 56 days, Paulownia registered, via Assiteca Crowd, a minimum investment per investors of €15.000 and a maximum investment of 140.000 (the mean volume of investment is about €43.333). This performance, compared with a prior study of Vecchi *et al.* (2015) which investigated the development of a company both from a traditional financial approach and an impact investing approach, suggests how crowdfunding campaign, applied to an enterprise with a social vocation, falls in the middle of a seed stage and early stage financing. According with Vecchi *et al.* (2015) in the pre-seed and seed stage financing family and friends and business angels intervene in an high-tech startup financing as well as donors and venture philantropy intervene in social impact enterprise financing; equally, in the early stage financing venture capital intervenes in the high-tech startup financing as well as impact investing intervenes in social impact enterprise financing.

The analysis of the campaign launched Paulownia Social Project, shown in the graphic 1 how the distance between creators and investors is non influential. Author, noticed the heterogeneity of the geographical background of the backers. The 12 investors who backed the entrepreneurial project came from different region across the Italian country (Graph. 01). This information agrees with Agrawal (2011) observations about weight of distance perceived by individuals who interact through internet based platforms, that applied to the crowdfunding it means that geography dispersion within investors and between the start-up and investors is not relevant.

Graph. 01 *– Geographical dispersion of Paulownia Social Project investors.*



Self elaboration, 2016.

This study leads the author to recognize a new emerging shape for the equity crowdfunding. In fact, if the need to reinvent the capitalism structure, leveraging on the shared value creation, identified the configuration of impact investing, the democracy of the web and, in particular, of the equity crowdfunding platforms, open the financial world to a new structure which allows to take advantage of the traditional limits of funds of investment. Thus, both the capability to attract a great number of investors -

according to Anderson's long tail model (2004) - and the social content of the project-to-fund, represent the push to move the crowd investment towards impact investing.

Moreover, the experience of Paulownia highlights the tie between equity crowdfunding (or rather crowd investment) and the traditional finance, that could be represented as a puzzle of pieces derived from the corporate finance. In fact, following the evidence from the study of Miglietta *et al.* (2012), the case of Paulownia shows some similarities with the Venture Philanthropy. Miglietta *et al.* (2012) discussed about the main characteristics that identify Venture Philantropy:

1) high relationship: venture philanthropists have intense relationships with stakeholders;
2) project financing: venture philanthropists, as well as venture capitalists, design and plan their investment according to both the target and the alternatives (debt, equity, mezzanine capital, loans, etc.);
3) long-time support: a three to five years investing strategy;

4) non-financial support: a plus that goes over the simple financial support, in order to provide services for planning, strategy, marketing, etc.;

5) organizing skills strengthening: financing operating costs to help companies to reach their goal and survive along a long period horizon.

6) Performance measurement.

It goes without saying that these VP characteristics are close to the main peculiarities of Venture Capital, Business Angels and Venture Incubators.

Considering the investment volume for each investors and their kind of legal personality, the results (table 2) underline similarities with the Italian venture capital market in 2015 (Graph 2) and the first Italian crowdfunding report (Politecnico di Milano, 2016) which shows how crowdfunding is able to collect only a “small crowd” of investors strongly represented by holding companies, real estate companies, business angels and high net worth individuals.

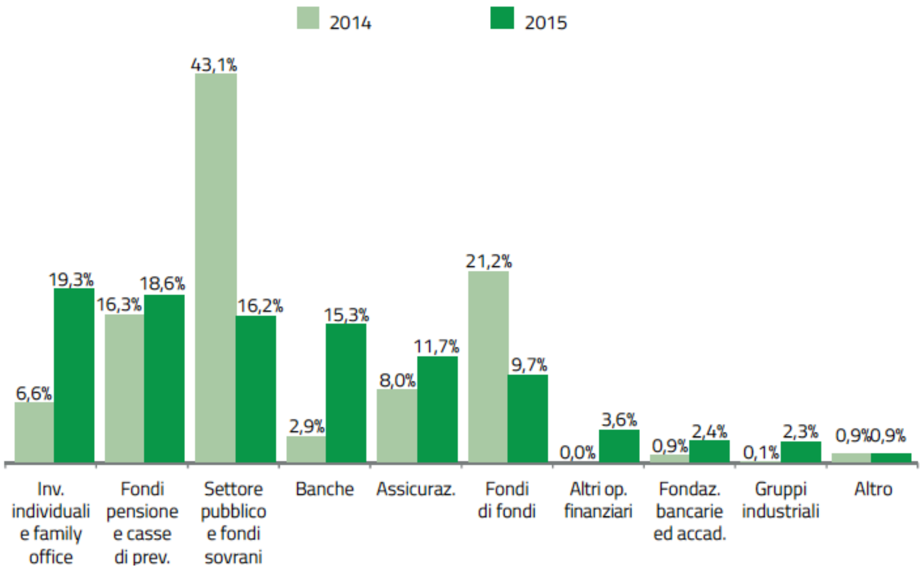
Table 2 *– Legal Personality, origin, investment amount and business sector for each Paulownia investor*

Project:	Paulownia Social Project			
Kind*:	Origin	Amount	Share	Sector
JP	Milano	140.000	23,33%	Holding company
JP	Torino	30.000	5,00%	Real Estate
PP	Buccinasco (MI)	15.000	2,50%	n.d.
JP	Torino	50.000	8,33%	Property Management
PP	Napoli	15.000	2,50%	n.d.
PP	Trezzano sul Naviglio	35.000	5,83%	n.d.
PP	Piana degli Albanesi (PA)	50.000	8,33%	n.d.
PP	Roma	50.000	8,33%	n.d.

PP	Buccinasco (MI)	20.000	3,33%	n.d.
PP	Milano	30.000	5%	n.d.
PP	Milano	50.000	8,33%	n.d.
PP	Napoli	35.000	5,83	n.d.
		520.000	86,67%	
		80.000	13,33%	shareholders/projectors
			100,00%	
	*PP= Physical Person	JP= Juridical Person		

Assiteca Crowd, 2016

Graph. 2 *– Italian Venture Capital Market in 2014-2015 by source.*



AIFI, 2015

The coexistence of different legal personalities, with the common intention to invest in a social impact enterprise to collect financial returns, shows likeness with Italian impact investing funds as described by Vecchi *et al.* (2014) via the Oltre Venture experience, at the time of writing one of the first Impact Investment fund in Europe, which gathered an investment commitment from equity investors, who accepted the social impact challenge mainly with a philanthropic mindset.

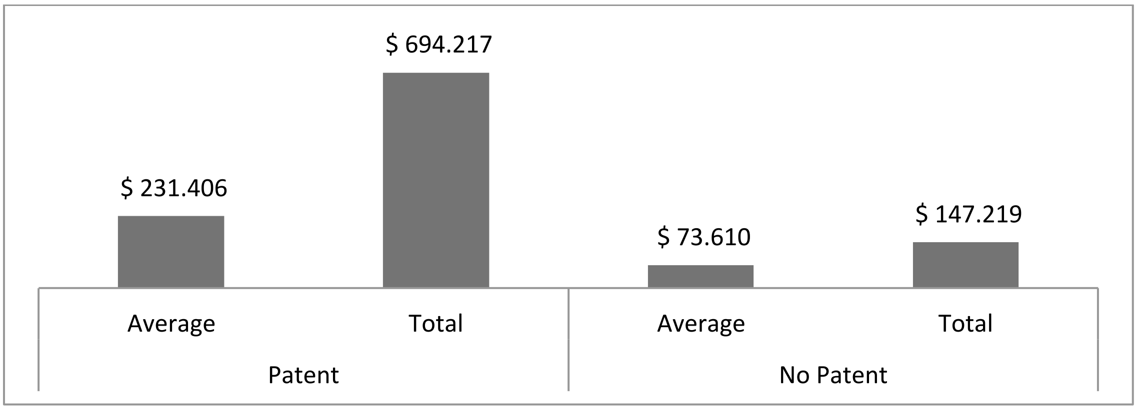
The success of Paulownia crowdfunding campaign agrees with a prior study of the author (T2S World Conference, 2015) in which they compared the results of 16 successful and unsuccessful campaign, noticing that successful campaign have at least *1* patent, even if it can't be considered a success predictor (table 3), but, mainly, it could be considered as a catalyst of financial resources (Graph. 3).

Table 3 *– A comparison between campaigns.*

	Average n° of Patent
Succesful	1,2
Unsuccesful	3,8

Self-elaboration, 2016.

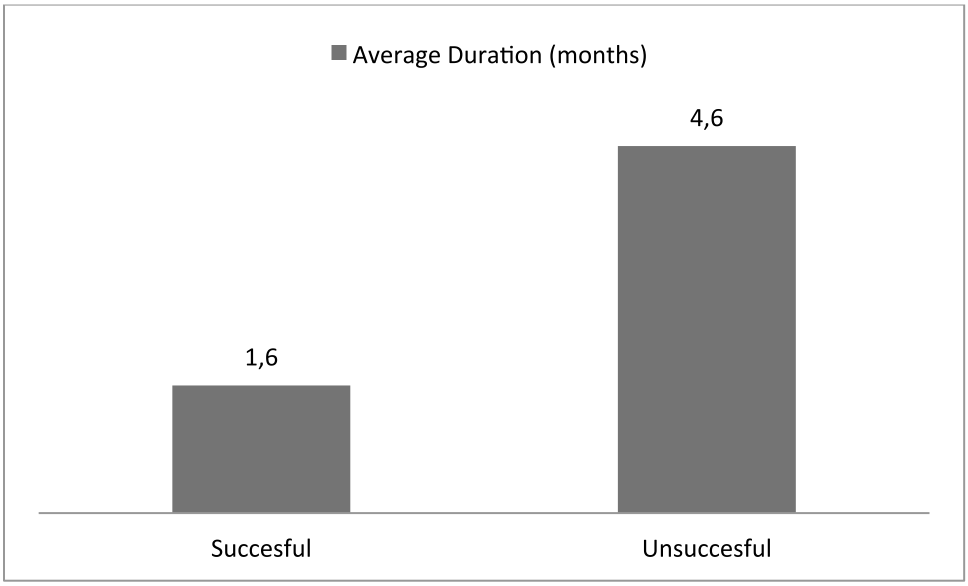
Graph 3 *– Total and Average volume of financial resources attracted by successful campaigns, classified by patent registration or not.*



Self-elaboration, 2016.

Moreover, according to the case studied, a successful campaign has shown a shorter campaign duration and the capability to attract financial resources faster (Graph 4). In fact, Paulownia was able, as above quoted, to collect the whole financial resources in 56 days.

Graph. 4 *– Crowdfunding campaign average duration, in months.*



Self-elaboration, 2015.

On the financial side, is interesting to see how Paulownia s.r.l. adopted option contacts typical of traditional equity financing as a shereholders concession: at the end of the fifth, the 10th and the 15th exercise following that on which the capital increase has been realized, and for the consecutive 30 days, retail investors have the right to sell their own shares to the founders at the subscription price plus a 7%, up to a cumulative maximum of 30% of the subscribed equity. Within 30 days the exercise on put option, the founders could exercise the right to buy all the investor's share who exerted on put option at the same price.

3.4 Results and a comparison with the theoretical framework

Thus, considering the fundraising performances of Paulownia, equity crowdfunding platforms act like an equity market place that links the seed stage financing to early stage financing and it implies that the author' intuition about a change in the shape of crowdinvesting is correct. In fact, the investors operations suggest a translation of equity crowdfunding, also known as crowdinvesting, towards impact investing.

Summarizing, the author understood that crowdfunding could be helpful both to raise up financial-based resources for Innovative Companies and produce social outcomes to the benefit of all the interested communities. Moreover, this research could help both entrepreneurs (especially innovative companies) and crowdfunding platform owner, to set up an effective and succeeding crowdfunding Industry.

The author initially intends to enlarge the sample, including all innovative start-ups. This would be useful to conduct a quantitative research, in order to better understand the role of crowdfunding, the importance of a social attitude as a quality sign and the evolution of this fundraising mechanism towards the impact investing. Then, the author suggests to map the crowdfunding phenomenon across the Europe, in the way to start a case study within different countries to understand how cultural aspects and regulations affect the evolution of crowdfunding in a specific country.

CONCLUSION

The findings has shown a complex ecosystem that is dynamically changing and they also agree with the results of some agency like Massolution, that underline the strengthening of the crowdfunding mechanism. Otherwise, the rapid growth of the equity crowdfunding model is opening an opportunity window to jumpstart entrepreneurial projects, which have a strong social vocation, highlighting a major disruptive potential thanks to the superior average volume of funds raised per projects. The recent Italian regulation, meant to be the flywheel for others foreigner governments, is the reason to explain the growth of the equity model. The difficulties to measure the potential still remain hard to overcome because of the short "historical consolidation" of the mechanism in the whole, as well as the fragmentation of the tool in more than one model such as the reward based and donation based platforms.

The crowdfunding environment is complex and varied, a bubble that contains many manifestation of the three principal models. This complexity conserves the advantage of the choice between different solutions, thus the project creators could choose which model fits better to their idea. Consequently, there is a platform for each projects, i.e. scientific research projects could express their maximum potential on the academic owned platform (both reward based and donation based) and partnered platform. On the other hand, the Equity model capability to attract funds seems the ideal model to be adopted by research-based firms and enterprises with a value proposition easy to market. Equity Crowdfunding acts as a Venture Capital indeed, but it could only satisfy the financial needs in the proof of concept and pre-seed stage, working as a catalyst for Business Angels and Venture Capitalist attention.

According with the results, the key factor for the success of a crowdfunding campaign is not about the platform and the traffic on a specific platform (Wheat *et al.*, 2013), but is about the capacity to attract, in the Newtonian meaning, a critical or gravitational mass of backers.

According to Boschma (2005), geographical proximity is neither necessary nor sufficient to create co-evolutive innovation systems. This conclusion seems to be important for the Public Entities such as the academia. Considering the relevance of the third mission in academia, Entrepreneurial University has the task to adopt and improve financial innovation like crowdfunding, not to place side by side with other financial resources, but to jumpstart the business and technology transfer projects in order to overcome the absence of both formal and informal investors in its neighborhood and attract them.

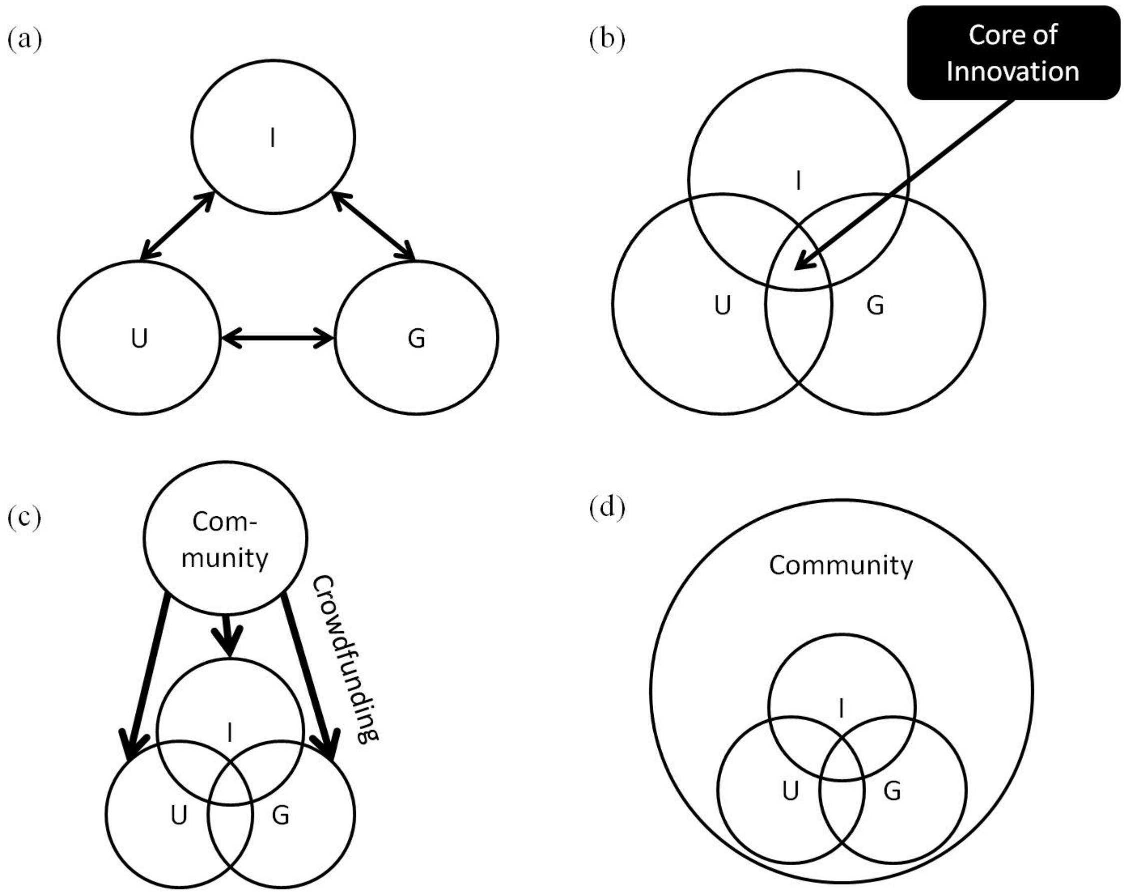
Looking at the *table 02* and *graph* 01 of the third chapter of this work in a triple helix context, we could apply this theory to the crowdfunding mechanism where the core of innovation is started from the original three pillar (Fig. 1a e Fig. 1b) but fostered and financed by a wider helix that is the community (Fig. 1c), that finally encompass the core of innovation (Fig. 1d). In fact, community seems to represent better the concepts of cultural based and media based public and civil society that legitimates the innovation policy (Carayannis & Campbell, 2009). It is more and more clear in the investment process described by the dynamics of civic crowdfunding.

Community has a triple function:

5. Innovation creator, as an exemplification of the co-creation model through its participation at three levels, financing, purchasing and knowledge production (i.e. in a smart city implementation the community is also a source of data).
6. Beneficiary of the innovation.
7. Catalyst of resources, according to a “Newtonian logic”, because the community easily grows its mass and increase the force of attraction used to attract other actors who own new useful resources, especially the financial ones.

In this way, crowdfunding is an unconventional tool that intervenes in both Industry and Community Helix.

Fig. 1 – The crowdfunding in a triple helix environment.



Self-elaboration, 2015.

Moreover, Crowdfunding intervenes as a motivational crowdwork factor (Greber *et al.*, 2012; Miglietta *et al.*, 2013) that permits to pass over the barriers linked to proximity and credit crunch (Freund, 2012).

Actually, the results are interesting: the nature of entrepreneurial projects like Paulownia is aimed to produce benefits for all the society and to transfer knowledge as well as technology, considering that the founders board includes member from the academia, and it pushes the diffusion of the crowdfunding.

On the other hand, the findings highlights a risk for social vocated start up to develop a “demand dependency”, distancing the opportunity of growth and sustainability that could be reached with an impartial point of view.

This finding agrees with the concept of knowledge as a resource and the common need to rebuild the entrepreneurial texture in regional context. The ideal target is innovating to create a sustainable economic development via the creation of new business with solid and strong competitive advantages.

Finally, authors noticed that the donation and reward model seem to fit better for the NGOs and Social Enterprises that do not want to blur their boudaries, because of its estimated social impact; differently, equity crowdfunding model could be the best choice for the project that are built with an Entrepreneurial attitude and an attention to the financial short term goals.

Although, the equity crowdfunding, thanks to the recent Italian regulation - meant to be the flywheel for others foreigner governments - is growing continuously through the times. To be precise, even if equity model is not the most successful one, it is able to attract a high volume of investment, especially looking at the average volume of funds raised.

Looking at the results shown in *graph. 04,* what emerge is a non relevance of a long duration of a campaign, because the success depends on the moment when project are able to unlock the "Newtonian logic" potential. That means an acceleration in gathering investor, therefore, the campaign that are able to gather the largest number of financial resources earlier, will be the successful ones. Consequently, the crowdfunding campaign will last less then the others. The sexiest and the more social is the entrepreneurial project, the better performance are obtained.

On the financial side, the lack of financial resources represents a barrier that makes hard to overcome the “death valley”. AIFI (2015) shows how the Private Equity and Venture Capital Market have a larger number of investment in the expansion stage and buy out (35% each), while the early stage number of investment is 27%. Seed and pre-seed are not considered. Consequently, given the average amount of $231K raised from the successful campaigns, crowdfunding could successfully intervene in the pre-seed stage, to help spin offs on the financial side.

The findings about the comparison of the venture capital market with the results of spin-off crowdfunding operations, seem to agree with the above-quoted observation, since there is a coherence between the investment behavior of venture capital funds and (equity) crowdfunding. Following a syllogism and the evidences from the literature review, if Venture Capital borrows the rule of its mechanism to the Venture Philantropy, we are close to identify a new hybrid form of alternative finance in equity and civic crowdfunding. The author understood that crowdfunding could be helpful both to raise up financial-based resources for Innovative Companies and produce social outcomes to the benefit of all the interested communities. The case of Paulownia, as particularly shown by the fundraising performances in table 02 and its choice about the adoption of financial instrument to protect its investor, underlines a transformation of the equity crowdfunding model in a new shape really close to the impact investing mechanism.

Crowdfunding, then, seems to positively answer to the main research question estabilished in the introduction of this work.

Unfortunately , findings underline a limitation in the research mainly connected to the explorative nature of the research itself. In fact, this is a preliminary and exploratory study, so it implies a natural predisposition for the limitation that arise from the lack of data and information, but it also seems a way to overcome the pitfall of data.

The first limitation concerns the process of the research design; in fact, the investigation has been mainly conducted on secondary data and on the web except for the Paulownia data, collected directly from the object of the study. By the way, the adoption of a methodology that borrows techniques from the systematic literature review has weakened this constraint.

Secondly, the limitations arise from the case study methodology approach, strongly qualitative in this research, that should be empowered and supported by a quantitative methodology, to overcome its narrative dimension.

However, limitations are the beginning of further research. In fact, this preliminary study identifies a possible area of improvement of the research work, that will eventually take regards the possibility of expanding the number of cases to analyze, in order to make more meaningful the evidences and strengthen the system of research work. This implies the need to adopt a multiple case study methodology.

Another path of research identified by the author is the enlargement of the sample of research, including all innovative start-ups. This would be useful to conduct a quantitative research, in order to better understand the role of crowdfunding, the importance of a social attitude as a quality sign and the evolution of this fundraising mechanism towards the impact investing. Then, the author suggests to map the crowdfunding phenomenon across the Europe, in the way to start a case study within different countries to understand how cultural aspects and regulations affect the evolution of crowdfunding in a specific country. A further target, thus, will be to forecast the evolution and the role of crowdfunding in jumpstarting social enterprises.

Finally, the interest could be aimed to understand how the crowdfunding could be helpful for the academic research, in order to maintain the link with the Public Entities, as well as to understand how the attractiveness and the dimension of the academic spin-off reference market could affect on a crowdfunding campaign.

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